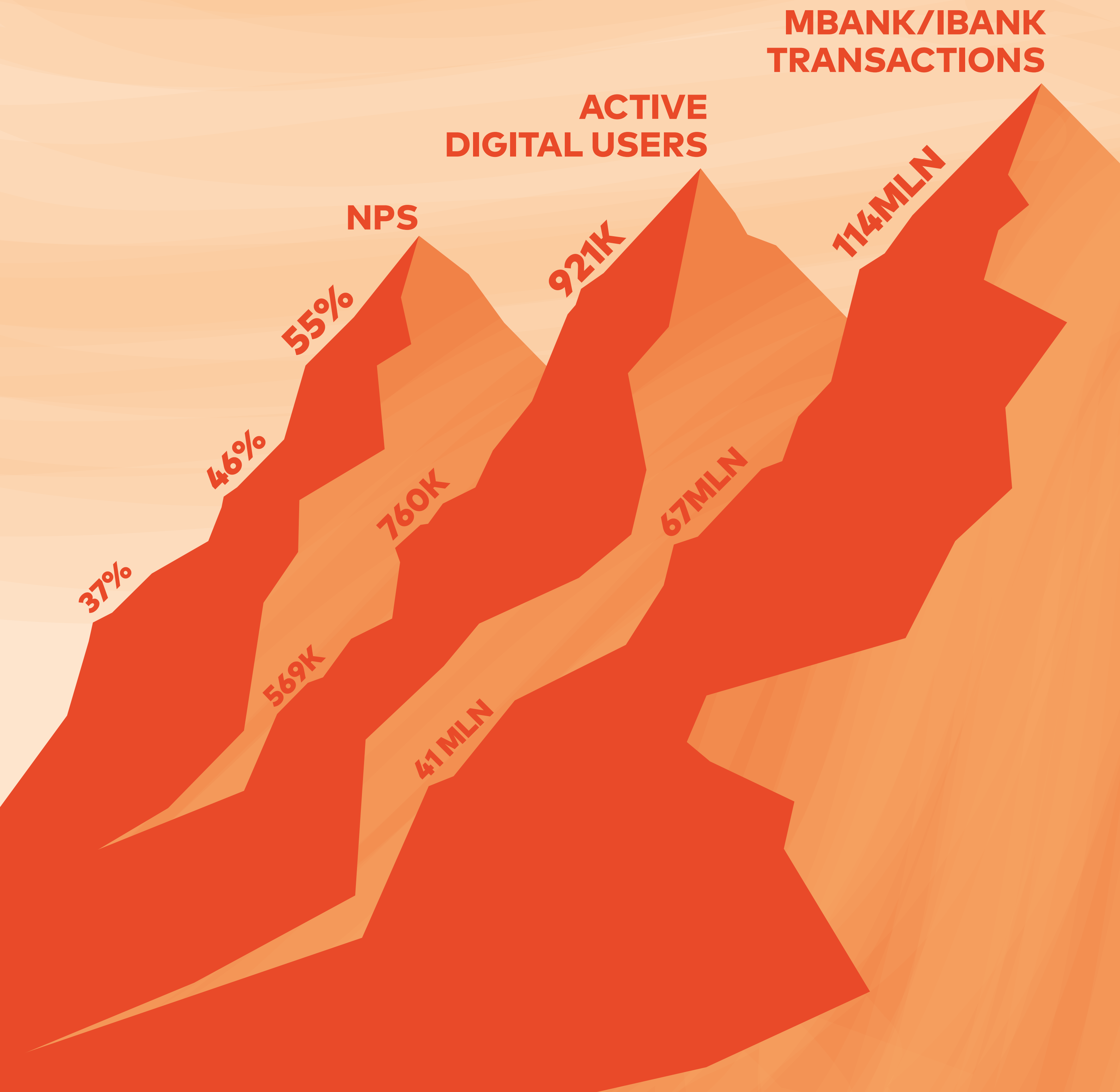
BANK OF GEORGIA
GROUP PLC

Annual **Report**

2021



ANNUAL 20
REPORT 21

About Us

Bank of Georgia Group PLC

Bank of Georgia Group PLC ("**Bank of Georgia Group**", the "**Group**" or "**BOGG**" and on the **LSE: BGEO LN**) is a UK-incorporated holding company. The Group mainly comprises: (a) retail banking and payments business (Retail Banking); and (b) corporate banking and investment banking operations (Corporate and Investment Banking) in Georgia.

JSC Bank of Georgia ("**Bank of Georgia**", "**BOG**", or the "**Bank**"), a systemically important and leading universal bank in Georgia, is the core entity of the Group. The Bank is a leader in the payments business and financial mobile application, with strong retail and corporate banking franchises in Georgia. Focusing on digitalisation and expanding technological and advanced data analytics capabilities across the organisation, the Group aims to offer more personalised solutions and seamless experiences to its customers to enable them to achieve more of their potential. Employee empowerment, customer satisfaction, and data-driven decision-making, together with the strength of the banking franchise, are key enablers of the Group's sustainable value creation. By building on its competitive strengths and uncovering more opportunities, the Group is committed to delivering strong profitability and maximising shareholder value.

The Group expects to benefit from the growth of the Georgian economy, and through its Retail Banking and Corporate and Investment Banking operations, aims to deliver on its strategy and its key medium-term objectives – at least 20% return on average equity (ROAE) and c.10% growth of the loan book.

See page 19 for information on our business model and strategy.

Find the digital version of this report on our website at:
www.bankofgeorgiagroup.com

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Financial Highlights

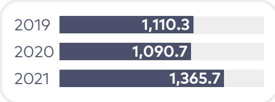
Strong performance reflected in 2021 financial results notwithstanding the ongoing pandemic

Strong interest income and fee and commission income generation

Operating income
(GEL million)

1,365.7

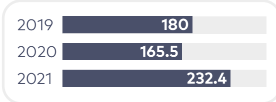
+25.2% y-o-y



Net fee and commission income
(GEL million)

232.4

+40.4% y-o-y

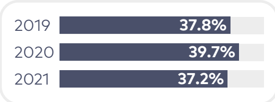


Resilient loan portfolio quality and realised cost efficiencies

Cost to income ratio*

37.2%

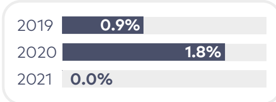
-2.5 ppts y-o-y



Cost of credit risk ratio

0.0%

-1.8 ppts y-o-y

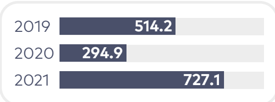


Outstanding profitability

Profit**
(GEL million)

727.1

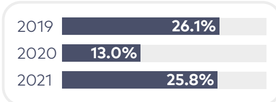
+146.5% y-o-y



Return on average equity (ROAE)**

25.8%

+12.8 ppts y-o-y

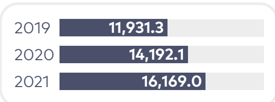


Strong portfolio growth

Net loans***
(GEL million)

16,169.0

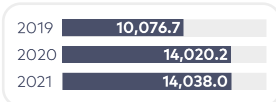
+13.9% y-o-y



Client deposits
(GEL million)

14,038.0

+0.1% y-o-y



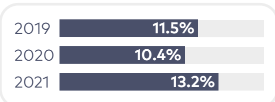
Strong capital and liquidity positions

CET1 capital adequacy ratio (NBG, Basel III)

Bank of Georgia

13.2%

Minimum regulatory requirement – 11.5%

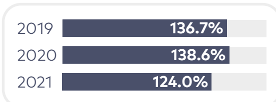


Liquidity coverage ratio (NBG, Basel III)

Bank of Georgia

124.0%

Minimum regulatory requirement – 100%



* The 2019 cost to income ratio adjusted for GEL 12.4mln one-off employee costs (gross of income tax) related to termination benefits of the former executive management.

** The 2019 income statement adjusted profit excludes GEL 14.2mln one-off employee costs (net of income tax) related to former CEO and executive management termination benefits. The amount comprises GEL 12.4mln (gross of income tax) excluded from salaries and other employee benefits and GEL 4.0mln (gross of income tax) excluded from non-recurring items. 2019 ROAE has been adjusted accordingly.

*** Throughout the Strategic Report, gross loans to customers and respective allowance for impairment are presented net of expected credit loss (ECL) on contractually accrued interest income. These do not have an effect on the net loans to customers balance. Management believes that netted-off balances provide the best representation of the Group's loan portfolio position.

Note: The 2019 reported cost to income ratio was 38.9%, the 2019 reported profit was GEL 500 million, and the 2019 reported ROAE was 25.4%

Operating Highlights

2021 operating highlights reflect the expansion of our digital footprint in Georgia, supported by high customer and employee satisfaction levels

Number of active Retail Banking customers*

1.6 MLN
+10.1% y-o-y

Retail Banking branches**

211
flat y-o-y

Active digital users (mBank/iBank)***

921K
+21.2% y-o-y

DAU/MAU

44.2%
+4.8 ppts y-o-y

Number of mBank/iBank transactions

114.1 MLN
+70.9% y-o-y

Share of transactions through digital channels (%)

96.1%
+0.8 ppts y-o-y

POS terminals

38,514
+41.7% y-o-y

Share by number of POS payment transactions in BOG's POS terminals

51%
+2.5 ppts y-o-y

Express Pay terminals

3,134
+3.8% y-o-y

ATMs

989
+3.0% y-o-y

Number of cards

2.3 MLN
+7.2% y-o-y

Active loyalty programme members****

1.5 MLN
+7.7% y-o-y

Net Promoter Score (NPS)

55%
+9 ppts y-o-y

Employee Net Promoter Score (eNPS)

61%
+3 ppts y-o-y

* Active individual customer – an individual who used any of the Bank's channels at least once, or performed at least one debit transaction, or was a payroll customer, or had at least one active credit product, or had any type of deposit with a balance above a certain threshold during the last three months. Active business customer – a legal entity that had at least one active credit product, or performed at least one debit transaction, or had any type of deposit with a balance above a certain threshold (different for micro and SME clients) during the last three months.

** Includes representative offices of the Wealth Management business, which was reclassified from Corporate and Investment Banking to the Retail Banking segment in 2021.

*** Individual users who logged in to mBank/iBank at least once during the last three months.

**** Members with at least one active product.

At a Glance

Bank of Georgia Group

Bank of Georgia Group is a Georgia-focused banking and payments business with an impressive track record of delivering superior returns and maximising shareholder value. The Bank of Georgia Group is a financially robust and truly public financial institution, with the highest standards of corporate governance and sustainable business practices. By committing to customer satisfaction, attracting talent, being agile and innovative, and developing new products and solutions, the Group has strengthened its competitive position on the local market.

The Group offers universal **Retail Banking** and **Corporate and Investment Banking** services in Georgia, as well as banking operations in Belarus through **BNB**.

BANK OF GEORGIA
GROUP PLC

Retail Banking

Mass Retail

SOLO

MSME

Corporate and Investment Banking

The leader in payments and financial mobile app in Georgia

- We are the leaders in the payments business with a strong presence in Georgia through our POS and self-service terminals. We had c.39k multifunctional POS terminals as of 31 December 2021, with 51% of total POS payment transactions in Georgia in 2021 executed in BOG's POS terminals.
- mBank is a popular financial mobile application in Georgia. We have continued to enhance the application, launch new products, and redesign end-to-end digital journeys to make mBank the primary channel for our customers. As of 31 December 2021, active digital users represented 59% of total active individual customers. In 2021, c.9.2mln transactions were executed in mBank per month, a 76.0 % increase year-on-year. More than 96% of daily transactions of individual customers were executed through digital channels in 2021.

Strongest retail banking franchise in Georgia

- Bank of Georgia is the leading retail banking franchise in Georgia, with 40% market share in deposits of individuals and 39% market share in loans to individuals as of 31 December 2021*.
- The Bank repeatedly comes out as the "top-of-mind" and "most trusted" financial institution across all age groups of the Georgian population**. The number of active individual customers as of 31 December 2021 was c.1.6mln, representing 42% of Georgia's total population.
- Net Promoter Score (NPS), one of our Key Performance Indicators (KPIs), which reflects the underlying strength of our franchise, improved to 55% in December 2021***.

Sustainable high profitability

- The Group has delivered outstanding profitability with ROAE of 20%+ over the last four years (pre-COVID-19).
- The Group has delivered ROAE of 20%+ for the seventh consecutive quarter during the pandemic.
- The Group is targeting 20%+ profitability in the medium term.

* Based on the data published by the National Bank of Georgia as of 31 December 2021.
** Based on autumn 2021 external research by IPM Georgia (independent research company).
*** Based on winter 2021 external research by IPM Georgia (independent research company).

Neil Janin
Chairman

Chairman's Statement

As I sit to write my last annual letter to stakeholders, the Ukraine-Russia war is continuing. The war has affected the whole world when it had not even recovered from the COVID-19 pandemic, and our thoughts and prayers are with the Ukrainian people as they endure such unbelievably painful times.

As an ex-Soviet Republic, Georgia is clearly affected by such news. The present Georgian government has always sought to maintain a relatively low-key, pragmatic profile vis-à-vis Moscow, and has continued to do so. The NBG has required banks to comply with the UK, EU, and US sanctions imposed on Russia. While there are many global economic pressures that result from this conflict, and in Georgia that mostly reflects the impact on regional tourism and trade, Georgia should benefit from the significant efforts made over the last decade to diversify its trading-country relationships and, in particular, to reduce its legacy reliance on Russia as a trading partner. Archil Gachechiladze discusses our thoughts on the potential economic impact on Georgia in his letter.

After a challenging year in 2020, in which the global pandemic resulted in an economic contraction, Georgia delivered an incredible recovery in 2021, with real GDP growth of 10.4%. Increased levels of trade, remittances, some recovery in tourism levels, and the restoration of monetary discipline all supported this strong economic recovery.

It was pleasing to see the NBG refocus its de-dollarisation efforts onto the liability side of the balance sheet during 2021, with its support for Lari deposit gathering. This is a good sign and should underpin the performance of both the economy and the currency going forward.

I believe Bank of Georgia has never been in a stronger shape, in terms of the quality of its franchise, strong financial performance and robust capital position. By staying true to its core values and business principles, the Bank achieved a historically peak performance in 2021 – a record of which it can be truly proud.

Allow me now to discuss a few themes that are important to this institution. Bank of Georgia has grown substantially during my ten years as Chairman. It has been through many regional and economic challenges, but has always successfully managed through the ups and downs with great integrity as an institution. We have remained true to our Mission and beliefs, and have delivered strong profitability, a sharp focus on the strength of our customer franchise, and double-digit compound annual growth in our customer lending over the last ten years. What I am most pleased with, coming out of my period of Chairman, is that we are clearly the "top of mind" bank in Georgia, with substantial improvements delivered in customer and employee satisfaction, and an organisation that has transformed itself digitally – especially over the last few years.

None of this would have been possible without strong governance, at both the country and the corporate level, and it has been a genuine pleasure to have experienced such strong governance in both areas throughout my time as Chairman. Georgia has demonstrated its commitment to free market economics and economic liberalisation. The regulatory environment is also particularly prudent, and the banking sector now operates at much lower levels of systemic risk than in the not-too-distant past. Bank of Georgia has also sought to maintain exemplary corporate governance practices – a significant achievement in a small, but rapidly evolving economy.

In contrast to other traditional banks, we decided a couple of years ago to fully embrace digital transformation throughout the organisation. The CEO and the business segment discussions in this report provide substantial detail on the progress the organisation has made, and, I firmly believe, will continue to make. The numbers speak for themselves – Bank of Georgia is no longer a legacy bank, it is well along the path to becoming a digitally-transformed organisation that listens to its customers about their developing e-requirements. This listening and responding is at the heart of our operational and strategic thinking.

The CEO and the management team have strengthened the internal systems of the organisation to ensure that customer voice is heard across the Bank and that customer feedback is genuinely used by teams to improve and launch new products. The management has promoted and truly embedded a customer-centric and feedback-oriented culture to keep delivering superior customer experience and business performance. In addition, the Bank has ramped up its advanced analytics and AI capabilities to design more personalised products and solutions. I believe that the agility and the capabilities that Bank of Georgia has developed over the past few years puts this organisation well ahead of competition.

An extension of a digital bank is a digital marketplace. Building these marketplaces offers us more opportunities, which we would love to seize. We see enormous upside in digital ecosystems. One can argue that it has become a necessity to act as a one-stop-shop for customers. Firstly, consumers are seeking convenience and want to procure as many services as possible through a seamless, integrated experience. Secondly, open banking is making financial institutions open their databases to external service providers if customers request this. We believe that Georgia would be better off if its two big banks were given the opportunity to develop new, integrated beyond-banking solutions by leveraging the potential of digital ecosystems.

I also want to say a few words about the Bank's Mission & ESG credentials as a leading Georgian institution. In line with our mission of helping people achieve more of their potential, we have refocused our impact strategy on sustainable financial inclusion and education. We believe that by developing digital technologies and promoting increased use of financial mobile app and card payments, instead of cash, Bank of Georgia can drive financial inclusion in Georgia and enable more people to improve their quality of life. As open banking creates more opportunities for people to access personalised offers, digital financial inclusion is key to benefitting from emerging opportunities. On the education side, the Bank has focused on providing access to quality educational infrastructure and motivating learning experiences to more school students in Georgia.

In addition, Bank of Georgia began its climate action journey in 2021. Climate-related governance will be strongly embedded during 2022, both at the Board- and management-levels. The goal for 2022 is to integrate the management of climate-related risks into the credit decision-making, raise awareness of E&S and climate risks in the loan portfolio through regular reporting to management and the Board, and also explore the opportunities of sustainable finance.

Finally, but most importantly, having arrived at the end of my term as Chairman, the Board of Directors embarked on a search to find a new Chair to replace me. By the time you read this letter, Mel Carvill will be in place as the Chair of the Board of the Company and, subject to the approval of the NBG, will be the Chair of the Supervisory Board of the Bank. He worked at the Generali Group for more than 20 years until 2009, including as Head of Western Europe, the Americas and the Middle East. In 2009 he joined PPF Partners, a private equity fund investing in Central and Eastern Europe and Asia. He is a non-executive director at Home Credit N.V, Chair at Aviva Life UK and is the Senior Independent Director at FTSE 250 member, Sanne Group plc. As current Chair, I was not involved in the selection process, but I could not be happier to leave this organisation, its Board, its management, and its employees in better hands. It has been a pleasure serving you for ten years. I will miss the Bank.

Neil Janin
Chairman until 10 March 2022

Section 172 Statement
In discharging its duty to act in good faith and in a way that is the most likely to promote the long-term success of the Company, Directors must take into consideration the interests of the various stakeholders of the Company. Throughout this report, we detail how we have identified and given consideration to our various stakeholders. See page 178 for our Section 172 statement (which is incorporated to the Strategic Report by reference), and on how the Board has engaged with our stakeholders.

Archil Gachechiladze
Chief Executive Officer

Chief Executive Officer's Statement

As I write this letter, the war in Ukraine is ongoing. We have all been saddened by the tragedy unfolding in Ukraine. Our immediate response has been to partner with our business clients to support Ukrainians coming to Georgia with housing in hotels and to donate to humanitarian charities through the International Red Cross. I hope and pray for a swift resolution of this conflict.

We may see some negative impact on Georgia. However, given Georgia's position in the region and relatively stable macroeconomic environment, our investment banking arm, Galt & Taggart currently forecasts a 4.5% real GDP growth in 2022, compared with 2.0%-3.5% projected by IFIs. Uncertainties are still elevated, but we expect Georgia's growth trajectory to be resilient.

Reflecting on the past year, I feel proud of what we accomplished in 2021, another year defined by the pandemic. Last year, I mentioned that despite the challenges of the pandemic, our team has remained resilient and dedicated to creating opportunities for our customers and communities and driving our organisation forward. We have maintained the momentum of innovation and development throughout 2021 and continued delivering excellent performance, supported by a strong economic recovery in Georgia (real GDP growth in 2021 was 10.4%, after a 6.8% contraction in 2020). I will touch on a few themes that defined 2021 and that are important for our organisation.

Digitalisation
We ended the year with 921 thousand active users of our retail mobile app and internet banking platform, up 21.2% y-o-y, representing 59% of our active individual customer base. Two years ago, only 41% of our active individual customers were digitally active. During the past two years we have seen a significant change in customer behaviour, with daily activity shifting to our mobile app, driven by the improving quality of our digital products and customer experience. Speaking of daily activity, a metric that we closely track is daily active digital users over monthly active digital users (DAU/MAU) and this stood at 44% at the end of December 2021, up from 39% in December 2020 and 37% in December 2019. The offloading rate of total transactions was 96.1% in 2021, but what's more important is the increasing share of mobile/internet banking transactions – 48% in 2021, up from 36% in 2020.

If we zoom in on product sales in digital channels, that's where we see a huge upside for our business over the next few years. We called 2021 a year of product excellence, and we have focused on improving end-to-end product journeys, especially in mBank/iBank. We fully redesigned consumer lending flow, making it more straightforward and less time-consuming by removing unnecessary steps in the application process. By the end of the year, we also launched a fully redesigned deposit activation process in digital channels. These changes boosted product sales and the product offloading ratio to 30% by year-end, up from 19% in December 2020. We are on track to achieve a targeted product offloading ratio of 36% by the end of June 2022, and hope to increase this rate further by the year-end. Our goal is to be "mobile-first," and we keep working in this direction.

In 2021, we also launched two new products – instalments/BNPL in e-commerce and retail brokerage, Investments, directly in our mobile application. We view instalments as an alternative payment method that gives greater choice to individuals and also enables commerce, including e-commerce, which is still underdeveloped in the Georgian market. Investments give more people the opportunity to diversify the way they invest their funds. Alongside this product, we have launched educational content to increase financial literacy and raise awareness of investing basics and associated risks.

Customer-centricity

The recent digital transformation at Bank of Georgia has gone hand in hand with the redesign of customer experience. I've talked a lot about this before, but would like to re-emphasise the organisational effort and discipline it takes to really live up to this business principle, starting with the regular engagement of senior managers with the Customer Experience team and ending with the implementation of improvement initiatives. We see customer feedback in real time with Medallia, a leading customer experience management platform. The systems and processes we have embedded over the past few years have delivered strong results – with Bank-wide Net Promoter Score (NPS) at a historic high of 55% by the end of 2021, up from 46% a year ago and up from 27% just four years ago.

Talent

Customer-centricity and excellent customer experience start "at home", that is with our employees, whose commitment to our values and business principles and our mission translates into better customer outcomes and fuels our strong performance. We are following our talent development strategy and improving it in the key areas that are critical for the Bank, including in tech-related fields, with the aim to attract and retain top talent. Employee voice is as important within Bank of Georgia as customer voice, and Employee Net promoter Score (eNPS) is another key KPI for our organisation – which also reached an all-time high of 61% at the end of 2021.

Strong business and financial performance

Despite the ongoing pandemic, our businesses performed exceptionally well during 2021. Strong loan origination across all business segments, but most notably in the consumer, micro and SME lending portfolios, led to a 19.8% customer lending growth, on a constant-currency basis. This, combined with a 30bps y-o-y increase in NIM to 4.9% and a 40.4% y-o-y growth in net fee and commission income, underpinned our strong top-line revenue growth of 25.2%. We continued investing in digitalisation and marketing, but delivered a positive operating leverage and an improvement in our cost/income ratio from 39.7% to 37.2% on a full-year basis.

Our loan portfolio is healthy and resilient – the cost of credit risk ratio was zero for the full year as our customers' financial health has benefited from the strong Georgian economy. The NPLs to gross loans ratio improved to 2.4% at 31 December 2021, down from 3.7% a year ago and close to pre-pandemic levels. At the same time, we have also increased our NPL coverage ratios to a healthy level.

All of this resulted in an excellent full-year performance with a 146.5% increase in profit to GEL 727.1 million, and a full-year return on average equity of 25.8%. Full-year basic earnings per share increased by 146.7% to GEL 15.22 per share.

The strength of our business and solid profitability enabled us to announce, in August, an interim dividend of GEL 1.48 per ordinary share for the period ended 30 June 2021, paid to ordinary shareholders of the Group on 5 November 2021. Our capital and liquidity positions remain strong. The Bank's capital ratios are comfortably above the minimum requirements, and we continue to generate high levels of internal capital as a result of the Bank's high return on average equity combined with strong asset quality in our lending portfolios. Furthermore, our book value per share increased by 22.9% over the last twelve months, notwithstanding the resumption of dividend payments.

At the 2022 Annual General Meeting, the Board intends to recommend a final dividend for 2021 of GEL 2.33 per share payable in British Pounds at the prevailing rate. This will make a total dividend paid in respect of the Group's 2021 earnings of GEL 3.81 per share.

Our ESG agenda

Throughout 2021, we have continued to develop our ESG agenda, in line with our key strategic priorities and our Mission to help people achieve more of their potential. We undertook two major ESG-related initiatives – an ESG materiality assessment, including feedback from our major stakeholder groups; and the launch of our first climate action programme at the Bank. We also continued to focus on solutions, including our digital products and the financing and value-added services we provide to local businesses, that not only improve the sustainability of our business, but also significantly contribute to the sustainable development of Georgia. You can read more about our ESG strategy and practices, including our response to climate change, in our significantly enhanced Sustainable Business report on pages 97 to 149 of this Annual Report.

To sum up, I'd like to highlight that we have delivered strong performance across the key strategic areas – mobile app, payments, and loyalty – that we presented in 2020. Our achievements reflect great teamwork, and I'd like to thank all our team members for their commitment and contributions to the success of our organisation.

Finally, I would like to express my gratitude to Neil Janin, who has retired as Chair of the Board, having successfully guided this organisation through a number of generations of its evolution for over a decade. Neil's intelligence and wisdom have supported not just me, as the current CEO, but many previous CEOs and other executives. We all wish Neil the very best for the future. Mel Carvill has now taken over as Chair of the Board, and I am sure he will guide the organisation towards future successes and sustainable growth.

Sincerely yours,

Archil Gachechiladze
Chief Executive Officer
27 April 2022

This Strategic Report, as set out on pages 01 to 167, was approved by the Board of Directors on 27 April 2022 and signed on its behalf by

Archil Gachechiladze
Chief Executive Officer
27 April 2022

Market and Industry Overview

Strengths that make Georgia an attractive place

- Ease of doing business and low level of corruption
- Benefits from diversified economic links and economic base (free trade with the EU and China)
- Good track record of fiscal discipline and strong donor support

Open budget index

#5 International Budget Partnership

Out of 117 countries

Economic freedom index

#26 The Heritage Foundation

Out of 177 countries

Business bribery index

#29 TRACE

Out of 194 countries

Corruption perception index

#45 Transparency International

Out of 180 countries

No downgrades from global rating agencies

Fitch Ratings	BB Stable affirmed February 2022
Moody's Investors Service	Ba2 Stable affirmed September 2021
S&P Global Ratings	BB Stable affirmed February 2022

Source: Economic Freedom Index 2022, Corruption Perception Index 2021, Open Budget Index 2019, Business Bribery Index 2021.

Strengths that make Georgia an attractive place

Georgia demonstrated strong economic growth, improved external balance, and reduced fiscal deficit before the COVID-19 pandemic, reflecting a solid record of economic reforms. Despite different global and regional economic shocks, real GDP growth was, on average, 4.2% between 2014 and 2019, driven largely by domestic demand. The COVID-19 pandemic temporarily halted these gains, as the economy contracted by 6.8% in 2020, largely on the back of a sharp decline in international tourism and the restrictions on local economic activity to curb the spread of the virus. The Georgian authorities mobilised sizeable financing from the International Monetary Fund (IMF) and other international partners to respond effectively to the economic crisis in 2020. This timely and significant support reflects Georgia's long-lasting ties with international institutions and their trust in the country's prudent economic policymaking. The country enjoys a strong reputation as a global top reformer on governance and pro-business reforms, as well as anti-corruption measures.

Georgia's close relationship with the EU is based on the EU-Georgia Association Agreement, including a Deep and Comprehensive Free Trade Area (DCFTA) agreement, which entered into force in July 2016, reflecting Georgia's aspiration for closer political association and economic integration with the EU. Georgian citizens have benefited from visa-free travel to the Schengen area since March 2017. On 3 March 2022, Georgia officially applied for EU membership, and now awaits receiving the status of a candidate from Brussels. While committed to the EU integration agenda, Georgia has also stabilised its relations with Russia, leading to the lifting of the embargo on Georgian products in 2013. Georgia-China economic ties have also strengthened, and a free trade agreement, signed in 2017, is expected to further expand the Chinese market for Georgia's exports. Free trade arrangements with the EU and China put Georgia in a favourable position to continue attracting foreign direct investments. The credit rating agencies (Moody's, Fitch Ratings, and S&P Global Ratings) have acknowledged the country's economic and institutional strength and resilience to global shocks, with credit ratings unchanged during 2020 notwithstanding the pandemic.

Economic developments in 2021

The Georgian economy weathered the impacts of the COVID-19 well, with a solid rebound in GDP, a stronger Georgian Lari and an improved external balance and better fiscal parameters in 2021. Since March 2021, with the removal of most of the restrictions, the economy has gained momentum, with economic indicators significantly exceeding expectations. The COVID-19 new variants and relatively slow vaccination process were downsides to the growth outlook in 2021, but considering that no major restrictions were put in place in 2021, a strong recovery was sustained, with real GDP growth at 10.4% in 2021. The rebound was supported by robust growth in remittances and exports, and a faster than expected rebound in tourism, along with fiscal stimulus and accelerated banking sector lending. Notably, the economy surpassed the 2019 pre-pandemic level by 2.9% in 2021, faster than previously forecast.

The rise in world commodity prices, utility price increases and pent-up demand resulted in price pressures in 2021, with annual inflation reaching 13.9% in December 2021.

The National Bank of Georgia (NBG) raised the monetary policy rate four times in 2021, cumulatively by 250bps to 10.5%. Strong recovery dynamics, coupled with a tight monetary policy and the NBG's new initiatives focused on de-dollarising customer deposits, helped the local currency partially regain its value against the US Dollar since May 2021, strengthening by 5.5% in 2021. International reserves remain high at US$ 4.3 billion as of December 2021.

Prudently managed banking sector

The banking sector is one of the fastest-growing sectors of the Georgian economy, fully privately owned, with the two largest banks accounting for 74.6%* of total assets at 31 December 2021. Prudent regulation and conservative oversight by the NBG ensured the resilience of the banking sector to different shocks. Liquidity and capitalisation rates in the banking sector were at historically high levels during the pre-COVID-19 period, and the sector's profitability was robust, with a return on equity over 20% during 2017-2019.

The 2020-21 COVID-19-related-crisis has once again demonstrated the resilience of Georgia's economy and of the banking sector to shocks. Significant capital and liquidity buffers helped the banking sector overcome this crisis more rapidly, and with fewer costs than during previous crises. The grace periods on principal and interest payments offered by the banks helped mitigate the negative impacts of the crisis on loan portfolio quality. The measures introduced by the NBG as part of its COVID-19 Response Supervisory Plan — the temporary release of capital buffers, the supply of local currency liquidity to the market, and the extension of the IMF programme, among others — also helped reduce the negative effects of the pandemic. The banking sector generated positive profitability since April 2020, with ROE hitting an all-time high of 34.2% in 2021.

Credit growth supported the economic recovery in 2021. The banking sector loan portfolio growth accelerated to 18.2% y-o-y on a constant currency basis in 2021, driven by both corporate and retail lending growth. Dollarisation also decreased, with loan dollarisation at 50.6% (-4.7 ppts y-o-y) and deposit dollarisation at 60.0% (-1.4 ppts y-o-y).

Macro outlook for 2022

The resilience of the Georgian economy to external shocks has historically been supported by a stable macroeconomic environment, prudent monetary and fiscal policies, a business-friendly environment, and a healthy banking sector. Spillovers from the ongoing Russia-Ukraine war and the sanctions imposed against Russia are generally weakening the 2022 growth outlook; however, upsides to Georgia's growth stem from migrants' influx and the redirection of international trade flows through Georgia. Our investment banking arm, Galt & Taggart forecasts a 4.5% real GDP growth in 2022, higher than the 2.0%-3.5% range forecasted by IFIs.

The exposure of the Georgian economy to the Russian and Ukrainian markets is considerable, but manageable. All external flows from Russia and Ukraine to Georgia accounted for 9.6% of GDP in 2021. The major negative impact is expected from reduced exports (the share of Russia and Ukraine in Georgia's total exports was 14.4% and 7.2%, respectively, in 2021), followed by the negative impact on tourism (Russia and Ukraine together accounted for 25.4% of total tourism revenues in 2021). Notably, Russia's share in remittances has decreased significantly in recent years to below 20% of total in 2020-21 (c. 50% during 2010-14 and c. 30% during 2015-19), and reduced remittances are expected to be compensated by inflows from other countries. FDI flows from Russia and Ukraine have been low (5.1% and 0.9% of total inflows, respectively, in 2021). Even though we expect a significant contraction of external inflows from Russia and Ukraine, inflows from the rest of the world will remain broadly intact.

The Russia-Ukraine war has resulted in energy and food price hikes on global commodity markets, which translates into higher inflation. In 2022, annual average inflation in Georgia is expected at 8.8%. Considering increased inflationary pressure, the NBG increased the key rate by 50 bps in March 2022. Given the tight monetary policy, inflation is expected to move towards the target in 2023.

* Source: the National Bank of Georgia

Our Mission




We are here to help people achieve more of their potential



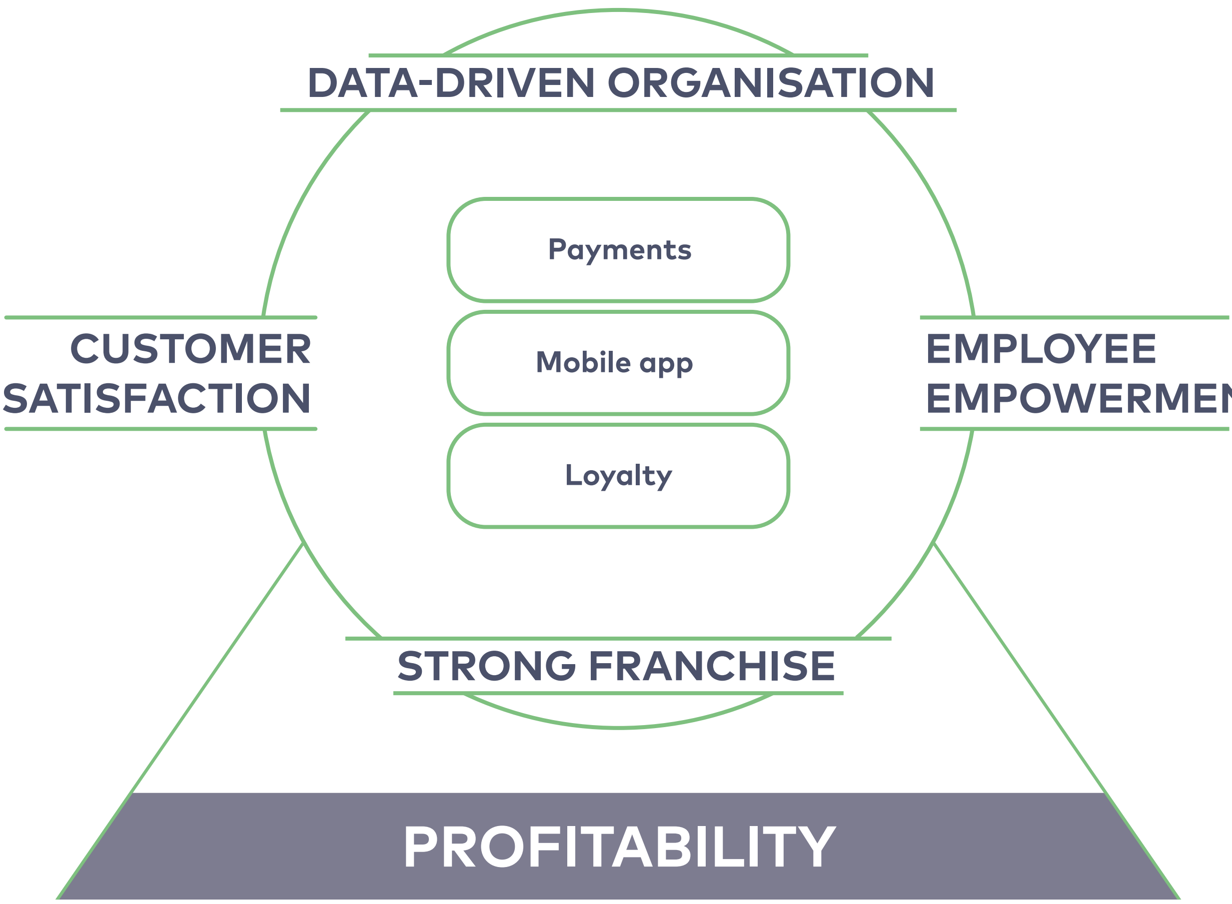


Business Model and Strategy

Strategic focus

Bank of Georgia is a leader in the payments business, the financial mobile application, and the loyalty programme in Georgia. By continuously focusing on digitalisation and expanding technological and advanced data analytics capabilities across the organisation, the Group aims to anticipate customer needs and offer more personalised solutions and seamless experiences to its customers to enable them to achieve more of their potential. Employee empowerment, customer satisfaction, and data-driven decision-making, together with the strength of the banking franchise, are key enablers of the Group's sustainable value creation. With all these strategic building blocks we have laid the groundwork for the bank of the future, and we are committed to delivering strong profitability sustainably and maximising shareholder value.

BANK OF THE FUTURE



By harnessing strong customer relationships, continuing digital innovation and developing new products and solutions, the Group aims to deliver on its medium-term strategy, which is based on at least 20% ROAE and c.10% growth of the loan book.

Key medium-term strategic targets

Loan book growth	ROAE	Dividend/share buyback payout ratio
c.10%	20%+	30-50%

Financial Mobile App and Digital Channels

Digitalisation is core to our strategy and brand. We actively invest in information technology and enhance our digital capabilities to offer excellent digital experiences to our customers. To provide relevant and up-to-date digital solutions, we continuously analyse the latest trends and practices both locally and globally and leverage our agile delivery model to quickly turn new knowledge into the digital solutions our customers need.

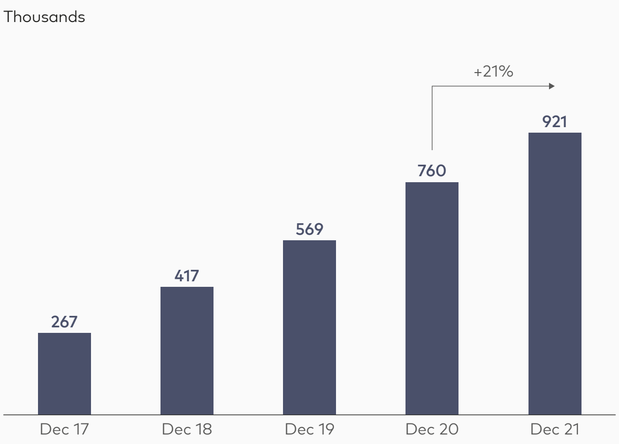
Retail digital channels

We are the leader in retail digital channels. Our mBank is a highly popular financial mobile app in Georgia. We develop digital products, upgrade digital channels' functionalities and continuously work on improving digital experiences for our customers to make sure that more people in Georgia become active users of our mobile app.

2021 was a great year for digitalisation. The number of active users of mBank and iBank reached 921,018, up 21.2% compared with the previous year, and that is 58.6% of the Bank's active individual customers. The number of transactions via these channels was up 70.9% year-on-year, and 48.0% of all transactions went through mBank/iBank. Overall, c.9.2mln transactions were executed via the mobile app per month in 2021.

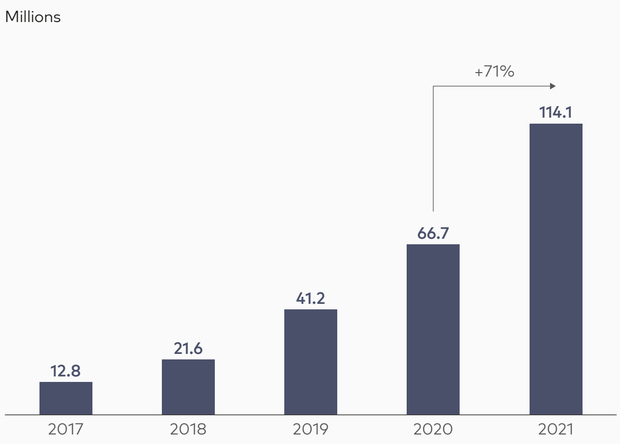
We have viewed our self-service terminals as a channel that enables the transition from physical to digital. The migration has been significant over the past few years, and we continue to see more activity shifting from self-service terminals to mBank. About 26% of customers' activity migrated to mBank/iBank during the last two years. Overall, in 2021, 96% of all transactions were done through digital channels.

Number of mBank and iBank active users



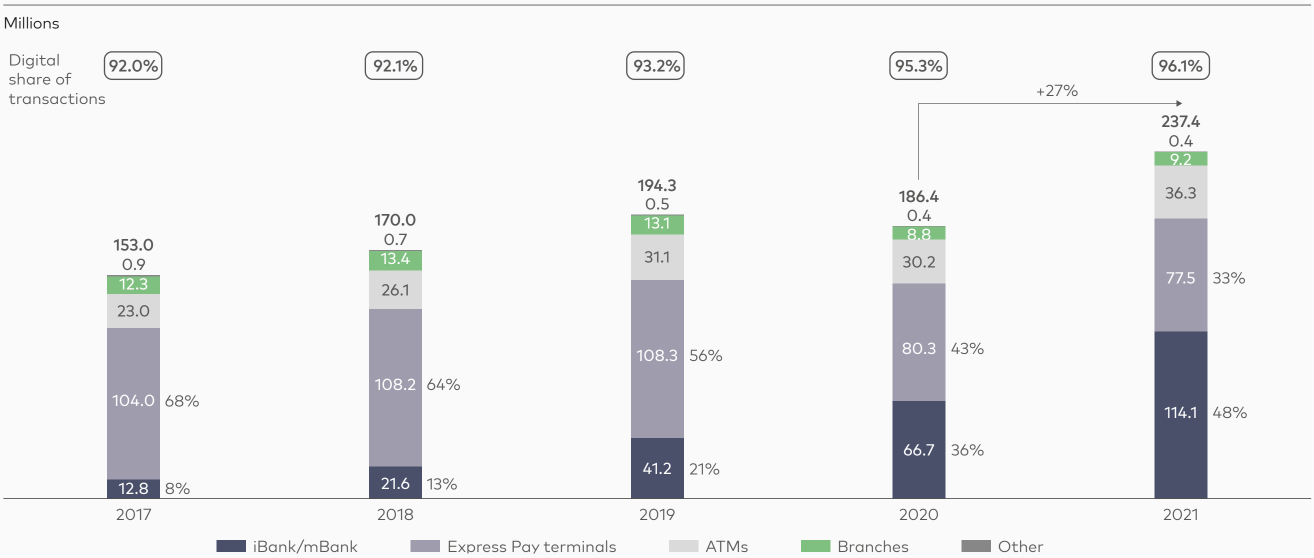
Active user – at least one login in the past three months

Number of mBank and iBank transactions

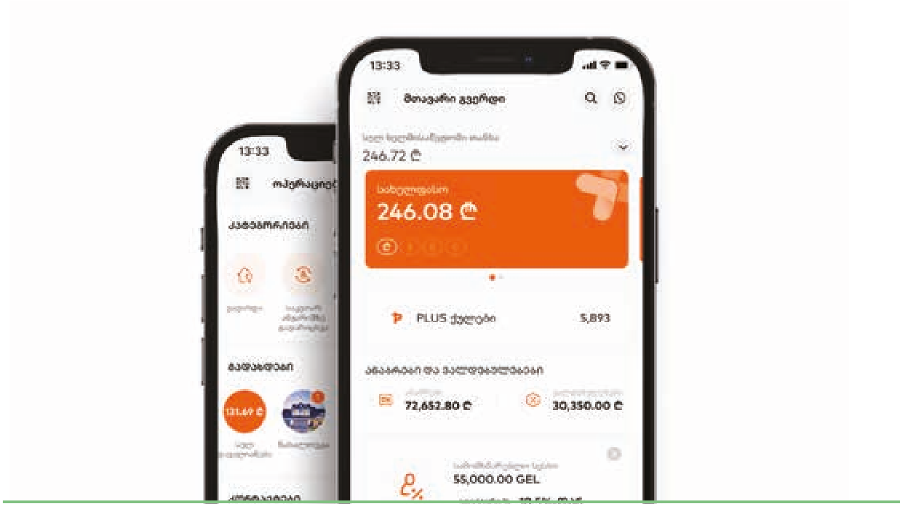


Number of transactions excludes digital product and service sales

Transactions offloading to digital channels



Our popular financial mobile app



GET IT ON Google Play ★★★★★ 4.8

Download on the App Store ★★★★★ 4.8

NEXT STEP

BUILDING THE SUPERAPP

Transactions per month

9 MLN+

Active digital users

921K+

Customer Satisfaction Score

86.0%

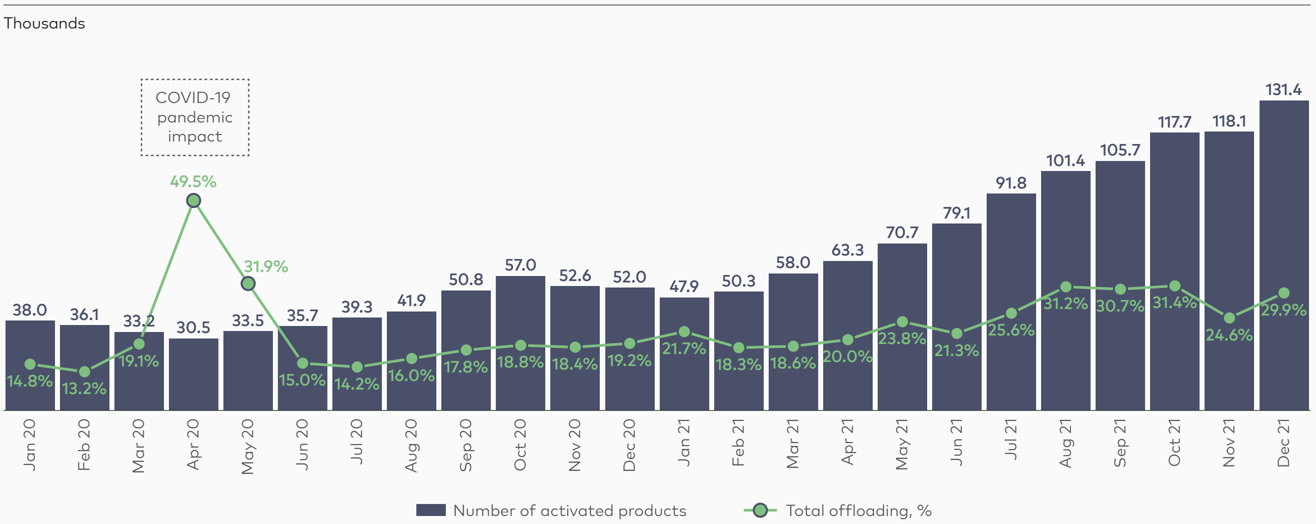
DAU/MAU

44.2%

Product offloading to digital channels

Having achieved a high transactions offloading rate, we now focus on accelerating product offloading to digital channels. We aim to turn our financial mobile app into the main sales channel. The product offloading rate by year-end 2020 was 19%. In 2021, we added new digital products and redesigned product journeys, especially the consumer lending flow that is now tailored to customer profiles, to simplify their digital experience and better fulfil their needs. For example, customers can skip some steps in the process if the Bank already has information on them. As a result, **we achieved a 30% product offloading rate by year-end 2021 and we are on track to achieve our targeted product offloading rate of around 36% by the end of June 2022.**

Product offloading



Product offloading – share of card, loan and deposit activations via digital channels during the month

Development of retail digital products

We continue to develop new digital products. The functionalities of our digital channels are updated every two to three weeks. We highlight a few products and features that we added in 2021:

2019 – 2020

- DIGITAL CARD
- BILL SPLITTING AND MONEY REQUEST
- EMBEDDED ONLINE CHAT
- PEER-TO-PEER PAYMENTS

2021

- FULLY DIGITAL CONSUMER LENDING PROCESS
- FULLY REDESIGNED IBANK
- SECURITY UPGRADE ON SCA STANDARDS*
- DIGITAL ONBOARDING
- ONLINE INSTALMENTS
- CHAT-BOT
- RETAIL BROKERAGE
- OPEN BANKING

Our achievements have been recognised by external stakeholders. Global Finance Magazine named Bank of Georgia *Best Consumer Digital Bank in Georgia 2021* and *Best Online Product Offerings* and *Best Bill Payments & Presentment in Central and Eastern Europe 2021.* Bank of Georgia achieved global recognition in multiple digital categories for the first time in 2021.

Best Consumer Digital Bank in Georgia 2021

Best Online Product Offerings in Central and Eastern Europe 2021

Best Bill Payments & Presentment in Central and Eastern Europe 2021

Best Consumer Lending Process in the world 2021

Best Online Product Offerings in the world 2021

* SCA – Strong Customer Authentication.

Future of mBank and iBank

We see our mBank and iBank as all-in-one channels, covering customers' financial and non-financial needs*. Transactional banking is already well covered in digital channels, but there is still room to fully offload activity from self-service terminals to mBank and iBank. Increasing product offloading is one of the priorities, and we see significant upside in this area. We aim to accelerate sales in digital channels and turn mBank into the main sales channel. We also see major upside in adding non-banking financial services to our mobile application. We took a big step in this direction towards the end of 2021 when we launched retail brokerage in our application (see page 53 for details). We are now working on adding insurance marketplace to the application. Non-financial lifestyle offers is another area that we continue to explore and work on. In 2021, we introduced lifestyle offerings in our mBank to fulfil our customers' non-financial needs.

All-in-one app that covers customers' daily financial and non-financial needs

Business digital channels

Our business internet banking platform – Business iBank – designed for our MSME and corporate customers, comes with plenty of handy features to make its use an intuitive and smooth experience. Since the release of a new fully-redesigned platform in 2020, we have made further improvements to encourage more business customers to use this channel. As a result, the CSAT score of our Business iBank reached 72.9% by the end of 2021.

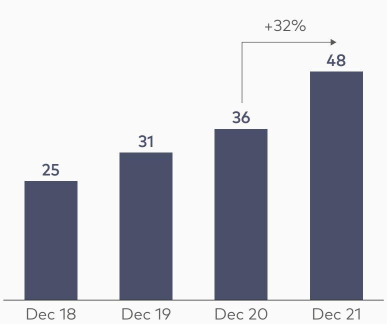
In the first quarter of 2021, we also launched our Business mBank application, to offer a full digital experience to our business customers. Our goal is to make Business mBank useful for immediate business transactions, payments, accounting, money transfers and administration, considering customer preferences and best practices. Our business customers are now able to have a full view of their finances on-the-go.

Within six months from the launch of the application, half of our active business digital users were using Business mBank.

As a result, we saw significant increases in the number of active users and the number of transactions executed via Business iBank and mBank in 2021. Active digital users represented 71.8% of the Bank's active business customers as at 31 December 2021.

Number of Business mBank and iBank active users

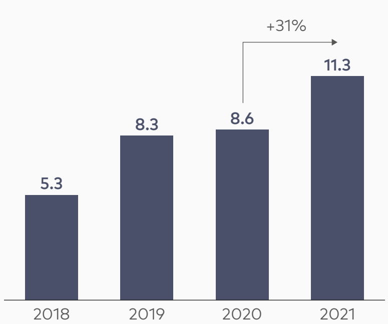
Thousands



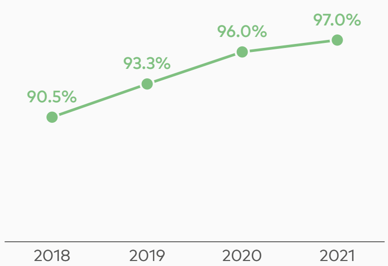
Active user – at least one login in the past three months

Number of Business mBank and iBank transactions

Millions



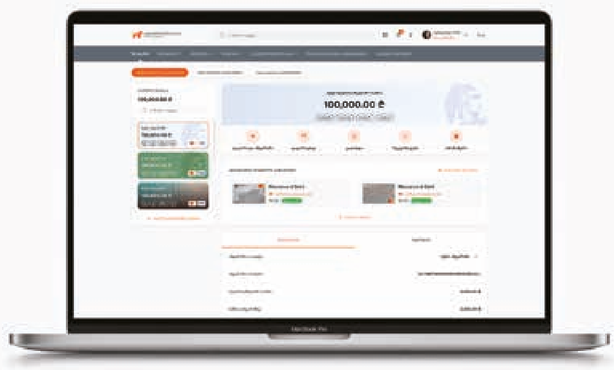
Transactions offloading rate



* We provide joint lifestyle and other offers to our clients together with merchants and our business partners, where the financial service side offer is from the Bank, while a non-financial service/product is offered and provided by partner businesses/merchants.

Full digital experience for our business customers

Business iBank



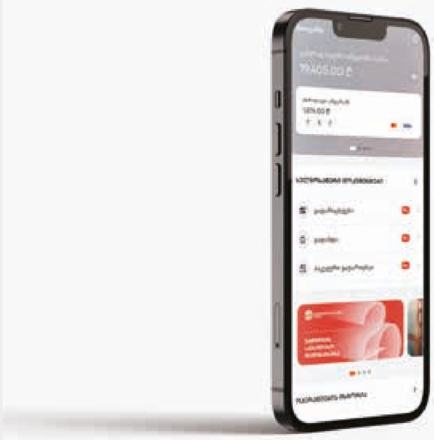
Transactions per month

882K+

Customer Satisfaction Score

72.9%

Business mBank



Transactions per month

60K+

Customer Satisfaction Score

78.7%

Development of business digital products

We continue to develop digital products and provide superior digital experiences to our business customers. These are some of the features that were upgraded or added to business digital channels in 2021:

Business iBank:

- ONLINE CHAT
- SECURITY UPGRADE ON SCA STANDARDS*
- BUSINESS DIGITAL CARD
- BUSINESS CLIENT DIGITAL ONBOARDING REDESIGN

Business mBank:

- ONBOARDING AND BIOMETRIC AUTHENTICATION
- GEL AND TREASURY TRANSFERS
- BILL PAYMENTS
- ORDERING MOBILE POS
- OPEN BANKING

Our achievements have been recognised by external stakeholders. In 2021, Global Finance Magazine named Bank of Georgia the winner of several digital categories in Georgia, Central and Eastern Europe and in the world.

- **Best Corporate/ Institutional Digital Bank in Georgia 2021**
- **Best Corporate Mobile Adaptive Site in Central and Eastern Europe 2021**
- **Best Online Investment Management Services in the world 2021**

BEST DIGITAL BANK AWARD 2021
GLOBAL FINANCE

* SCA – Strong Customer Authentication.

Payments Ecosystem

The payments business is one of the Bank's strategic directions where we can unlock new opportunities as we focus on delivering innovative products and solutions and superior experiences to customers – individual clients as well as merchants – to drive the digital economy in Georgia.

Globally payments are becoming increasingly cashless, and disruption and innovation in payments technology is ongoing. Similar trends are unfolding in Georgia, with the value of cashless payments increasing by 37% year-on-year in 2021.

BOG's share by POS transactions continues to increase. Market share by number of payment transactions in BOG's POS terminals was up from 49% in 2020 to 51% in 2021. Payment transactions worth GEL 4.4 billion were processed through BOG's POS terminals in 2021.

We aim to promptly deliver solutions to the market that address the needs of merchants and individual customers.

Payments is one of our main daily touch points with customers given that more than two million people interact daily with the Bank's channels, allowing us to accumulate a vast amount of data on customer behaviour – around 800,000 different types of information.

Our focus on customer satisfaction and data-driven decision-making, including personalised offers, are key enablers of our success.

The payments business is a significant contributor to the growth of net fee and commission income. The payments business generated around 27.8% of the Group's net fee and commission income in 2021.

As we develop the business, we are focusing on four aspects: innovation, accessibility, exclusivity, and loyalty. We aim to be the type of organisation that can promptly bring new and innovative solutions to the market.

In 2021, we launched a new Android EFT POS terminal with additional capabilities as an alternative to a standard POS terminal, enabling merchants to install additional applications, including inventory management software, to better run their businesses. We also improved our Soft POS – a low-cost payments acceptance solution for smaller-scale businesses. We launched a buy now, pay later payments product for online purchases, introduced P2P payments in Viber – one of the most popular messaging platforms, implemented online settlement and started developing an advanced merchant portal to support businesses with better analytics and business management tools.

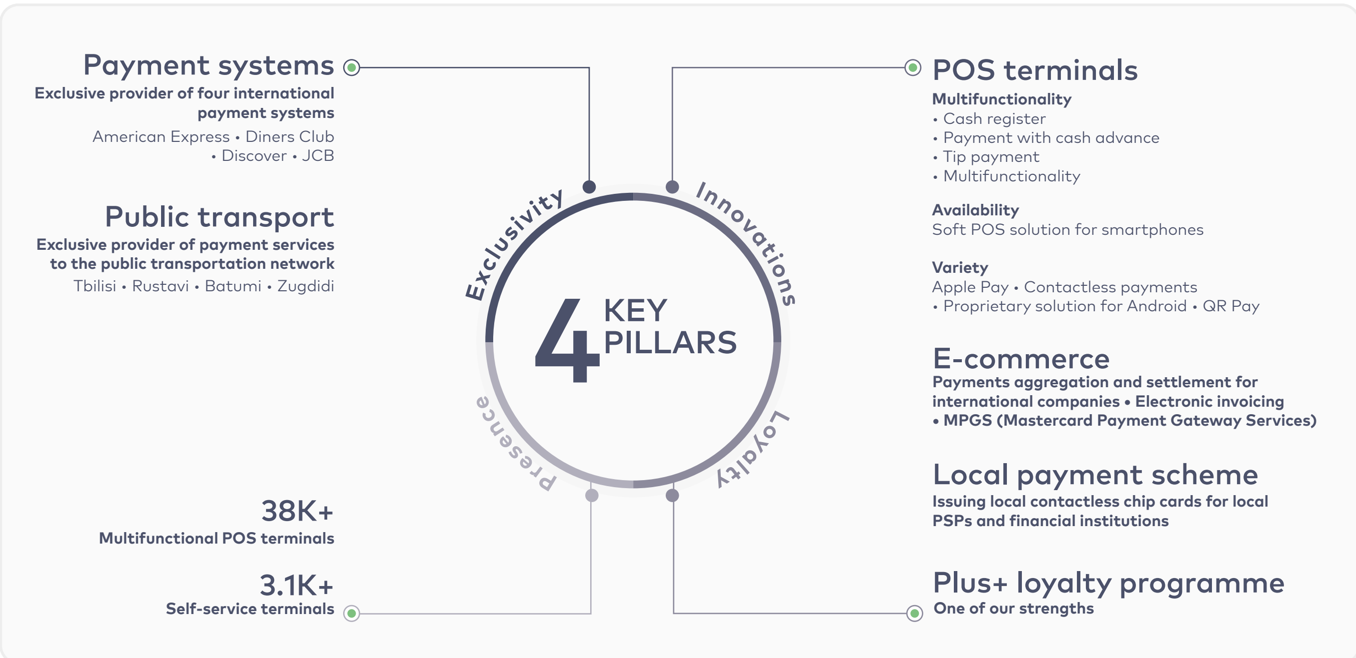
We have the biggest presence in Georgia through our POS and self-service terminals. We are an exclusive payments services provider in public transportation in four cities: Tbilisi, Batumi, Zugdidi and Rustavi. We are also the sole provider of payments services for international companies, and, going forward, we are focusing on increasing such partnerships.

To further increase our presence on the market we simplified merchant onboarding processes in 2021, enabling new merchants to onboard online with just a few steps and get access to our payments solutions.

We have exclusive partnerships with four international payment systems (American Express, Diners Club, Discover, and JCB), in addition to our partnerships with Visa and Mastercard. In 2021, we launched a new debit card – PLUS – together with American Express, their second debit card project worldwide and first in EMEA. This product enables us to transfer more benefits to cardholders and merchants on the back of lower transaction costs.

One of our competitive advantages is our loyalty programme, which we leverage to boost engagement among our retail customers and merchants. See page 28 for more details on the programme.

Scale of our payments ecosystem



We saw a significant increase in the number of active merchants as the economy started to rebound in 2021. We also attracted more e-commerce merchants in 2021 as more businesses began to use web payments as an alternative payment method. The outcomes of our initiatives are reflected in the 2021 full-year results as outlined below:

Contracted merchants
+48% in 2021
c.17K

Growth of e-commerce active merchants*
in 2021
+32%

New partnership contracts signed
with international companies in 2021
4

New products and services
launched in 2021
6

Number of payment transactions at BOG's POS terminals in 2021

150 MLN

+50.2% y-o-y

Volume of payment transactions at BOG's POS terminals in 2021

GEL 4.4 BLN

+63.7% y-o-y

Share by number of payment transactions in BOG's POS terminals in 2021**

51%

+2.5 ppts y-o-y

Share by volume of payment transactions in BOG's POS terminals in 2021**

49%

+2.0 ppts y-o-y

* Active merchant – a merchant with at least one transaction during the past month.
** Market shares are based on the data of the National Bank of Georgia and Bank of Georgia as of and for the year ended 31 December 2021.

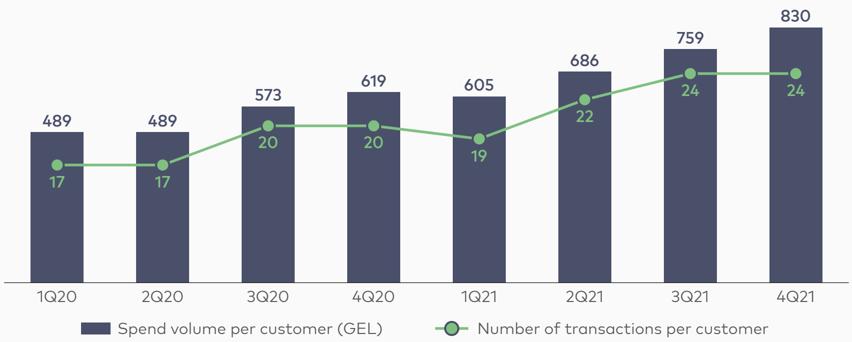
Loyalty Programme

Our loyalty programme – PLUS – is a market-leading value proposition on the Georgian market, underpinning the strength of the Bank's retail franchise, and enabling us to increase customer engagement and overall transactional activity.

The loyalty programme offers customers different status levels based on their activity and reward points accumulated through payments and redeemed in exchange for partner companies' products or services, utility payments, public transport payments or mobile top-ups.

In 2021, we changed the loyalty programme mechanics to include transactional activity as a component that allows customers to upgrade to a higher status within the programme and become eligible for more benefits. Focusing on transactional activity has also helped us promote more card payments and has made the loyalty programme more engaging for our customers. These changes have been reflected in increased customer activity:

Transactions and spend per customer per month increasing



The loyalty campaigns we run also benefit our partner businesses, leading to a boost in commerce. We apply data analytics tools to design the campaigns, and as we advance our analytics capabilities, we aim to generate more personalised campaigns and offerings.

In the fourth quarter of 2021, we added a new page – Offers Hub – to our financial mobile app. Our customers can now view all non-financial offers from our partner merchants in a single space. Information on ongoing campaigns is now more accessible and should encourage more customers to use our mobile app regularly to fully benefit from the loyalty programme.

GEL 1.1 MLN+

+42.6% y-o-y

Total value of loyalty points exchange operations per month in 2021

c.139K

+12.1% y-o-y

Total number of loyalty points exchange operations per month in 2021

c.1.5 MLN

+7.7% y-o-y

Active loyalty programme members in 2021

Personalised campaigns | **Advanced analytics for partner merchants**

In 2021, we launched a new debit card product – PLUS card – together with American Express, their second debit card project worldwide and first in EMEA. This product enables us transfer more benefits to cardholders (for example, more cash backs and discounts in the daily spend category) and merchants on the back of lower transaction costs and will help us increase the number and the volume of POS transactions. We believe PLUS card will be key to developing and expanding our loyalty programme. We are now focusing on increasing the network of partners and adding new features to our PLUS card.

Customer Satisfaction

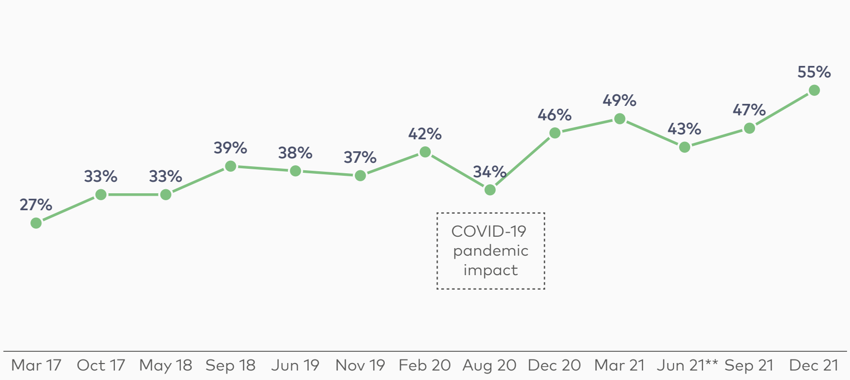
We believe that the success and sustainability of our organisation depend on how happy our customers are with what they experience as they interact with Bank of Georgia.

Our ambition is to be a truly customer-centric organisation – we design every solution with a customer in mind and innovate based on customer feedback.

A key metric that we monitor is the Bank-wide NPS, measured by an independent external service provider. During the past few years customer satisfaction has increased markedly, thanks, in part, to the systematic and rigorous customer experience management approach that we have implemented during the past two years.

The Bank-wide NPS again improved significantly by year-end, reaching a new historic high of 55%.

Net Promoter Score*



#1 customer experience management platform

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

Engaging with customers **proactively** and responding in real time

Anticipating customer needs, wants, and future behaviour

Harnessing strong human relationships with **data analytics** for dynamic customer insights

Investing in **technology** to deliver **seamless customer experiences**

Improve
Every experience

500+

Small and large improvement projects identified and implemented

Engage
Every customer

264K+

Customer responses collected and analysed

43K+

Customers consulted personally during close-the-loop process

Engage
Every employee

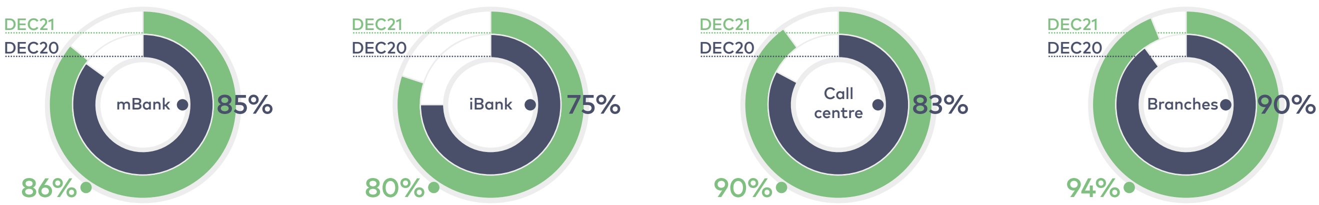
45%

of total employees engaged with Medallia as of end of 2021

* Based on external research conducted by IPM Georgia.
** NPS of all major banks decreased due to the raise in the NBG's Monetary Policy Rate.

We have a 360-degree view of customer journeys across all touch points – mBank, iBank, call centre and branches. We monitor Customer Satisfaction Score (CSAT) and its main drivers for our channels on a daily basis. We saw a remarkable improvement in the channel satisfaction scores in 2021:

Channel satisfaction



Collaboration with the world's leading customer relationship management (CRM) platform – Salesforce

We started to collaborate with Salesforce in 2020 to enhance customer experiences across the Bank's digital channels and provide more tailored solutions and experiences to our customers. The multichannel functionalities of Salesforce facilitate the integration of all customer experiences throughout the entire journey within a single platform. Having a complete, 360-degree view of customers as they interact with the Bank allows us to better respond to changing customer needs and wants and to shape more positive and connected experiences across all key touch points.

Our expectations

- Better understanding of customers' needs
- Offering more relevant products
- Optimising our sales-driven activities
- Covering all communication channels with a single solution
- More effectively tracking customers' activities and analysing data
- Building seamless business processes

salesforce

Tools

Journey builder
Mobile studio
Einstein
Email studio
Contact studio
Social studio
Web studio
Datorama
Automation studio
Advertising studio

Experience

TOYOTA Marriott Zillow
Ulster Bank vodafone BARCLAYS T-Mobile
AMERICAN EXPRESS Canon

Employee Empowerment

The success of our employees is key to the success and sustainability of our organisation. We believe that customer experience starts with employee experience. We are committed to being the employer of choice for top talent and creating equal opportunities and meaningful experiences for our employees based on our values and business principles.

Redesign of employee experiences

High-trust environment

New talent development strategy

Values-based organisation

We implement programmes and processes in line with the Bank's values, business principles and strategic objectives, to support and engage our employees.

With the new talent development strategy, we aim to build a strong talent pipeline, implement a variety of talent development programmes and cultivate feedback and learning culture across the organisation.

The Employee Experience Management team implements a systematic and rigorous approach for identifying employee needs and delivering solutions and interventions that improve employee experience at each stage of the employee journey with Bank of Georgia.

We provide regular updates to our employees on the Bank's strategy and performance and discuss risks and opportunities through a coordinated, multichannel approach, including blogs and vlogs. We encourage our people to speak up and share their ideas or concerns. We make sure that employee voices are heard across the organisation through our communication channels as well as through the surveys that we regularly monitor.

Measuring employee empowerment

To measure the effectiveness of employee empowerment initiatives and monitor their sustainability, we closely track employee engagement and corporate culture via the Employee Engagement survey (Korn Ferry Engaged Performance™) and the Employee Net Promoter Score (eNPS).

Korn Ferry Engaged Performance™

Our Employee Engagement and Employee Enablement scores improved in 2021. According to Korn Ferry, our scores are above the banking industry benchmark and in line with the scores at high-performing organisations.

Employees feel more engaged

73% High-Performing Organisations Benchmark

71% 2020 → 73% 2021

67% Banking Industry Benchmark

and enabled

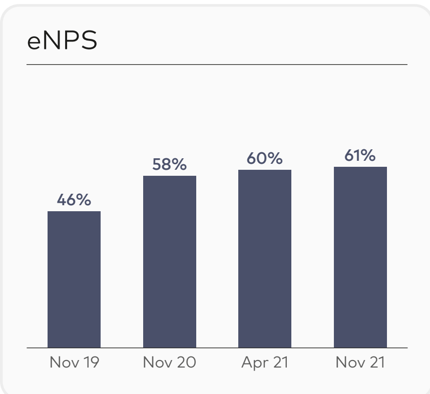
73% High-Performing Organisations Benchmark

69% 2020 → 74% 2021

68% Banking Industry Benchmark

Employee Net Promoter Score (eNPS)

A key success metric and a key performance indicator Bank-wide is eNPS, which we started to measure in 2019 and monitor regularly. It gives us accurate and deep insights on the current state of employee engagement, inclusion, and other issues related to employee experience. In two years, the Bank's eNPS improved from 46% to 61%, reaching an all-time high level by the end of 2021.



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

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

For more details on employee-related programmes and initiatives and employee survey results, see pages 111 to 121 in the Sustainable Business section.

Data-Driven Organisation

Bank of Georgia is a data-driven organisation, with a continued focus on increasing digitalisation and advanced data analytics capabilities, in order to offer more personalised solutions and seamless experiences to its customers to enable them to achieve more of their potential.

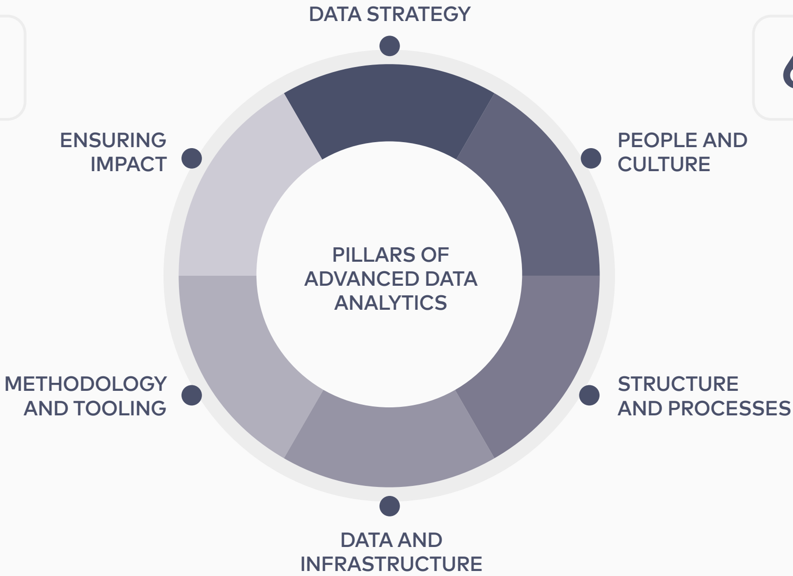
We have a defined organisation-wide data strategy. Our data strategy defines how we build data models and use data in different banking and beyond-banking processes, how we deliver data models from process, infrastructure, and methodology perspectives, how we measure our success in advanced data analytics and how we ensure employee awareness and knowledge.

Data models
100+ in 2021

127

Data specialists

60



Data in banking

The use of data analytics to cover core banking processes with impact on decision-making, automation, sales, customer satisfaction, efficiency

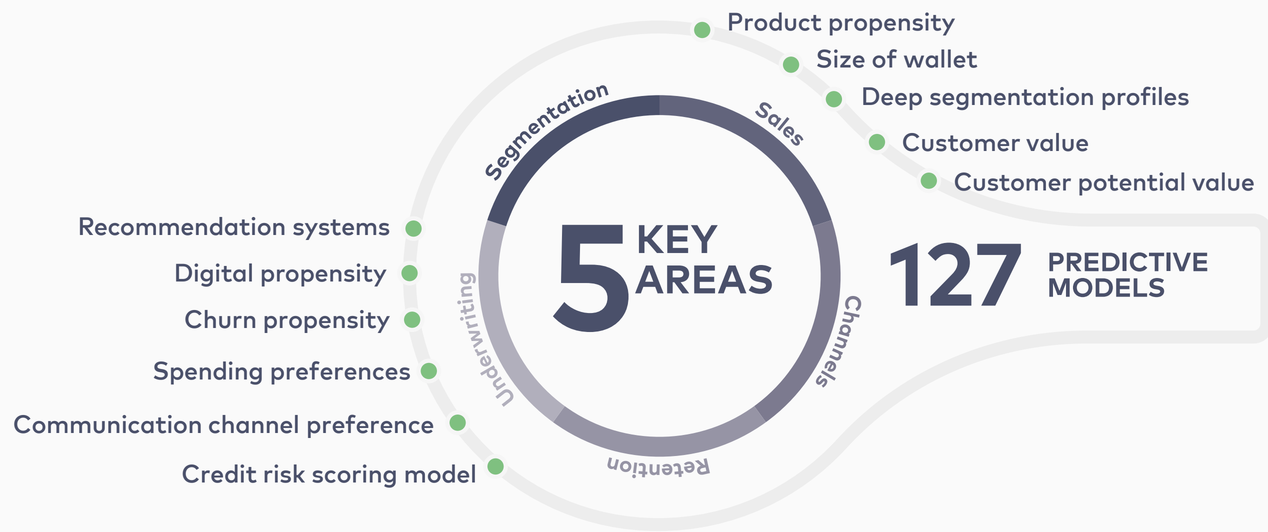
Data beyond banking

The use of data analytics for data monetisation and to create additional value for customers, the Bank, and the ecosystem

Data-driven insights and our ability to act on them are the main drivers of innovation and customer satisfaction. In addition to client wallet-size estimation, we have advanced our predictive models to the next level, and now we have a client-churn management model, which enables us to design the offerings with high-retention power, and the next-best-action and real-time marketing models in place.

We have been using advanced analytics tools for several years and have incrementally improved our understanding of customer behaviour. With big data we look to the future – we develop predictive models that will enable us to offer our customers what they want and need in the exact moment.

As a data-driven organisation we focus on delivering innovative solutions and excellent digital experiences to our customers in real time. Currently we use more than 127 predictive models with a high Gini coefficient, an indicator of model quality. We cover five key areas of our business: sales, channels, retention, underwriting, and segmentation.



In 2021, to further increase digitalisation and enhance advanced data analytics capabilities, we implemented the following key data-related initiatives:

- implementing a non-financial recommendation engine;
- running data and AI training for middle management;
- predicting and improving NPS using data-driven models;
- improving natural language understanding capabilities; and
- improving customer churn analytics capabilities.

Automation rate in retail lending process in 2021

70%

+7.0 ppts y-o-y

Contribution to sales, powered by data-driven models in 2021

40%

+4.0 ppts y-o-y

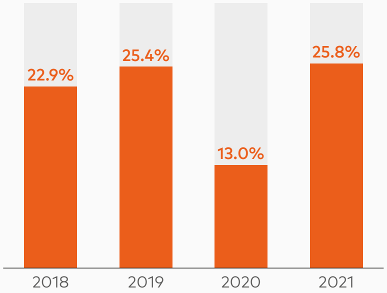
Delivering on Our Strategy

Track record of delivering strong results

Key medium-term strategic targets

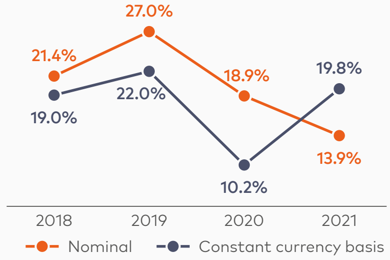
ROAE

20%+



Loan book growth

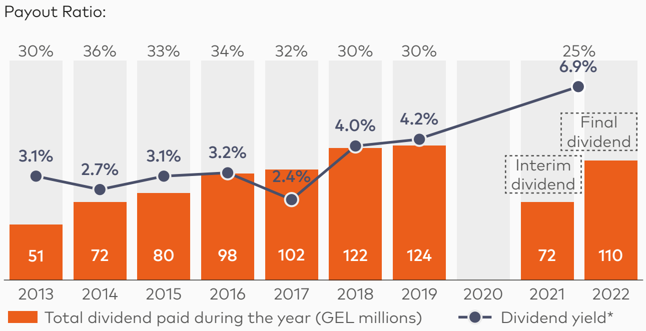
c.10%



Robust capital management track record

- **Maintain regular progressive semi-annual dividend payouts:** aiming at a 30-50% dividend/share buyback payout ratio
- Given the higher levels of lending growth in the near term, the **Group currently expects the dividend/share buyback payout ratio to be approximately 35-40% over the next two years**
- **Interim dividend of GEL 1.48 per ordinary share paid on 5 November 2021**
- **At the 2022 Annual General Meeting, the Board intends to recommend a final dividend for 2021 of GEL 2.33 per ordinary share payable in British Pounds at the prevailing rate**

Regular dividends



2021 ROAE – 25.8%

The Group historically achieved superior returns above 20%. The Group's strong performance in 2021 was underpinned by:

- **Robust operating income performance.** The Group's operations have been supported by the improving macroeconomic environment in 2021. Strong lending growth and the successful deployment of excess liquidity contributed to strong net interest income generation, up 22.7% y-o-y, while strong performance in the settlement operations resulted in a 40.4% y-o-y increase in net fee and commission income during the year.
- **Focus on cost efficiency.** We have continued investing in IT-related resources, digitalisation and marketing, in line with our strategic priorities, whilst maintaining our focus on efficiency and cost control. As a result, our cost to income ratio stood at 37.2% in 2021, down from 39.7% in 2020. Our medium-term cost to income ratio target of c.35% remains unchanged.
- **Resilient lending portfolio.** The cost of credit risk ratio was 0.0% in 2021 (1.8% in 2020). Having recorded a significant expected credit loss (ECL) provision in the first quarter of 2020, we saw an increase in recoveries in 2021, in both our Retail our Corporate Lending portfolios, resulting in a lower than normal level of provisions. The non-performing loans ratio improved to 2.4% from 3.7% in 2020, primarily driven by more customers, especially in the Retail Banking segment, returning to regular payments amid increased economic activity, following the pandemic-related grace periods.

As a result, the Group generated strong profit of GEL 727.1 million in 2021 (up 146.5% y-o-y), with ROAE of 25.8%.

2021 loan book growth – 13.9%

Loan book growth in 2021 was strong across all business lines, but particularly in the consumer, micro and SME lending portfolios. Lending growth in the Retail and CIB segments was 18.0% and 10.2% y-o-y respectively, and 22.7% and 18.4% respectively on a constant currency basis. Overall, our loan portfolio increased by 13.9% y-o-y and by 19.8% y-o-y on a constant currency basis in 2021.

In the medium term, we expect customer lending growth to be around the 10% target level.

2021 dividend payout ratio – 25%

At the 2022 Annual General Meeting, the Board intends to recommend a final dividend for 2021 of GEL 2.33 per share payable in British Pounds at the prevailing rate. An interim dividend of GEL 1.48 was already paid on 5 November 2021.

* Dividend yield for 2013-2019 and for the interim dividend for 2021 is calculated based on the closing price of shares immediately prior to the ex-dividend date. Final dividend yield is calculated based on the closing price of shares on 25 April 2022.

Segment Discussion

Retail Banking

Customer-centric and digital solutions-based multi-brand strategy

We are a leading retail banking franchise in Georgia, providing diverse products and services to more than 1.6 million active customers through a popular financial mobile app on the market and one of the largest networks of 211 retail branches, 989 ATMs and 3,134 Express Pay (self-service) terminals as at 31 December 2021. The Retail Banking business (RB), a core area of our business, develops and implements a customer-centric and solutions-based multi-brand strategy, with a focus on digital solutions, reaching a broad spectrum of retail customers through three well-established and recognised business segments:

Mass Retail

Predicting and fulfilling customers' needs seamlessly through cost-efficient remote channels, with a special focus on the mobile app.

Premium Banking*

Providing mass affluent customers (through the SOLO brand) and high-net-worth individuals (through Wealth Management private banking services) a unique blend of banking and lifestyle products and services.

A fundamentally different approach to premium banking with a focus on:

- excellence in customer service;
- increased digitalisation;
- tailor-made bundled offerings.

MSME

Serving MSMEs, through two dedicated segments under the Retail Banking business.

Helping MSME customers develop their businesses by offering a wide range of financial services through convenient digital channels and tailored support and advisory programmes.

Our Retail Banking business continues to be the main driver of the Group's growth. The Retail Banking segment demonstrated outstanding performance in 2021 on the back of strong top- and bottom-line growth, supported by significant rebound in economic activity following the negative impact of the COVID-19 pandemic in 2020. Better-than-expected lending growth, solid operating income, coupled with prudent cost control and resilient asset quality enabled us to deliver strong profitability in 2021. Detailed 2021 financial results of the RB business are outlined on pages 159 to 164.

Gross RB loans*

GEL 10.6 BLN

+17.4% y-o-y

RB client deposits*

GEL 9.6 BLN

+11.0% y-o-y

Market share – loans**

39.0%

+1.3 ppts y-o-y

Market share – deposits**

40.3%

flat y-o-y

ROAE

21.4%

+10.4 ppts y-o-y

We focus on enhancing our customer value propositions across key areas. Key priorities, strategic objectives and major developments during 2021 for each sub-segment are described below.

* Following structural changes in senior management, starting from the third quarter of 2021, we reclassified the Wealth Management business from Corporate and Investment Banking to the Retail Banking segment, under SOLO – Premium Banking. The comparative periods have been restated accordingly.

** Market shares by loans and deposits to individuals, respectively, based on standalone accounts of the banks published by the National Bank of Georgia as at 31 December 2021.

Mass Retail

Our Mass Retail segment provides universal retail banking solutions to our emerging and mass retail customers through cost-efficient remote channels, such as our financial mobile app and internet banking platform, self-service terminals and technology-intensive retail branches.

The strength of our retail banking franchise is underpinned by superior customer experience, the popularity of our financial mobile app and the leading position in the payments business on the Georgian market.

A key metric that we monitor is the Bank-wide NPS, measured by an independent external service provider. The Bank-wide NPS improved significantly by year-end, reaching the new historic high of 55%*.

For more details on customer satisfaction, see page 29.

Based on independent research conducted in autumn 2021, the Bank continues to be the "top-of-mind" bank and the most trusted financial institution across all age groups of the Georgian population. We continually come out as the first-choice bank in Georgia, especially for Generation Z.

Scale of our Mass Retail Banking business

Strong customer base

1.5 MLN+

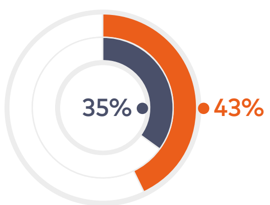
Mass Retail active customers**

349K

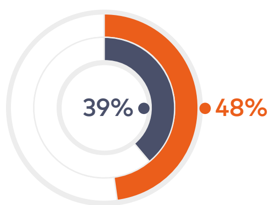
Payroll customers

c.39% of employed (hired) population

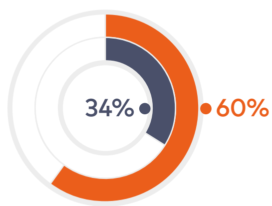
First-choice bank***



Most trusted bank***



Main bank for majority***



Main bank for Generation Z***

Bank of Georgia Peer Bank

We have a customer-centric business model focused on delivering personalised solutions and offerings to our customers. We continuously work on deepening our understanding of customer wants, needs, and behaviours so that we can provide more relevant products and services when and where they are most needed.

Customer-centricity for us means that we focus on the success of our clients and proactively use predictive models to anticipate their financial and non-financial needs. Building such knowledge is key to delivering excellent customer experience. Our digital ecosystem, where our clients can fulfil a variety of needs in an integrated experience, enables us to do so seamlessly. We harness advanced data analytics tools and other technologies, such as Medallia and, going forward, Salesforce, to better anticipate what our customers may need at each touch point across the customer journey.

We keep refining end-to-end product journeys in digital channels, especially in our financial mobile app. One of the milestones in 2021 was the full redesign of consumer lending journey in digital channels. This has helped boost product sales through the mobile app and has significantly improved the customer experience.

This, together with our market-leading loyalty programme, enables us to deliver on our mission of helping people achieve more of their potential and ensures deeper customer relationships.

* Based on an external research conducted by IPM Georgia.

** Active individual customer – an individual who used any of the Bank's channels at least once, or performed at least one debit transaction, or was a payroll customer, or had at least one active credit product, or had any type of deposit with a balance above a certain threshold during the last three months.

*** Based on autumn 2021 external research by IPM Georgia (independent research company).

Predicting and satisfying customers' needs seamlessly through digital channels

Advanced data **Analytics**

See pages 32 to 33

Convenient **Channels**

See pages 20 to 25

Payments Ecosystem

See pages 26 to 27

Customer **Experience**

See pages 29 to 30

Opportunities for future growth

To unlock opportunities for future growth, we focus on two sub-segments in Mass Retail – youth and Georgian emigrants:

Youth

Our goal is to acquire new customers in the youth segment (ages up to 25) and keep them loyal for a long time. We target school and university students and offer them exclusive products and services through our sCool Card and Student Card. The number of active customers in this sub-segment increased significantly in 2021 – by 16.0%. According to an independent third-party research, we are the main bank and "top-of-mind" for students in Georgia.

Number of active customers*

329,516

+16.0% y-o-y

Number of active digital users**

211,080

+15.8% y-o-y

Opportunity to gain new customers and keep them loyal for a long time

Exclusive **products**

297K+

Cards for school and university students with additional exclusive benefits

Special **campaigns**

150+

Special campaigns for school and university students in 2021

8+

Collaborative projects with universities

Partnership with universities

21

Universities participate in BOG payroll programme

Out of the top six largest universities (with 97k+ students, 50%+ of total number of students), five are in the BOG payroll programme

* Active individual customer – an individual who used any of the Bank's channels at least once, or performed at least one debit transaction, or was a payroll customer, or had at least one active credit product, or had any type of deposit with a balance above a certain threshold during the last three months.

** Active digital user – a user that logged in to mobile or internet bank at least once during the past three months.

Georgian emigrants

We see significant potential in this segment given the number of Georgians living abroad and the volume of remittances sent to Georgia. Through easy **digital onboarding and convenient tools,** we aim to unlock the potential of this segment.

c.1.3 MLN

Georgians living abroad in need of daily banking services

US$ 2.3 BLN

Transferred in 2021

+24.6% y-o-y

c.350K

Customers with high potential for loans and deposits (with more than three transfers in the last 12 months)

WE EXPECT TO GAIN C.35-40% OF THE POTENTIAL MARKET IN THE MEDIUM TERM

We focus on enabling Georgians living abroad to access banking products and services in Georgia. In 2021, we added digital onboarding through the mobile app and the web and designed a dedicated section on our website – www.migrants.ge – with products and services tailored for Georgian emigrants. We will continue to upgrade our digital channels and add new features specifically for Georgian emigrants.

We saw a significant increase in the number of active customers in this segment and a solid uptake of loans and deposits in 2021:

Number of active customers

53K

+8.2% y-o-y

Loan portfolio

143 MLN

Doubled y-o-y

Deposit portfolio

104 MLN

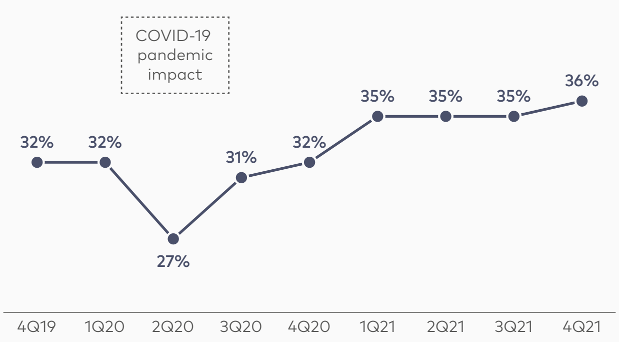
+5.8% y-o-y

In 2021 remittances sent to Georgia were up 24.6%. More than a third of total remittances are received through Bank of Georgia, and we had around 3 ppts gain in market share during the last two years.

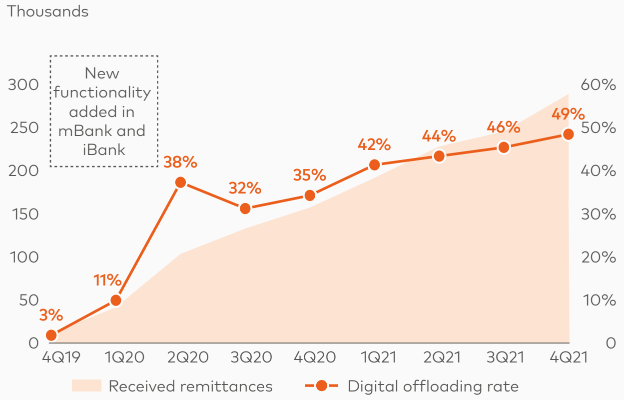
In line with our overall digital strategy, we have focused on digitising the process of receiving remittances. We saw a major improvement in the offloading rate over the past two years.

In the fourth quarter of 2021, 49% of all remittances received at Bank of Georgia went through digital channels.

BOG market share in total remittance inflows*



Number of received remittances at BOG through digital channels



In 2021, the share of remittance inflows from Russia and Ukraine to Bank of Georgia were 13.3% and 3.2%, respectively. Considering that a small share of remittances come from Ukraine, we do not expect any significant impact on our business even in the case of major decrease in inflows. We are monitoring the flows from Russia, and a substantial reduction in remittances from Russia may have an impact on the growth of received remittances, however, given the increasing share of other countries in total remittance inflows, we expect the overall remittance inflows to continue growth in 2022.

Russia's share in total remittances to Georgia was down to below 20% in 2020-21 (compared with c.50% of total inflows during 2010-14 and c.30% during 2015-19) and further reduction is expected to be compensated by inflows from other countries (mostly from the EU, the U.S. and Israel).

* Market shares are based on the National Bank of Georgia and Bank of Georgia data.

Premium Banking business

Our Premium Banking business offers a unique experience on the Georgian financial market to mass affluent customers through the SOLO brand and to high-net-worth individuals through the Wealth Management private banking services.

Following structural changes in senior management, starting from the third quarter of 2021, we reclassified the Wealth Management business from Corporate and Investment Banking (CIB) to the Retail Banking segment, specifically to the Premium Banking business. The comparative periods have been restated accordingly.

Our Premium Banking business is a self-funded franchise. Gross loan and deposit portfolios demonstrated strong growth in 2021 and the segment delivered outstanding profitability during the year. By the size of loan and deposit portfolios, our Premium Banking business is ahead of the third largest bank in Georgia.

Gross loans

GEL 3.0 BLN

+9.8% y-o-y

Deposits

GEL 4.5 BLN

+6.5% y-o-y

ROAE

25.5%

+7.2 ppts y-o-y

Profit

GEL 131.8 MLN

+81.1% y-o-y

SOLO – a fundamentally different approach to Premium Banking

Our SOLO brand gives access to exclusive products and the finest concierge-style environment at our 11 specially designed SOLO lounges located across Georgia. SOLO is a unique banking concept in one space, combining privileged financial and advisory services and unlimited lifestyle experiences.

At SOLO lounges, personal bankers serve our clients and, in addition to providing banking solutions, offer luxury goods and other lifestyle experiences, such as exclusive events, concerts of world-famous artists, special travel tours, the SOLO boutique, exclusive benefits, and other hand-picked lifestyle products and services. This unique blend of banking and lifestyle offerings sustains the strong interest in the SOLO franchise.

Since 2015, after the SOLO rebranding, we have seen a steady growth of our client base. As at 31 December 2021, SOLO served 70,151 active customers*, up 18.6% y-o-y, clearly demonstrating the ongoing popularity of the franchise in our domestic market.

SOLO Club, a membership group within SOLO launched in 2017, offers exclusive access to SOLO's products and offerings ahead of other SOLO clients, at a higher fee. One such exclusive product is American Express Platinum card, available to SOLO Club members only. Since 2019, SOLO Club members have also enjoyed the benefits of personal assistant service for lifestyle offerings.

* Active customer – an individual who used any of the Bank's channels at least once, or performed at least one debit transaction, or was a payroll customer, or had at least one active credit product, or had any type of deposit with a balance above a certain threshold during the last three months.

Strategic focus

In 2019, to further strengthen SOLO's customer-centric model and deliver on our medium-term target of doubling the 2018 profit to c.GEL 112 million in three years' time (2018-2021), we defined three key pillars – excellence in customer service, increased digitalisation, and tailor-made bundled offerings as part of our strategy.

We achieved our medium-term target as planned in 2021. This achievement was supported by major improvements in all key pillars:

Excellence in customer service

- New customer relationship model introduced in 2019, focusing on customer-centric approach maximisation, implemented in 2020
- Improvement in SOLO's NPS:

78.5%

+0.7 ppts y-o-y

NPS based on an internal survey of Bank of Georgia's SOLO customers in December 2021

Increased digitalisation

- Continued focus on offloading customer activity to digital channels
- Constantly enhancing customers' digital experiences

89%

of SOLO active customers use mBank/iBank

32.0

monthly transactions per active customer in mBank in December 2021

+32.2% y-o-y

Tailor-made bundled offerings

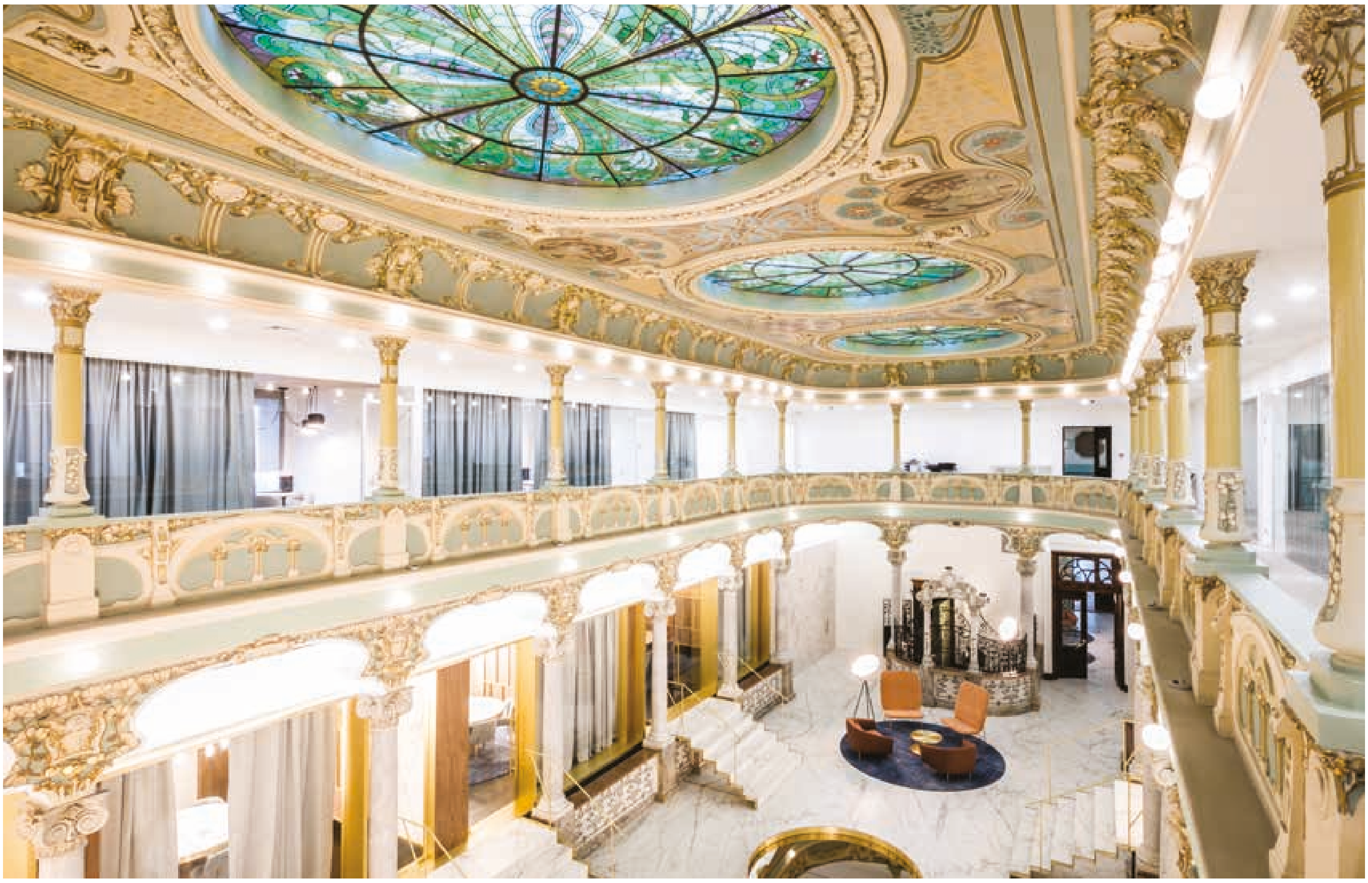
- Shift from reactive sales to data-driven proactive sales strategy in 2019-2022 – actively using data analytics tools to target audiences with specific and common needs and offer them more needs-based products and services (investment loans, needs-based SOLO loyalty, interests-based lifestyle experiences, among others)
- Focus for 2022 – continue leveraging improved data analytics tools and collaborating with the world's leading customer relationship management company, Salesforce, to provide tailor-made bundled offerings to SOLO customers (see details on Salesforce on page 30)

Constantly diversifying the range of our lifestyle offerings in travel, entertainment, education, and wellbeing to make the franchise even more distinguishable and enjoyable

Going forward, we aim to strengthen our key strategic pillars – **excellence in customer service, increased digitalisation and tailor-made bundled offerings** – to shift SOLO to the next level of development.

Wealth Management

Bank of Georgia has been active in the Wealth Management business since 2005. Serving 1,503 local and international active customers* from 78 countries as at 31 December 2021, compared with 1,422 active customers* at 31 December 2020, our Wealth Management (WM) business provides private banking services and offers investment products to high-net-worth individual customers and their families. The Bank has representative offices in London and Istanbul, and a subsidiary in Tel Aviv. With our superior service, and given the local economic stability, business-friendly environment and favourable tax regime in Georgia, we are well-positioned to provide our customers with unique opportunities to invest in Georgia.

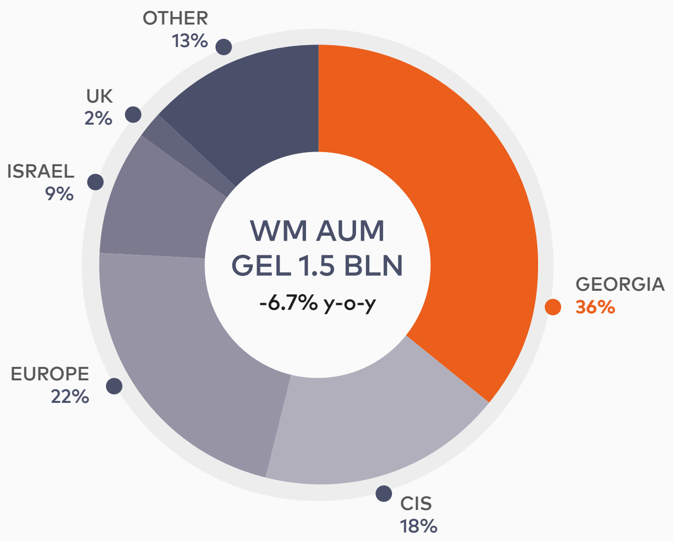


Despite the challenging market environment and our robust financial crime risk management programme, we have maintained good momentum in our assets under management, coupled with robust profitability. Our assets under management (AUM), comprising deposits and global certificates of deposit held by WM clients, reached GEL 1,503.5 million on 31 December 2021, down 6.7% y-o-y, primarily due to local currency appreciation in 2021. In addition, the Bank's Wealth Management customers' investments in other assets, which are held through Galt & Taggart, reached GEL 879.5 mln, up 10.2% y-o-y and up 0.3% q-o-q. WM AUM are diversified, underlining the regional nature of this business.

WM AUM from Russia was GEL 64mln at 25 April 2022, accounting for 3.8% in total WM AUM. In the light of the Russia-Ukraine war, we are continuously monitoring new circumstances. The Bank's financial risk management programme is robust, and the applicable requirements of new sanctions regimes imposed on Russia have been swiftly incorporated into our systems, with the same zero tolerance approach towards violations of applicable sanctions requirements that we had previously adopted. As sanctions regimes evolve, we will adapt our operations in line with new requirements.

* Active customer – an individual who used any of the Bank's channels at least once, or performed at least one debit transaction, or was a payroll customer, or had at least one active credit product, or had any type of deposit with a balance above a certain threshold during the last three months.

Diversified customer base across multiple geographies



Main strategic objective is profitable growth through diversified WM offerings

We want to turn Georgia into a regional hub for private banking and attract clients from nearby countries to bank in Georgia. Bank of Georgia is a leading, highly trusted bank that delivers strong returns and constantly innovates to offer better customer experience. A stable business environment in Georgia, coupled with Bank of Georgia's reputation and expertise, makes us the perfect bank for affluent individuals to do business with.

Interest rates globally have been declining, and our cost of funding has been declining as well. Over time, we have decreased the yield that we offer our customers on deposit products, and, as a result, we have seen a sustained shift from banking products towards investment products. The securities take-up rate among our Wealth Management customers increased from 13% in 2015 to around 38% in 2021. We expect this trend to continue.

We focus on diversifying our Wealth Management offerings in the following directions:

Financial products offerings

Diversifying our portfolio to include basic structured products:

- Structured products
- Asset management
- Third-party products

Advisory products offerings

Increase the share of investment products in our portfolio in collaboration with Galt & Taggart:

- Private investment opportunities
- Portfolio structuring

Lifestyle products offerings

Dedicated WM lifestyle team to accelerate tailored sales and marketing initiatives:

- WM exclusive offers
- Concierge service

Micro, small and medium-sized enterprise banking

Our MSME segment is dedicated to serving its customers and helping them achieve more of their potential by offering a wide range of financial services, combined with our flagship onboarding, support, and advisory programmes, and convenient digital channels.

The MSME segment has been impacted the most by the COVID-19 pandemic. Despite the challenges, the MSME segment demonstrated strong performance in 2021, supported by a significant economic recovery.

We saw a solid growth in the active customer base (63,702 active MSME clients* as at 31 December 2021, up 17.1% y-o-y) and better-than-expected growth in loan and deposit portfolios in 2021.

Market share**

33.1% MSME

+1.5 ppts y-o-y

Gross loans

GEL 4.0 BLN

+20.0% y-o-y

ROAE

22.4%

+17.5 ppts y-o-y

Deposits

GEL 1.2 BLN

+20.3% y-o-y

In 2021 Global Finance Magazine named Bank of Georgia the Best SME Banking in Central and Eastern Europe.

Key focus areas for development and initiatives implemented in 2021

Our approach towards the MSME segment rests on two pillars — **the client at the centre of everything** and **the data behind every decision** — and we keep this in mind when interacting with our customers and making decisions.

We focus on the following areas to unlock the full potential of our business:

- Sales and service model transformation
- Lending process transformation
- Data strategy
- Value-added services
- Digital value proposition and convenient channels

Sales and service model transformation

In 2020, we introduced a value- and need-based segmentation model for the SMEs to improve the coverage of this segment, deepen relationships with our customers and develop more tailored product and service offerings.

We have transformed our credit and non-credit-related bankers into relationship managers and centralised most of the credit analysis process. In 2021, we refined this model with a new focus on digital segmentation.

This will enable us to better understand our digital customers, leverage the full potential of digitalisation and migrate more of customers' activity to digital channels.

* Active business customer – a legal entity that had at least one active credit product or performed at least one debit transaction or had any type of deposit with a balance above a certain threshold (varying for micro and SME clients) during the last three months.
** Source: internal estimation as at 31 December 2021 based on IFRS consolidated data, annual reports and data exchange with several Georgian banks.

Our coverage model comprises three sub-segments:

Coverage model

CHAMPIONS

Relationship manager

- Highly-skilled relationship managers with deep industry expertise provide our most valuable clients — Champions — with banking services, as well as value-added services
- Each relationship manager, with industry expertise, covers a portfolio of ~40-50 customers

ASPIRANTS

Business banker

- Business bankers work with Aspirants to support their development and turn them into Champions
- Business bankers serve ~100-150 customers in the branches

PARTICIPANTS

- Mostly inactive customers, or customers with a very small "share of wallet" at Bank of Georgia
- We have started to move most of customers' activity to digital channels

Remote banker

- As of December 2021 segment coverage was 28.4%. In the medium term, we plan to increase the segment coverage

Our Business branch, 4B, is designed to create outstanding experiences for our business customers. At 4B the most experienced relationship bankers with deep understanding of customer needs offer innovative financial products, value-added advisory services and networking opportunities to our top SME clients, the Champions.

We continue the service and sales model transformation process to deliver superior experiences to our customers and to ensure that our bankers have more time to concentrate on customer relationships and sales.

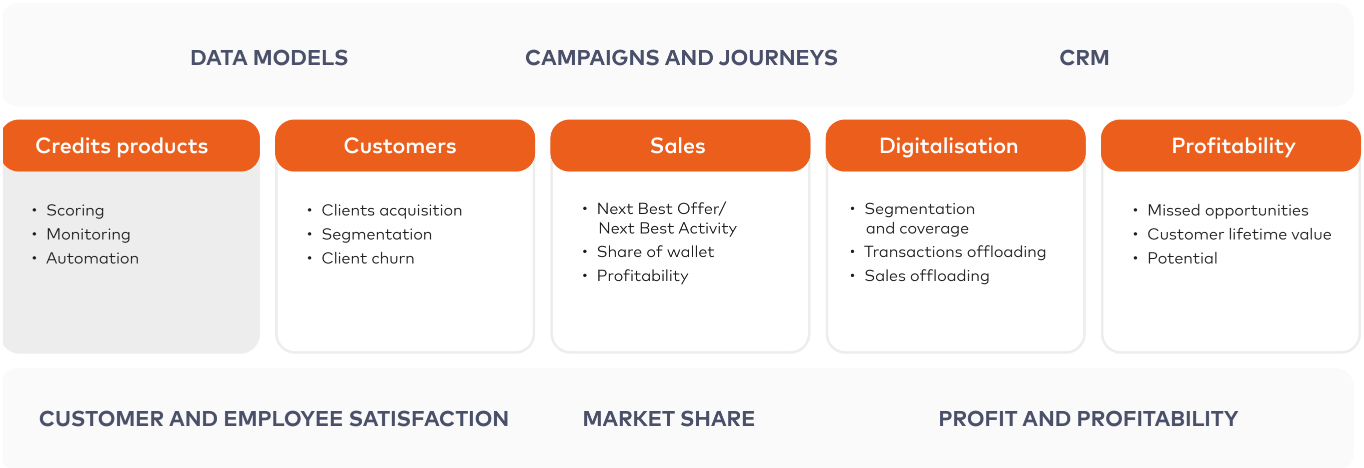
Lending process transformation

We continued the lending transformation process in 2021. We are building an end-to-end digital lending model, with a high automation rate, to make credit decisions faster. In 2021, we improved our decision engine and further developed critical tools and enablers of the lending journey. In addition to the process flow and the workflow implemented in 2019 and 2020, we launched scoring, pre-approved limits, the monitoring system and started to develop data integration tools in 2021. We also implemented various optimisation initiatives in the lending process, including a change in the role of credit analysts to enable bankers to focus more on sales and customer relationships. Our objective is to achieve a "Time to Yes" of, on average, one-and-a-half days in the Micro segment and three days in the SME segment.

"Time to Yes" in December 2021, days

Data strategy

We focus on using data in different operational processes and, as a data-driven organisation, we believe that building different data models will enable us to efficiently and seamlessly deliver great experience to our MSME customers. In 2021, we enhanced our data models, improved our campaigns and customer journeys and better defined the roles of customer relationship managers to be able to unlock new business opportunities. All these actions enable us to increase customer and employee satisfaction, increase our market share in the MSME segment and, at the same time, maintain the targeted profitability level.



Supporting MSMEs at every stage of their development – value-added services

Having a deep understanding of a customer's business journey from idea to success, we have built the ecosystem to enable the MSMEs to unlock their potential at each stage of their development. On top of being a go-to bank for financial products, we aim to enrich the experiences of our MSME clients with quality value-added services that help drive business success.

We are dedicated to helping MSMEs build and develop successful enterprises, which is why we also incorporate educational, advisory, and networking solutions into the value proposition. We believe that education, information sharing and professional network development are crucial during the entire lifecycle of MSMEs.

To support a seamless start of a business and empower businesses during their growth phase we refined our value-added solutions in 2021:

Advisory services

Network of credible advisory service providers created both for Champions and for remaining SME companies

70 advisory companies involved in 2021

Webinars

- Thematic webinars each month
- Information about business and economic trends

44 webinars provided to 6,200 attendees

Businesscourse.ge

- Courses tailored to the needs of MSMEs
- Roadmaps for effective business action

14 courses and three tutorials, 14,000+ registered users, 4,000 users completed more than 60% of the chosen courses

Business support programmes

- Support with export and sales in partnership with USAID
- Encouraging digitalisation in partnership with Visa
- Enabling better agro business accounting in partnership with Finance in Motion

82 companies (including 60 women-owned businesses) benefited from the projects

For more information on how we empower local businesses, see pages 109 to 110.

Digital value proposition and convenient channels

The multichannel coverage of MSME clients is one of our core strengths. We have a strong presence in Georgia through our branch network, with 211 retail branches, 989 ATMs and 3,134 self-service terminals, and our call centre. In addition, our new digital segmentation model and remote bankers will enable to further enhance end-to-end experiences for MSME customers.

Digitalisation is our top priority. To ensure that most activity happens in digital channels, we continuously upgrade our digital platforms. Business iBank was fully updated in 2019 and now enables customers to use a single credential to navigate and manage multiple business and personal accounts; and Business mBank, which was launched in the first quarter of 2021, offers the full digital experience to our business customers. For more information on business digital platforms, see pages 24 to 25. Overall, the transactions offloading rate is already high and, going forward, we aim to increase products sales through digital channels.

Offloading rate in 2021

97% 95.3%

Share of digital transactions

95% 88.5%

Share of ATM transactions in all cash-out transactions

90% 74.5%

Share of cash-box and pay-box transactions in cash-in transactions

● Objective

Key medium-term objectives

DEC 21

- NPS 77%*
- 33.5% MSME market share in loans to customers
- ROAE 2021 – 22.4%

Medium term

- Most preferred MSME bank with NPS of 80%+
- MSME market share of 35%+ in loans to customers
- Keep 20%+ ROAE

* Based on an internal survey of BOG clients.

Corporate and Investment Banking

Integrated solutions for our Corporate and Investment Banking customers

Bank of Georgia is a leading provider of Corporate and Investment Banking solutions in Georgia. We leverage our best-in-class expertise in product design and 360° view of every client to execute profitable transactions and offer excellent experience to our customers. Given our scale, a portfolio of diverse banking products and services and deep industry and product-specific expertise, we are the universal bank of choice and top-of-mind advisor for Georgian corporates.

We are also an established leader of investment management services in Georgia. Our investment arm, Galt & Taggart, is the leading investment bank in Georgia, comprising corporate advisory, market research, and brokerage practices.

In 2021, Corporate and Investment banking segment delivered outstanding performance with strong top- and bottom-line growth. As at 31 December 2021, CIB's net loan book increased to GEL 5.1 billion*, up 10.2%* y-o-y, and deposit portfolio amounted to GEL 4.0 billion*, down 17.9%* y-o-y. The top ten CIB client concentration was 8.3%* of the total loan book at the end of 2021, compared with 9.7%* at 31 December 2020. While aiming for a healthy growth of the Corporate and Investment Banking loan book, we prudently manage the concentration risk so that the exposure to our top ten clients is maintained at around 10% of the total loan book.

In 2021, we saw a significant improvement in asset quality, primarily due to an increase in operating activity supported by the rebound in the macroeconomic environment, and the Bank's prudent risk management. Better-than-expected lending growth and strong top-line results coupled with cost control and resilient asset quality enabled us to deliver ROAE of 34.6%* in 2021. Detailed 2021 financial results of the CIB business are outlined on pages 164 to 167.

Gross CIB loans*

GEL 5.2 BLN

+9.4% y-o-y

CIB client deposits*

GEL 4.0 BLN

-17.9% y-o-y

Market share** – loans

32.3%

+0.3 ppts y-o-y

Market share** – deposits

31.9%

-5.4 ppts y-o-y

ROAE

34.6%

+17.9 ppts y-o-y

Medium-term strategic objectives

We have built a strong corporate and investment banking franchise, with solid profitability and operational excellence. We are well-positioned to deliver 20%+ profitability in the medium term.

Strategic objective – ROAE – 20%+

Strong CIB franchise	Strong profitability	Operational excellence

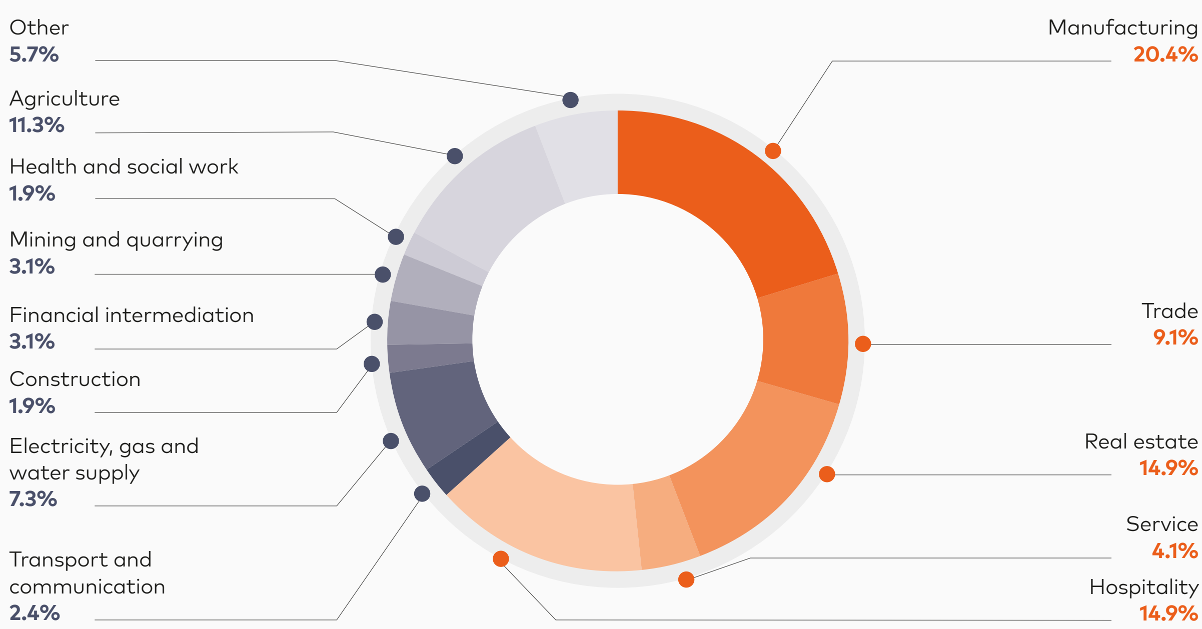
* Following structural changes in senior management, starting from the third quarter of 2021, we reclassified the Wealth Management business from Corporate and Investment Banking to the Retail Banking segment, under SOLO – Premium Banking. The comparative periods have been restated accordingly.

** Market shares by loans and deposits to legal entities, respectively, based on standalone accounts of the banks published by the National Bank of Georgia as at 31 December 2021.

Corporate Banking

With 2,621 active customers* by the end of 2021, Bank of Georgia is a leading corporate lender in the country, with deep sector expertise and local knowledge. Corporate business accounts for around a third of the banking system gross loans and deposits to legal entities. With outstanding flexibility in fulfilling our corporate customers' needs, we offer a wide range of products and services in the country. We have a well-diversified loan portfolio with strong presence in all major sectors of the Georgian economy.

Diversified CIB loan portfolio



Our Corporate Banking business is also a leading trade finance provider in Georgia with well-established partnerships with large counterparty banks and international financial institutions. In addition, we provide leasing services through the Bank's wholly-owned subsidiary, Georgian Leasing Company.

To offer a universal banking platform to our clients, CIB actively cooperates with other business segments within the Group, unlocking the benefits of knowledge-sharing, idea-generation, and cross-selling opportunities.

Key strengths of our Corporate Banking business

The success of our Corporate Banking franchise rests on four pillars, which enable us to deliver on our key strategic objectives and financial targets.

Operational excellence

High-quality and innovative product and service offerings

Sound credit quality

Prudent lending policy and team expertise

Attraction and retention of great talent

Unique programme on the Georgian market to attract and develop top talent

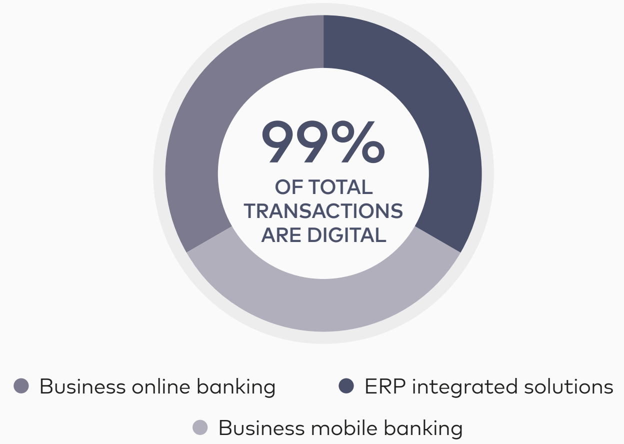
Advisory mindset

Highly skilled and experienced relationship managers acting as best advisors for our customers

* Active business customer – a legal entity that had at least one active credit product, or performed at least one debit transaction, or had any type of deposit with a balance above a certain threshold during the last three months.

Convenient digital platforms

Core to operational excellence is our online banking platform, which enables us to fulfil most of our customers' banking needs. The online platform can be integrated with the corporate clients' ERP systems, leading to great user experience and convenience. Since we released Business iBank and mBank, we have continued to enhance these platforms to provide superior digital experiences to our business customers. Currently, 99% of Corporate Banking transactions are executed digitally. See pages 24 to 25 for more details on the Business iBank and mBank.



Special programme for young talent development

We believe that our people are one of the key enablers of our success, and we are proud to be the employer of choice for top talent in the country. We aim to attract and retain top talent and provide all employees with meaningful professional and personal development opportunities to help them achieve more of their potential in their professional lives and beyond.

In order to fuel our business with top talent, we run Leaderator, a student development programme highly recognised on the Georgian labour market among students and recent graduates. For more details on the programme, see page 116. Leaderators can be promoted to associates and then move up to managerial positions.

Leaderators

- A six-month internship programme for students and recent graduates
- Promotion rate – 88%
- Retention rate – 96%

Associates

- Industry-specific knowledge development
- In-depth training programmes
- Defined promotion schemes

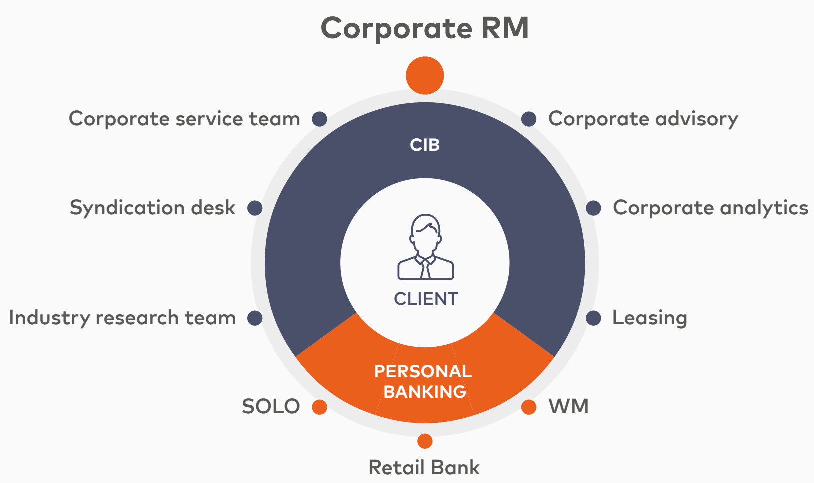
Line managers

- 92% internally promoted managers
- In-depth industry-specific knowledge
- Advisory mindset

Customer coverage model

Corporate Banking has a proactive customer coverage model led by a Relationship Manager (RM). Our relationship managers are highly skilled professionals fully equipped with financial structuring tools and deep industry-specific knowledge, enabling them to provide high-quality advisory services. Relationship managers are backed by a vigorous corporate machine, focused not only on fulfilling the daily operational needs of our customers, but also and most importantly, on offering tailor-made solutions for their business development.

This model proved very effective during the pandemic, as it enabled the Bank's Corporate Banking business to face the crisis prudently, as reflected in the 2021 financial results.



Investment Management

We provide investment management services through Galt & Taggart, a leading investment bank in Georgia and a wholly-owned subsidiary of the Group. Galt & Taggart comprises the following practices: (1) market research – macro, sector, and fixed income coverage of various sectors of the Georgian economy and macroeconomic developments in regional economies, global market coverage; (2) brokerage – a leading brokerage house in Georgia, the exclusive partner of Saxo Bank via a white label structure, and a partner of the US-registered brokerage house DriveWealth; (3) DCM/ECM – a leading player on the local market, and a lead manager of choice for corporates as well as IFIs; (4) corporate advisory – track record of more than 30 completed transactions over the past ten years.

Unlocking the retail brokerage potential

Our brokerage business demonstrated a solid performance in 2021 with the gross revenue of the brokerage business reaching GEL 7.5 million, up 15.8% y-o-y, generating 51% net margin. Our online brokerage, offered in partnership with Saxo Bank under a white label offering and the US brokerage house DriveWealth, generated gross revenue of GEL 5.2 million in 2021, up 3.9% y-o-y. Importantly, this business has emerged from the investment phase, and for the past two years it has been profitable.

We see significant upside in the brokerage business in Georgia. Historically, we have focused on providing brokerage services to our Wealth Management customers (investment products take-up rate is around 28%), whereas the retail investor participation in the securities market in Georgia has been limited (investment products take-up rate in Galt & Taggart's assets under management (AUM) is only c.8.1%). Securities as a percentage of household financial assets in Georgia are below 5%, considerably lower compared with other countries in the region and developed economies. Therefore, we are extending our offerings to the wider retail and mass affluent segments.

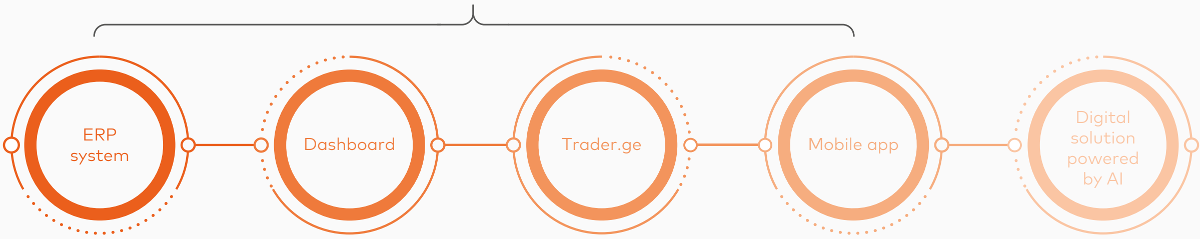
Fully digitalising brokerage services

In line with Bank of Georgia's digital strategy, we have focused on digitising our brokerage offerings. Over the past few years we have enhanced our back- and front-end processes to improve overall customer experience and engagement with our brokerage services.

Our **single-view client dashboard**, a product combining investment banking products into a single channel, continues to improve overall customer experience and reporting tools.

In 2021, in partnership with DriveWealth, we launched a new retail brokerage service – **Investments** – directly through Bank of Georgia's mobile app, mBank, to extend our offerings to the wider retail and mass affluent segments. We aim to provide retail investors access to a US markets and provide wider options for saving and investing of their funds. This is a low cost, easy-to-use solution, tailored to retail investors' needs. Going forward, we will focus on transforming this solution into the top-of-mind retail investments app in Georgia by increasing product awareness and penetration, introducing new features and increasing knowledge about saving and investing through educational content development and distribution.

SIGNIFICANT MILESTONES TOWARDS DIGITALISATION ACHIEVED IN 2020 AND 2021



- ERP system enhancement to increase operational efficiency
- Launched Client Dashboard to improve customer experience and transparency
- Galt & Taggart Trader website enhancement to increase customer engagement
- Developed mobile app in 2021
- Gearing towards a fully digital solution powered by AI

Digital Ecosystems

To enhance our customer-centric offerings by providing beyond-banking solutions to our customers, we have developed a digital ecosystem comprising a number of integrated platforms through our subsidiary, JSC Digital Area. Our ecosystem rests on four main business verticals: real estate, e-commerce, logistics, and point-of-sale solutions. Since 2019, we launched the following platforms:

AREA – real estate marketplace

area.ge is a technologically advanced real estate marketplace, a single space for convenient, timely, and efficient interactions, information exchange, and execution of the best possible transactions for all stakeholders involved in buying, selling, renting, and developing real estate in Georgia. In 2021, area.ge refocused its strategy towards facilitating and accelerating real estate sales on the primary market. area.ge has further improved the platform, introduced a number of solutions for developer companies to connect them closely with potential buyers and started partnerships with around 15 new development companies during the year. As a result, the value of transactions executed via area.ge reached GEL 8.8 million in 2021.

area.ge is now expanding in new directions, such as adding investment property listings to the website, which are attractive for potential investors who are looking for income-generating assets in Georgia. area.ge, as a real estate marketplace, focuses on providing premium services that help improve a listed property's status, and improving the search capability to boost successful transactions.

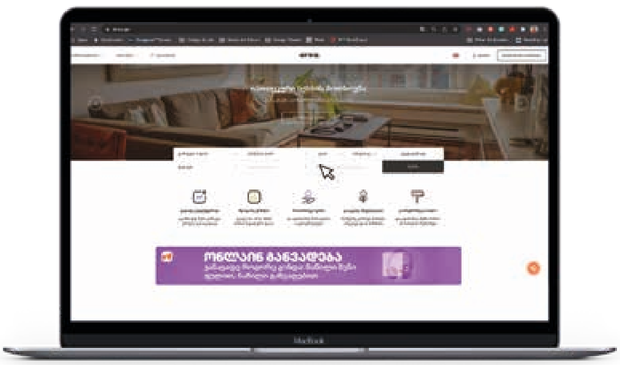
In 2021, area.ge started a partnership with Visa. This partnership will enable area.ge to offer its customers innovative services and flexible cashless payment tools. The main goal is to leverage the international experience of Visa and effectively build on it on the local real estate market. Moreover, area.ge has started partnerships with local commercial banks to further increase customer engagement and boost digital sales of mortgages.

Mortgage leads

Soft leads*	9.5K/GEL 560 MLN
Hard leads*	6.2K/GEL 365 MLN
Disbursed loans	GEL 23 MLN (6% conversion rate**)

Inventory***

Developers and agencies	315
Active listings	45K
Residential	35K
Commercial	5.5K
Land	4.5K



* Soft lead – a user used a mortgage loan calculator without requesting a loan. Hard lead – a user used a mortgage calculator and requested a loan.
** Conversion rate – disbursed loan rate for hard lead requests.
*** area.ge's focus has shifted towards primary real estate and private owners' secondary properties, thus in 2021 a major data clean-up was conducted, resulting in a reduced number of registered agencies and inactive listings.

OPTIMO – MSME light ERP system

Optimo is an inventory and sales management system for traditional retail and e-commerce businesses. Optimo's cutting-edge digital inventory management and a POS solution with integrated software, and a variety of functions and analytical tools enable businesses to easily manage sales and inventory and access data and insights on sales transactions, inventory, revenues, and profitability, anytime and anywhere, to make timely decisions with relevant information at hand. Optimo covers four main business lines: software as a service, data business, card business, and value-added services.

In 2021, Optimo participated in *500 Startups Singapore* – one of the largest startup acceleration programmes, with more than 200 startup applicants world-wide, and started preparing to enter the Asian market. Optimo successfully completed the acceleration process and was chosen among the top 12 shortlisted startups. Within the acceleration programme, Optimo will have the opportunity to receive ongoing support to further enhance the platform.

In 2021, Optimo finalised its integration process with Glovo, a company that connects users, businesses, and couriers, and WooCommerce, a flexible, open-source commerce solution. These integrations will allow Optimo to unlock new opportunities.

In addition, Optimo started partnerships with Vlisa and European Bank for Reconstruction and Development (EBRD). With these partnerships, Optimo aims to support women in business and MSME merchants through the digital transformation process.

Market overview

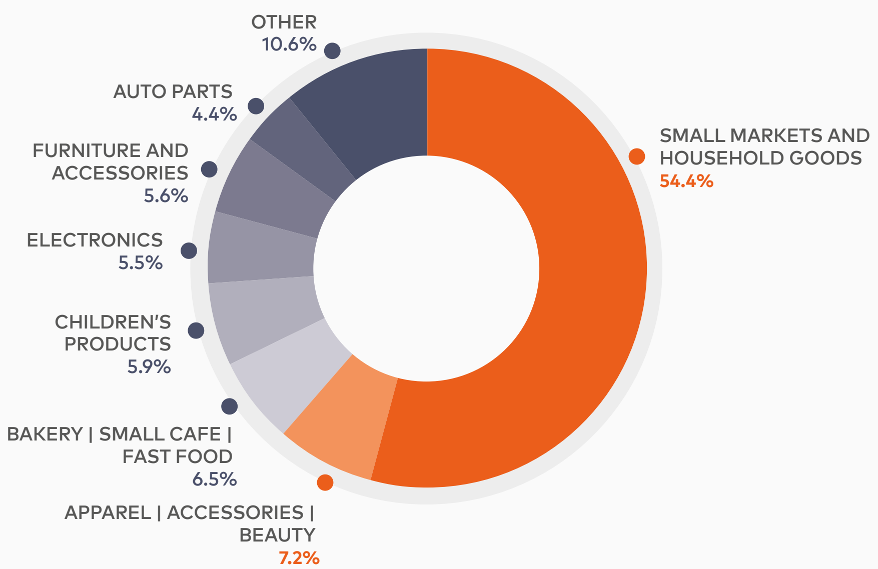
Registered MSMEs	188K
Registered MSME merchants	74K
MSME unorganised/ non-digital share	59K/80%

Business data

Active MSMEs	1,050+ (+18% m-o-m)
Registered unique stock keeping units (SKU)	250K+
Transactions	5.4 MLN+
Registered turnover	GEL 55.8 MLN+

NPS*

	90%



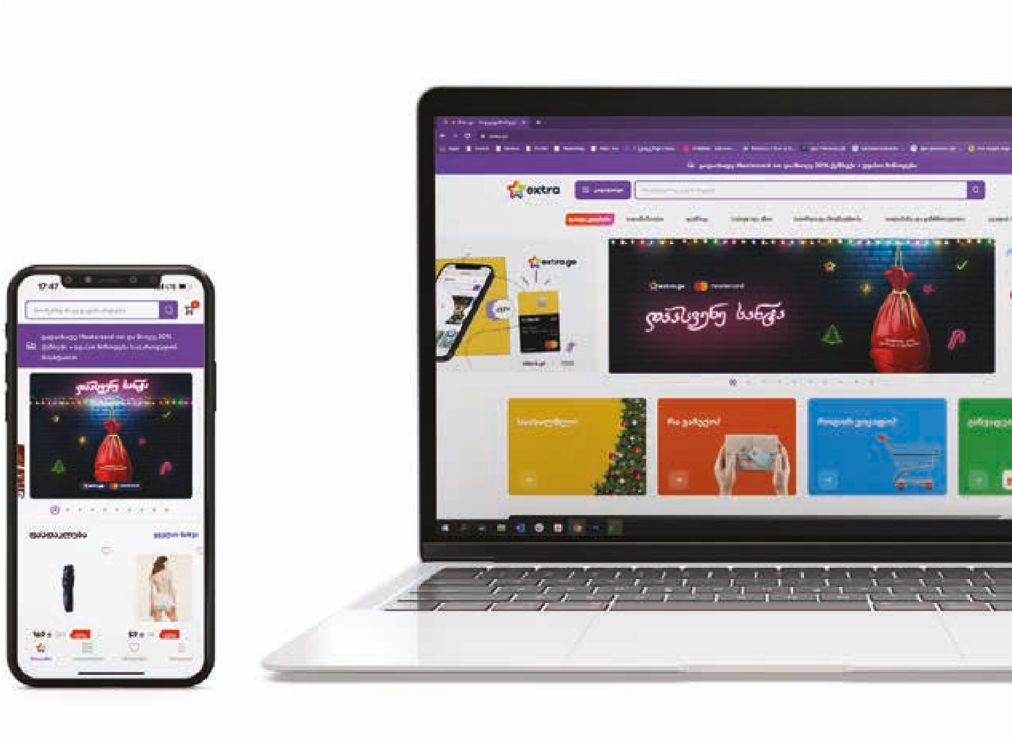
OPTIMO

* NPS is measured internally. NPS asks: on a scale of 0-10, how likely is it that you would recommend the system to a friend or a colleague? The responses: 9 and 10 – are promoters; 7 and 8 – are neutral; 1 to 6 – are detractors. The final score equals the percentage of the promoters minus the percentage of the detractors.

EXTRA – e-commerce marketplace

extra.ge is a leading e-commerce marketplace in Georgia, with over 500 merchants and 100,000+ products supporting B2C sales by providing integrated payment systems and a convenient digital shopping experience. In 2021, extra.ge redesigned its website and significantly improved its mobile app to address customers' feedback. New UX/UI and operational processes helped extra.ge improve customer experiences and end-to-end journeys, which is reflected in its NPS* of 84% by the end of 2021.

extra.ge is integrated with the Bank's flexible single sign-on and payments system and offers the Bank's pre-approved instant buy now, pay later solution to its customers during the product purchase. Through active sales and marketing campaigns, the platform increased the network of merchants by 255% and registered users by 13% y-o-y, resulting in a significant boost in sales in 2021. Gross merchandise value (GMV) increased by 175% y-o-y in 2021 and by 222% y-o-y in the fourth quarter of 2021.



Traffic data

Daily active users	25K (+2% d-o-d)
Monthly active users	700K (+5% m-o-m)

Inventory data

Number of stock keeping units (SKU)	100K+

Sales data

Monthly orders	4.5K (+5% m-o-m)
Monthly turnover	GEL 700K (+5% m-o-m)

User data

Registered users	214K (+7% m-o-m)

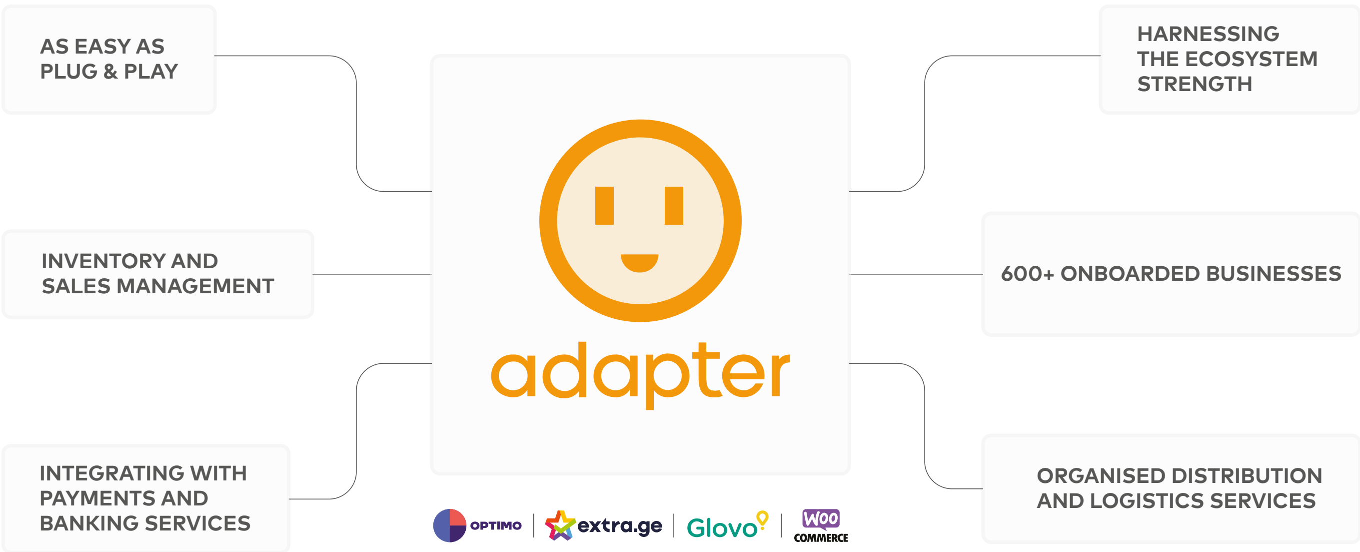
NPS*

	84%

* NPS is measured internally. NPS asks: on a scale of 0-10, how likely is it that you would recommend the system to a friend or a colleague? The responses: 9 and 10 – are promoters; 7 and 8 – are neutral; 1 to 6 – are detractors. The final score equals the percentage of promoters minus the percentage of detractors

ADAPTER – digital adaptation programme for businesses

Adapter is a unique digital solution that enables merchants to undergo fast and efficient transformation to digital sales with just a simple plug-in. Adapter combines Optimo, an effective inventory and order management platform, with extra.ge, a digital e-commerce marketplace, the Glovo delivery app and the WooCommerce e-commerce platform, through which merchants can sell their products directly to customers. Adapter has quickly gained traction among the market players, small merchants, and large physical marketplaces. More than 600 businesses have been onboarded to the solution since 2020.



IZIBOX

The Covid-19 outbreak created a surge in demand for delivery and logistics services. Thus, to increase the scale of operations, maximise efficiency, and improve service quality, we launched izibox, a platform that provides full logistics services to customers. izibox enabled us to process orders using in-house developed logistics software. We cover the four largest cities of Georgia-other regions are covered by two sub-contractor service providers.

extra.ge and izibox have fully integrated software solutions, which allow online data exchange and efficient digital order processing. All delivery orders of extra.ge are handled by izibox, and the processing includes collection, sorting, packaging and delivery of the purchased product to customers.

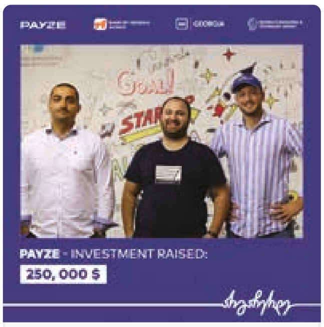
izibox partnered with around 20 companies and delivered 23,500 orders and 65,500 items in 2021.

500 GEORGIA

A partnership for success

We launched the 500 Georgia Acceleration programme in 2020 in partnership with 500 Startups and Georgia's Innovation and Technology Agency, to help accelerate the development of Georgian and international early stage startups operating in the region. During 2020 and 2021, 28 companies from 11 different business verticals (fintech; healthcare; lifestyle; accounting services; auto and transportation; HR services; travel and hospitality; Adtech; Agtech; Natural Language Processing and communications) completed the programme, and joined our Digital Area ecosystem. In the third quarter of 2021, four winners of 500 Georgia - **Payze**, **Cargon**, **Cardeal** and **Agrolabs** - went to San Francisco for the final acceleration process that enables startups to grow and scale.

500 Georgia participants' success stories:



Payze – participated in Ycombinator in 2021. It is the first startup from the region to participate in such a significant international acceleration programme. The company closed a US$ 2.5 million investment round in 2021.

Stack – closed a US$ 2.4 million investment round with post-money valuation of US$ 10.4 million in 2021.

Phubber – a digital marketplace that connects people who want to buy and sell fashion items expanded in Ukraine in the third quarter of 2021.

Cargon – expanded its operations in 2021 and launched its products in Armenia.

500 Georgia actual results*

Revenue

GEL 8 MLN+

Jobs

200+ (80% new)

Users

627K+

Investment raised

GEL 32 MLN+

New partnerships

100

Customers

4.4K

* Previously reported preliminary results were estimates from 500 participant startup companies. The figures reported for 2021 are actual results.

Accomplishments and the way forward

Since June 2019

- **extra.ge**
  - launch of web platform
  - largest e-commerce marketplace
  - launch on IOS and Android apps
  - website redesign, search and filtering improvements
- **optimo.ge**
  - launch of merchant services
  - launch of digital transformation for MSMEs
- **adapter.ge – launch of web platform**
- **area.ge**
  - launch of real estate marketplace
  - mortgage prequalification with Bank of Georgia
- **izibox – launch of full sorting and logistics services**
- **Accelerated 28 local and international startups**

Coming soon

- **extra.ge**
  - mobile app (IOS and Android) redesign
  - top-of-mind e-commerce platform and best-in-class customer service in Georgia
  - launch of loyalty programme
  - further enrichment of delivery functionality
- **optimo.ge**
  - launch of loyalty programme
  - launch of Optimo Lite
  - launch of HORECA programme
- **area.ge**
  - accelerating primary real estate brokerage business for developer companies
  - marketplace positioning on primary and private owners market
- **Continue partnerships with other ecosystem players**
- **Digital area ecosystem data harnessing**

Invested 2018-2021

US$ 8.6 MLN

Plan to invest 2022-2023

US$ 3-8 MLN

Key Performance Indicators

Robust underlying performance across all segments

The Group's KPIs reflect a track record of strong performance, demonstrating robust customer franchise, strong balance sheet growth and outstanding profitability.

We have focused on profitable earnings growth, driven by sustainable customer lending growth and robust asset quality, increasing net fee and commission income, and cost efficiencies. The Group's profitability has been underpinned by the increasing popularity of the financial mobile app on the back of our growing technological, data & AI capabilities, and our market-leading payments business, enabled by a systematic focus on customer satisfaction and employee empowerment.

The KPIs are aligned with our medium-term strategy and ensure that the Group delivers on its key strategic targets. The KPIs could be affected if any of the Principal Risks and Uncertainties, set out on pages 75 to 93, materialise.

For more information on our 2021 financial results, see pages 151 to 167.

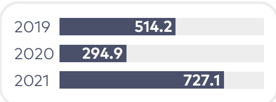
Profitability KPIs

Retail Banking and Corporate and Investment Banking businesses delivered excellent results in 2021, supported by strong economic rebound, notwithstanding the ongoing pandemic and some restrictions put in place throughout the year. We saw strong lending activity, a significant increase in operating income, particularly in net interest income and net fee and commission income, and a significant improvement in the loan book quality. The Group continued to deliver superior customer experience and to enhance the digital platforms, while maintaining a healthy cost to income structure. As a result, the Group delivered outstanding profitability in 2021 and has maintained strong liquidity and capital positions.

Profit*
(GEL million)

727.1

+146.5% y-o-y

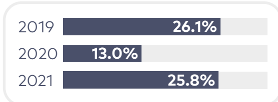


Profit is calculated in accordance with IFRS and represents operating income and profit (loss) from associates, less operating expenses, cost of risk, non-recurring items and income tax expense.

Return on average equity*

25.8%

+12.8 ppts y-o-y

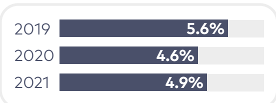


Profit attributable to shareholders divided by monthly average total equity attributable to shareholders. Total equity attributable to shareholders comprises share capital, additional paid-in capital, treasury shares, retained earnings and other reserves.

Net interest margin

4.9%

+0.3 ppts y-o-y

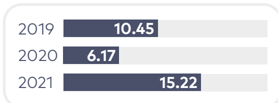


Net interest income for the year divided by monthly average interest earning assets excluding cash for the same year.

Basic earnings per share
(GEL)

15.22

+146.7% y-o-y



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

Efficiency KPIs

Our technology-intensive digital platforms, including mBank/iBank and Express Pay terminals, are the main efficiency drivers for our business. Ongoing investments in IT-related resources as part of the agile transformation process, data analytics and AI capabilities, and marketing have been the main contributors to operating expenses during 2021. At the same time, we maintained our focus on efficiency and cost control so that costs remained well managed throughout the year.

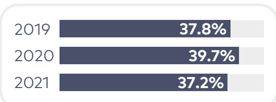
Our digital strategy has translated into strong franchise growth as well as profitability. Growing number of mBank transactions (110.0 million transactions in 2021, up 76.0%) reflects an ongoing shift towards mobile-first banking. Overall, more than 96% of daily transactions of individual customers' are executed through digital channels.

In the medium term, we expect our cost to income ratio to improve to our targeted level of 35%.

Cost to income ratio**

37.2%

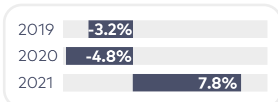
-2.5 ppts y-o-y



Operating expenses divided by operating income.

Operating leverage**

7.8%



Operating leverage is measured as a percentage change in operating income less a percentage change in operating expenses.

* The 2019 profit and ROAE exclude GEL 14.2mln one-off employee costs (net of income tax) related to former CEO and executive management termination benefits.

** The 2019 cost to income ratio and operating leverage are adjusted for GEL 12.4mln one-off employee costs (gross of income tax) related to termination benefits of the former executive management.

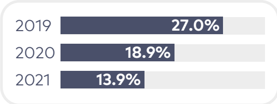
Note: The 2019 reported cost to income ratio was 38.9%, the 2019 reported profit was GEL 500 million, the 2019 reported ROAE was 25.4%, and the 2019 operating leverage was -3.1%.

Growth KPIs

The balance sheet remained strong, demonstrating better-than-expected levels of growth on the back of strong loan origination in all business segments, and particularly in the consumer, micro and SME lending portfolios. The 13.9% loan book growth in 2021 was driven by 18.0% growth in the Retail Banking loan book and 10.2% growth in the Corporate and Investment Banking loan book. We expect customer lending growth to be around 10% in the medium term.

Net loan book growth

13.9%



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

Asset quality KPIs

Against the backdrop of the COVID-19 crisis, the loan portfolio quality has been resilient. We entered the COVID-19 environment with a de-risked banking sector, with non-performing loans (NPLs) at historical lows. This was driven by prudent risk management practices at the Group coupled with a shift in the loan portfolio mix from high-yielding unsecured lending to more secured consumer lending following the responsible consumer lending regulation introduced by the National Bank of Georgia in 2018.

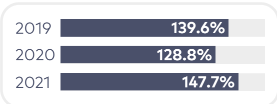
Having recorded a significant expected credit loss (ECL) provision in the first quarter of 2020 to cover expected credit losses for the full economic cycle, we saw an increase in recoveries, in both the Retail and Corporate Banking lending portfolios, resulting in a lower than normalised level of provisions in 2021. As a result, cost of credit risk ratio decreased from 1.8% in 2020 to 0.0% in 2021.

NPLs to gross loans improved from 3.7% at 31 December 2020 to 2.4% at 31 December 2021, and NPL coverage ratio increased from 76.3% at 31 December 2020 to 95.5% at 31 December 2021. The significant decrease in NPLs to gross loans and increase in NPL coverage ratios was primarily driven by more customers, especially in the Retail Banking segment, returning to regular payments following the pandemic-related grace periods.

NPL coverage ratio adjusted for discounted value of collateral

147.7%

+18.9 ppts y-o-y

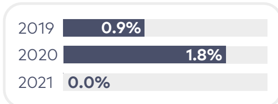


NPL coverage ratio adjusted for discounted value of collateral equals allowance for expected credit loss (ECL) of loans to customers and finance lease receivables divided by NPLs (discounted value of collateral is added back to allowance for expected credit loss).

Cost of credit risk ratio

0.0%

-1.8 ppts y-o-y



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

Capital and liquidity KPIs

Maintaining strong capital and liquidity positions has been one of the Group's priorities during the ongoing COVID-19 pandemic.

At 31 December 2021, the Bank's Basel III CET1, Tier 1 and Total capital adequacy ratios stood at 13.2%, 15.0% and 19.3%, respectively, all comfortably above the minimum required levels of 11.5%, 13.6% and 17.7%, respectively. The risk-weighted assets increased by 12.1% y-o-y at 31 December 2021, reflecting the increase in interest-earning assets during the year. As a result of our robust operating performance and strong internal capital generation, the Group resumed dividend payments in 2021, declaring and paying an interim dividend in the second half of 2021.

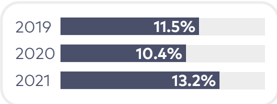
The Bank's liquidity and funding positions have remained strong. The Bank maintained excess liquidity in 2020 for risk mitigation purposes on the back of the COVID-19 crisis, which it successfully deployed during 2021. As a result, the Bank's liquidity coverage ratio was 124.0% and net stable funding ratio was 132.5% at 31 December 2021, still comfortably above the minimum required levels.

CET1 capital adequacy ratio (NBG, Basel III)

Bank of Georgia

13.2%

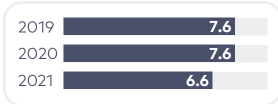
Minimum regulatory requirement – 11.5%



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

Leverage (times)

6.6



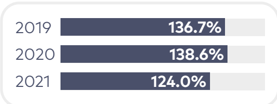
Leverage (times) equals total liabilities divided by total equity.

Liquidity coverage ratio (NBG, Basel III)

Bank of Georgia

124.0%

Minimum regulatory requirement – 100%

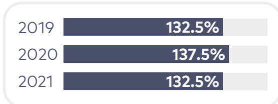


NBG (Basel III) liquidity coverage ratio equals high-quality liquid assets divided by net cash outflows over the next 30 days, both calculated in accordance with the requirements of the National Bank of Georgia.

Net stable funding ratio (NBG, Basel III)

Bank of Georgia

132.5%



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

Non-financial KPIs

Customer satisfaction and employee empowerment

The Bank regularly tracks customer satisfaction with both internal and external surveys. We learn and innovate with customer feedback and aim to integrate the focus on customer experience into all the processes.

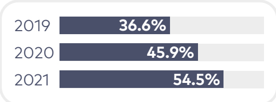
We are also committed to creating empowering and motivating employee experiences. We started to measure Employee Net Promoter Score (eNPS) in 2019 and monitor the measure at least twice a year.

By the end of 2021, the NPS was 55%, reflecting the underlying strength of our customer franchise. The eNPS reached 61%, an all-time high result.

Net Promoter Score (NPS)

Bank of Georgia

54.5%

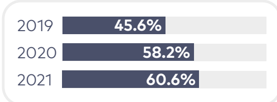


NPS asks: on a scale of 0-10, how likely is it that you would recommend our Bank to a friend or a colleague?
The responses: 9 and 10 – are promoters; 7 and 8 – are neutral; 1 to 6 – are detractors. The final score equals the percentage of the promoters minus the percentage of the detractors.

Employee Net Promoter Score (ENPS)

Bank of Georgia

60.6%



ENPS asks: on a scale of 0-10, how likely is it that you, as an employee, would recommend our Bank as an employer to a friend or a colleague?
The responses: 9 and 10 – are promoters; 7 and 8 – are neutral; 1 to 6 – are detractors. The final score equals to the percentage of the promoters minus the percentage of the detractors.

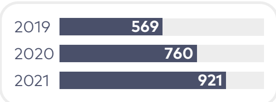
Digital platforms

The popularity of our financial mobile app is a competitive edge that we aim to maintain and build upon. We continue to launch new products in our mobile app and redesign end-to-end customer journeys to be able to deliver smooth digital experiences and promote greater use of the app for both transactional activity as well as for product sales.

Active digital users
(Thousands)

Bank of Georgia

921

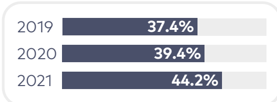


Number of retail mBank and iBank active users – users who logged in to mBank/iBank at least once in past three months.

DAU/MAU

Bank of Georgia

44.2%

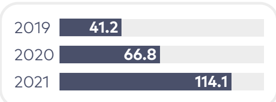


DAU/MAU of retail mBank – daily active digital users divided by monthly active digital users.

Number of transactions
(Millions)

Bank of Georgia

114.1

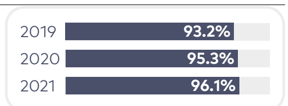


Number of transactions executed through retail mBank and iBank.

Share of transactions through digital channels (%)

Bank of Georgia

96.1%

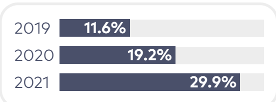


Digital channels comprise mBank, iBank, SSTs, ATMs, and other remote channels.

Product offloading rate

Bank of Georgia

29.9%



Mainly comprises cards, deposits and loans offloading through digital channels.

Payments business

Our market-leading payments ecosystem is one of the competitive advantages of the Bank. We focus on increasing digital payments by encouraging more individuals to use cashless payment methods and expanding the network of merchants. Launching new products and improving the quality of services are key to driving more digital transactions in the country. In 2021, we saw significant increases in the number and the volume of transactions in our POS terminals. 51% of total POS payment transactions in Georgia were executed via Bank of Georgia's POS terminals, translating into a 49% market share in terms of the volume of all POS transactions in 2021. The Bank had 38,514 multifunctional POS terminals at 17,404 contracted merchants at 31 December 2021. All of this contributed to a strong growth of the Group's fee and commission income during the year.

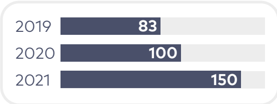
Number of transactions

(Millions)

Bank of Georgia

150

+50.2% y-o-y



Number of POS payment transactions via BOG's POS terminals.

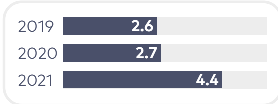
Volume of transactions

(GEL billions)

Bank of Georgia

4.4

+63.7% y-o-y



Volume of POS payment transactions via BOG's POS terminals.

Risk Management

Creating a culture of integrity and accountability

We identify, evaluate, manage and monitor the risks we face through an integrated risk management framework and control framework supported by formal policies and procedures, clearly delegated authority levels and comprehensive reporting. The Board confirms that our framework has been in place throughout the year under review and as of the date of approval of this Annual Report, and that it is integrated into both our business planning and viability assessment processes.

Overview

Our Board, supported by its Audit and Risk Committees and the Management Board, is ultimately responsible for the Group's risk management and internal controls. We believe that a strong risk management culture is fundamental to an effective risk management framework, which encompasses our shared attitudes, values and standards that shape behaviours related to risk awareness and risk taking. We are committed to creating an environment where there is openness and transparency in how we make decisions and manage risks, and where business managers are accountable for the risk management and internal control processes associated with their activities. Our culture also seeks to ensure that risk management is proactive and forward-looking.

Our framework

The Board's mandate includes determining the Group's risk appetite and risk tolerance as well as monitoring risk exposures to ensure that the nature and extent of the main risks we face are consistent with our overall goals and strategic objectives. The Board is accountable for reviewing the effectiveness of the systems and processes of risk management and internal control, with the Audit and Risk Committees assisting in discharging this responsibility. At the Board, Committee and Management Board levels, we develop formal policies and procedures which define how risks are systematically identified, assessed, quantified, managed and monitored.

Each business line engages in the risk management process by identifying the key risks applicable to its business. The principal risks and uncertainties faced by the Group are identified through this bottom-up process.

On a day-to-day basis, the Bank's Management Board is responsible for the implementation of the Group's risk management and internal control policies and procedures. In line with our risk culture, managers "own" the risks originating in their respective business processes. For each material risk identified at any level of the business, the risk is measured, mitigated (if practicable) and monitored in accordance with our policies and procedures. In regard to such risks, managers are required to report on identified issues and risk responses in a timely, consistent and systematic manner. The Management Board regularly reviews and challenges the output from the bottom-up process and assesses the effectiveness of the implementation of the risk management and internal control policies and procedures. Our reporting process enables key risks to be escalated to the appropriate level of authority and provides assurance to the Committees and the Board. Key developments affecting our principal risks and associated mitigating actions are reviewed quarterly (or more often if necessary on an ad hoc basis, outside of the regular reporting process) by the Audit and Risk Committees, as appropriate, and the Board. The principal risks and uncertainties faced by the Group are identified through the above processes.

A description of these Principal Risks and Uncertainties, including outlook, recent trends and as well as mitigation efforts, can be found on pages 75 to 93 of the Strategic Report.

Internal controls

Our Board is responsible for reviewing and approving the Group's system of internal controls, and its adequacy and effectiveness. Controls are reviewed to ensure effective management of the risks we face.

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

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

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

Risk Management continued

Our system of internal controls is also supported by our Whistleblowing Policy and a whistleblowing reporting tool, which allows all employees to report concerns anonymously. Responsibility for the Whistleblowing Policy resides with the Board, and both the Board and Audit Committee receive quarterly and annual reports on the operation of the policy and on any issues raised from the Head of AML and Compliance of the Bank.

Effectiveness review

Each year, we review the effectiveness of our risk management processes and internal control systems, with the assistance of the Audit and Risk Committees. This review covers all material systems, including financial, operational and compliance controls. The latest review covered the financial year to 31 December 2021 and obtained assurance from the Management Board and Internal Audit. The Board is able to conclude with reasonable assurance that the appropriate internal controls and risk management systems were maintained and operated effectively throughout 2021, and that these systems continued to operate effectively up to the date of approval of this Annual Report. The review did not identify any significant weaknesses or failures in the systems. We are satisfied that our risk management processes and internal control systems comply with the UK Corporate Governance Code 2018 and the Financial Reporting Council (FRC)'s guidance on Risk Management, Internal Control and Related Financial and Business Reporting. We did not identify any significant weaknesses or failures. However we continuously strive to improve our risk management framework and focus on further mitigating our key risks, as they evolve.

Committee reports

As noted throughout this discussion, both the Audit and Risk Committees play a vital role in implementing effective risk management and internal control system. Each Committee has described this work in its Committee Report.

The Audit Committee Report and the Risk Committee Report can be found on pages 199 to 205 and pages 206 to 209, respectively.

Viability statement

The Board has undertaken the assessment of the Group's prospects to meet its liabilities by taking into account its current financial position and principal risks. The Group's going concern and viability statements are on page 95.

Bank risk management

The Bank is the principal driver of the Group's revenue and operates in the financial services sector. Therefore, its risk management and internal control frameworks are fundamental to that of the Group. The work undertaken by the Bank's risk management bodies feeds back directly to the Group. Given the significance of the Bank, the risk management and internal control frameworks in place at the Bank are described below. Management of risk is fundamental to the Bank and is an essential element of the Group's operations. The main risks inherent to the Bank's operations are credit risk, liquidity risk, capital risk, market risk, regulatory and legal risks, financial crime risk, information security and data privacy risks, operational risk, human capital risk, and model risk. The following is a description of the Bank's risk management policies and procedures in respect of those risks. Business risks, such as changes in the environment, technology and industry, are monitored through the Group's strategic planning process.

The Bank's risk management framework aims to continuously assess risk throughout the lifecycle of key operations and comprises the following steps:

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

Enterprise risk management

Over the course of the year the Bank actively worked to amplify the enterprise risk management (ERM) function. This function supports senior management in maintaining an effective risk management framework. It allows management to take a holistic view, and sets up a routine for the risk management process by providing visibility of the relationships among the various risk types, a portfolio view of all significant risks, a risk profile and guiding principles for the treatment of risk. Key ERM role responsibilities are to:

- improve risk culture by embedding a risk mindset in the Bank's culture, which ensures that risk becomes everyone's business and is incorporated in day-to-day operations and the decision-making process;
- coordinate and guide the review of the Group's Risk Appetite statement, linked to the Group's strategy, business objectives, and allocation of financial resources;
- maintain and upgrade the risk management framework to ensure the consistency and adequacy of the Bank's risk management practices;
- improve multi-dimensional risk assessment processes at an enterprise-wide level;
- update and maintain capital adequacy and financial risk policies and procedures. Strengthen the monitoring process to ensure compliance of financial risk indicators with risk appetite and prudential limits; and
- report on the Bank's risk profile to enable decision-makers to proactively manage risks.

Risk management structure

In 2019, the Bank started to develop new Risk Management Framework and Risk Appetite Framework policies, which are based on the three lines of defence model and reflect the requirements of the Corporate Governance Code (based on Basel III) adopted by the National Bank of Georgia (NBG). The new framework and policies were fully implemented by the end of 2020. The three lines of defence model enhances the understanding of risk management and control by clarifying roles and responsibilities within the Bank's different risk management bodies and business units in order to increase the effective management of risk and control. The underlying premise of the new model is that through the oversight of the Bank's Management Board and Supervisory Board, the following three lines of defence are identified (and ascribed relevant responsibilities) for the effective management of risk and control.

First line of defence

- The first line of defence comprises the relevant business/operational unit's front-line and mid-line managers, the Risk Owners, who have ownership of and manage relevant units of the Bank.
- The Risk Owners are accountable for initial identification, assessment, management, monitoring and reporting of risks with regards to products, activities, processes and systems under their management.
- The first line of defence is also accountable for: (i) participating in defining the Bank's risk appetite; (ii) integrating risk appetite and risk culture into daily activities; (iii) introducing controls and processes to effectively manage risks; (iv) introducing awareness-raising activities related to risk culture and (v) reflecting risk management roles and responsibilities in the Risk Owners' job descriptions (JD) and incentivising/rewarding expected risk management behaviours. During 2021, the Bank added KPIs such as cost of credit risk, mandatory vacations and mandatory training completion rates in relevant JDs.

Second line of defence

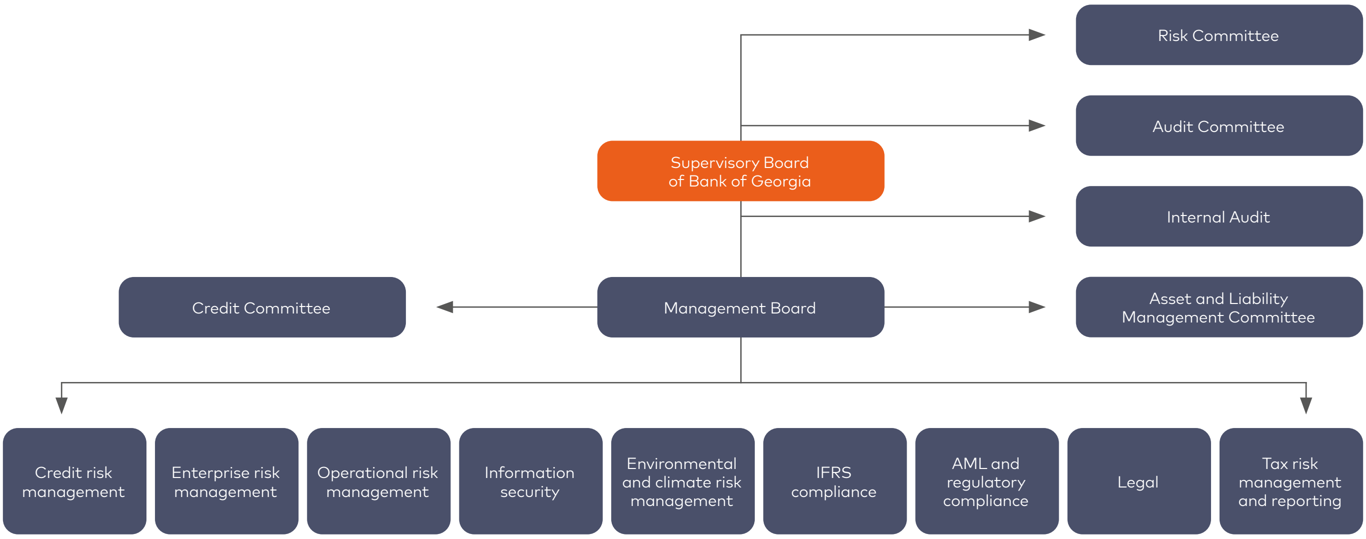
- The second line of defence provides an additional level of support to the first line of defence, with senior management who bring an additional level of expertise to the risk management process and provide further support to and monitoring of Risk Owners to ensure that risks and controls are properly managed.
- The second line of defence comprises the Bank's risk management function and compliance units, which both are independent of the first line of defence and have the responsibility to monitor and challenge the Bank's risk-taking processes and assess risks and related matters independently of the relevant business lines and Risk Owners. More specifically, the second line of defence is in charge of developing and implementing the risk appetite framework, including setting the limits (together with the Supervisory Board), cascading these limits to various business units and monitoring compliance.
- The risk management function is represented by an organised structure under the Deputy CEO – Chief Risk Officer, comprising Retail Credit Risk Management, Corporate and Investment Credit Risk Management, MSME Credit Risk Management departments (together, the Credit Risk Management departments), Operational Risk Management department, Information Security department, Environment and Climate Risk Management department, ERM function (which incorporates Capital Adequacy & Financial Risk Management as well as Risk Culture and Governance Management processes). The Deputy CEO – Chief Risk Officer has a leading role in operating the second line of defence.
- The second line of defence for the Bank's AML risk management is undertaken by the AML and Compliance department, reporting to the Bank's Deputy CEO – Chief Operations Officer. The department is responsible for managing and monitoring the Bank's products and processes and ensuring compliance with applicable regulations. This function is shared and carried out on a daily basis by the Legal department and Chief Legal Officer.
- Managing the Bank's legal risk is the responsibility of the Chief Legal Officer, who reports to the Bank's CEO.
- Managing compliance risk in the field of financial reporting, as well as managing the Bank's tax risks, is the responsibility of the Bank's finance function, under the Bank's Deputy CEO – Chief Financial Officer.
- The aforementioned structural units also participate in adherence to compliance requirements and in the organisation of the general control environment as part of the second line of defence.

Third line of defence

- The third line of defence is the responsibility of the Internal Audit department.
- The third line of defence provides assurance to the Supervisory Board that the efforts of the first and second lines of defences are consistent with the Supervisory Board's expectations regarding the Bank's risk profile.
- The third line of defence is independent of the first and second lines of defence and is responsible for assessing the consistency and effectiveness of the Bank's internal control system, the effectiveness of the first and second lines of defence, and the overall risk management framework.
- The third line of defence is also responsible for the adequate and independent evaluation of risk appetite management processes, systems and reporting functions.

Risk Management continued

Risk management bodies of Bank of Georgia



Risk management bodies

The principal risk management bodies of the Bank are the Supervisory Board, Audit Committee, Risk Committee, Management Board, Credit Committee and Asset and Liability Management Committee (ALCO). The Supervisory Board, Audit Committee and Risk Committee perform similar roles to the Group Board, the Group Audit Committee and the Group Risk Committee, respectively, only at the Bank level.

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

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

Credit Committees. The Bank has five credit committees (together, the "Credit Committees"), each responsible for supervising and managing the Bank's credit risks in respect of loans for Retail, SOLO and Wealth Management loans, plus micro loans, SME loans, corporate loans and counterparty credit exposures. These committees are: the Retail Banking Credit Committee, the Micro loans Credit Committee, the SME loans Credit Committee, the Corporate Banking Credit Committee, and the Corporate Recovery Committee. Each Credit Committee comprises tiers of subcommittees and approves individual loan transactions.

The Credit Committee for Retail loans comprises three tiers of subcommittees (for risk management purposes, loans for Wealth Management and SOLO clients are classified as Retail loans), for micro loans one tier; for SME loans three tiers; for corporate loans three tiers and for corporate recovery one tier of subcommittees.

Retail loans of more than US$ 2 million are approved by the Head of Retail Credit Risk Management department and Deputy CEO – Retail Banking. Micro loans and SME loan applications of less than US$ 0.2 million and US$ 1.0 million respectively are approved by credit risk managers of the Micro, SME Credit Risk Management department. The SME loans of more than US$ 1.0 million are approved by the Head of Micro, SME Credit Risk Analysis unit.

Corporate loan exposures to single group borrowers over US$ 35.0 million require approval by the Supervisory Board. Engagement of the Bank's CEO is required if customer's/group's exposure increases by more than US$ 10.0 million and Supervisory Board approval is needed.

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

Lower tier subcommittees meet on a daily basis, whereas higher tier ones meet as needed, typically one or two times a week. Each of the subcommittees of the Credit Committees makes its decisions by a majority vote of its members.

The other two committees managing the Bank's credit risk are:

The Financial and Governmental Counterparty Risk Management Committee (FGCRMC) manages, monitors and controls counterparty risk in relation to financial and governmental counterparties of the Bank. It comprises of two tiers of subcommittees. The Committee consists of six members – the Bank's Deputy CEO – Chief Risk Officer, Deputy CEO – Chief Financial Officer, Deputy CEO – Corporate and Investment Banking, Enterprise Risk Management Lead, Head of Treasury and Head of Global Banking Business Function. A majority of votes is needed for approval of individual counterparty limits or non-standard transactions. If the net exposure exceeds US$ 10.0 million, then the decision is deferred to the ALCO.

The Credit Assets Management Committee compromises three tiers of subcommittees and is chaired by one of the following: the Head of the Credit Assets Management department (the first level pertains to loans of up to GEL 500,000), the Bank's Deputy CEO – Chief Operations Officer (the second level pertains to the loans in the range of GEL 500,000 – 2,000,000) and the Bank's Deputy CEO – Chief Risk Officer (the third level pertains to loans above GEL 2,000,000). The Credit Assets Management department manages the Bank's exposures to problem loans and reports to the Bank's Deputy CEO – Chief Operations Officer.

ALCO. The ALCO is the core asset liability management (ALM) and risk management body that establishes policies and guidelines with respect to capital adequacy, market risks and respective limits, funding liquidity risk and respective limits, interest rate and prepayment risks and respective limits, money market general terms and credit exposure limits. ALCO designs and implements respective risk management and stress testing models, regularly monitors compliance with the pre-set risk limits, and approves treasury deals with non-standard terms. Specifically, ALCO:

- sets money-market credit exposure/lending limits;
- sets open currency position limits with respect to overnight and intra-day positions;
- establishes stop-loss limits for foreign currency operations and securities;
- monitors compliance with the established risk management models for foreign exchange risk, interest rate risk and funding liquidity risk;
- sets ranges of interest rates for different maturities at which the Bank may place its liquid assets and attract funding; and
- reviews different stress tests and capital adequacy models prepared by the Finance function/the ALM unit and FGCRMC.

The ALCO is chaired by the Bank's CEO and meets on ad hoc basis, with decisions made by a majority vote of its members. ALCO members include the Bank's CEO, Deputy CEO – Chief Financial Officer, Deputy CEO – Chief Risk Officer, Deputy CEO – Corporate and Investment Banking, Deputy CEO – Retail Banking, the Head of ALM unit and the Head of the Treasury department. The Head of the Finance function acts as a secretary of ALCO. Other Management Board members attend meetings as required.
The ALCO reviews financial reports and indices including the Bank's limits/ratios, balance sheet, statement of operations, maturity gap, interest rate gap, currency gap, foreign exchange risk, interest rate risk and funding liquidity risk reports, total cash flow analysis, customer cash flow analysis and concentration risk analysis, for the past periods as well as future projections and forecasts, other financial analysis and further growth projections on a monthly basis.

ALCO is the key governing body for capital adequacy management, as well as for respective risk identification and management. ALCO establishes limits and reviews actual performance over those limits for NBG Basel III capital adequacy regulation. The Finance function is in charge of regular monthly monitoring of, and reporting on, the NBG Basel III capital adequacy compliance with regulatory requirements as well as with ALCO policies. Capital adequacy management is an integral part of the Bank's monthly reporting, as well as the Bank's annual and semi-annual budget approval and budget review processes. The Finance function prepares the NBG Basel III capital adequacy regulatory reports, as well as their forecasts, budgets and different stress scenarios, while ALCO and the Management Board regularly review them, identify risks, issue recommendations and, if applicable, propose action plans.

Second line specialised risk management functions

In 2021, the Risk Management function underwent significant transformation to better align with the Group's strategic direction. The Credit Risk Management function was split into three specific customer segments to better cater for customer needs and specific products in each portfolio; and two new functions were created: (i) Environmental and Climate Risk Management, and (ii) Enterprise Risk Management. Both of these respond to the Bank's ESG strategic priorities (with specific focus on E and G), while the latter is also charged with the responsibility to enhance risk culture and risk management capability organisation-wide.

In addition, the Bank's risk management system comprises the following functions: Credit Risk Management, Operational Risk Management, Legal, AML and Compliance, Information and Cybersecurity, Group IFRS Compliance, Tax Reporting and Tax Risks Management.

The Credit Risk Management departments manage credit risks with respect to particular borrowers and assess overall loan portfolio risks.

Risk Management continued

They are responsible for ensuring compliance with the Bank's Credit Policies and management of the quality of its loan portfolio.

The Operational Risk Management department identifies and assesses operational risk within the Bank's processes and operations. It also detects critical risk areas or groups of operations with an increased risk level, and develops internal control procedures to address these risks, through (among other things) business-process redesign. The Head of Operational Risk Management, who reports to the Bank's Deputy CEO – Chief Risk Officer, is responsible for the oversight of the Bank's operational risks.

The Information Security department monitors and manages the Bank of Georgia's cybersecurity and information systems. It drafts and maintains internal policies and procedures as well as an awareness programme on information security matters. It also carries out security operations and monitors data breaches.

The Bank's Legal function's principal purpose is to ensure that: (i) the Bank's business and/or structural units and subsidiaries receive due legal support; (ii) the Bank's activities conform to applicable legislation; (iii) the possible losses from the materialisation of legal risks are minimised; and (iv) the personal data is protected, governed, managed and utilised effectively in line with our strategy and regulation. The Legal department is responsible for the application and development of mechanisms for identifying legal risks in the Bank's activities in a timely manner; the investigation of the Bank's activities in order to identify any legal risks; the planning and implementation of all necessary actions for the elimination of identified legal risks; participation in legal proceedings on behalf of the Bank, where necessary; increasing the effectiveness of the legal structures of the Bank's transactions; and the systemisation/standardisation of the Bank's legal documentation with a view to optimising, and achieving easier, more automated and de-risked transacting processes in the Bank's daily activities.

The Bank's AML and Compliance function is responsible for the implementation of the Bank's AML and compliance programmes throughout the Bank and its subsidiaries.

The Bank's AML programme is aligned with the requirements of international bodies (FATF, Basel), directives of the European Parliament, sanctions programmes from the UN/EU/UK, and the U.S. Department of the Treasury; in addition the programme complies with the requirements of local legislations, NBG regulations and the Financial Monitoring Service. The programme addresses and covers:

- development of internal AML policies and controls, covering the major aspects of the above-mentioned regulations;
- expansion of transaction monitoring in order to identify unusual behaviours of customers or sanctioned entities/persons;
- reporting to the relevant authorities;
- profiling customers based on the risk factor categories taking into consideration money laundering/financing of terrorism (ML/FT) risks;
- providing AML training for all relevant employees.

The Bank has adopted a risk-based approach towards ML/FT risks, including a general anti-money laundering policy, ML/FT risk management policy, risk appetite statement, KYC (Know Your Customer) and customer acceptance policy, and financial sanctions compliance policy. The Bank's risk-based approach means that it applies enhanced due diligence towards higher ML/FT risks by determining high-risk categories of products, customers, services and jurisdictions. The Bank has in place a risk assessment tool for identifying high ML/FT risks. The Bank conducts an anti-financial crime, enterprise-wide business risk assessment that serves as the baseline for updating the Bank's risk appetite towards ML/FT risks and based on the outcome further defines appropriate measures to address identified issues.

The Bank has reporting obligations to the Financial Monitoring Service of Georgia under the local legislation. The reporting process is fully automated and supported by a special software application. Furthermore, the Bank has in place ML/FT risk management capabilities, including transaction monitoring solutions to identify and report suspicious transactions. The online solution allows fully automated monitoring of all transactions against sanctions list (OFAC, the EU, UK, the UN and other similar bodies, including the global news databases).

The Bank's compliance programme covers:

- the development of internal compliance policies and controls that define regulatory requirements across the Bank;
- the provision of compliance training for all relevant employees;
- the standardisation of regulatory change management process that ensures timely compliance with new legislations;
- a periodic assessment of the effectiveness of the internal control environment and reporting of the outcomes to relevant authorities.

The Group IFRS compliance unit is responsible for the management of IFRS Compliance risk in the financial reporting process. It provides practical advice and ensures IFRS compliance across the Group.

The Tax Reporting and Tax Risks Management unit focuses on effective assessment and management of tax risks and the Bank's relationship with the tax authorities, provides practical advice and ensures tax compliance across the Group.

The Environmental and Climate Risk Management department manages and reports the Bank's climate-related risks, including implementation of a climate risk management system. It also assesses and mitigates environmental risks in lending activities.

The Enterprise Risk Management function includes:

- the Capital Adequacy and Financial Risk Management (CFRM) unit, which covers capital adequacy, counterparty credit risk, liquidity risk, interest rate risk and FX risk management. It establishes relevant policies and procedures, sets risk appetite, monitors compliance with these and periodically reports to the relevant governance bodies.
- the Risk Culture, Governance, Model Validation and Risk Reporting Department is charged with the responsibility to: (i) ensure Group-wide common risk taxonomy and metrics are in place; (ii) aggregate and monitor the enterprise-wide Risk Profile and reporting; (iii) formalise and embed the Risk Appetite Statement management process; (iv) enhance organisational Risk Culture; (v) manage the Model Risk Validation process; and (vi) formalise and embed the emerging risk identification process.

All risk management policies and procedures owned by the above listed functions are approved by the Bank's Management Board and/or the Supervisory Board.

Risk measurement and reporting

The Bank applies a variety of risk metrics to measure its exposures, ranging from operational indicators to forward-looking/statistical model-based approaches and stress scenarios.

The Bank has established risk appetite limits for its principal risks, which are approved by the Supervisory Board. Monitoring and controlling of these risks are performed with reference to these limits. They reflect the business strategy and market environment in which the Bank operates and they set the boundaries for the level of risk the Bank is willing to take in pursuit of its strategic objectives. The Bank continuously monitors the landscape to ensure that any significant changes in the underlying assumptions and/or conditions are identified and adapted in a timely manner.

The Bank maintains a financial risk management reporting system which requires the Credit Risk Management departments, CFRM, Finance function and Treasury department to prepare certain reports on a daily and monthly basis. On a daily basis, each department must provide a statement of operations, balance sheet an treasury report (which includes the Bank's open foreign exchange positions, cash flows, limits and balances on correspondent accounts with other banks) and confirmation that there has been compliance with mandatory financial ratios. On a monthly basis, a report on the structural liquidity gap, a report on interest rate risk, and financial statements are produced, and these are summarised in a quarterly report to the Bank's Supervisory Board and to the Risk Committee containing analysis of the Bank's performance against its budget. Information compiled from all the businesses is examined and processed in order to analyse, control and identify emerging risks. This information is presented and explained to the Management Board and the head of each business division. The report includes aggregate credit exposure, liquidity ratios and risk profile changes. The Bank's Management Board assesses the appropriateness of the allowance for credit losses on a monthly basis. The Management Board and the Supervisory Board receive a comprehensive risk report once a quarter, which is designed to provide all the necessary information to assess and draw conclusions on the Bank's risk exposure.

Specifically tailored risk reports are prepared and distributed to all levels throughout the Bank in order to ensure that all business divisions have access to extensive, relevant and up-to-date information. A daily briefing is given to the Bank's Management Board on the utilisation of market limits, proprietary investments and liquidity.

Emerging risks

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

We recognise the challenges posed by climate change. The Bank has identified Climate Risk as an emerging risk (see page 93). As such, we are working to develop and integrate climate change-related risks into our credit risk framework and our business resilience assessments. We are describing and managing climate-related risks in line with the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations. See more details on the Bank's planned actions on this matter on pages 138 to 148.

Principal Risks and Uncertainties

Identifying, prioritising and managing our risks to support our goals and strategic objectives

We outline the principal and emerging risks and uncertainties that are most likely to have an impact on our strategic objectives, business model, operations, future performance, solvency and liquidity. These principal and emerging risks are described in the table below, together with the key drivers/trends, the material controls and the mitigation actions we have taken. It is recognised that the Group is exposed to risks wider than those listed. Additional risks, including those that the Group is currently not aware of or deems immaterial, may also result in decreased revenues, incurred expenses or other events that could result in a decline in the value of the Group's securities. We disclose those that we believe are likely to have the greatest impact on our business and which have been discussed in depth at the Group's recent Board, Audit or Risk Committee meetings.

The order in which the principal risks and uncertainties appear does not denote their order of priority. It is not possible to fully mitigate all of our risks. Any system of risk management and internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Macro risk

Principal risk/ uncertainty	**Macro risk is the risk of deterioration of the financial position of our business due to macroeconomic and political factors related to Georgia.**
Key drivers/ trends	The Group's operations are primarily located in, and most of its revenue is sourced from, Georgia. Key sources of macro risk related to Georgia are changes in: (i) GDP; (ii) inflation; (iii) interest rate; (iv) exchange rate; and (v) political events. These factors may have a material impact on our business by affecting the Group's financial performance and financial position. Real GDP growth in 2021 was 10.4%, following a 6.8% contraction in 2020. The growth in 2021 was partly driven by the low base in 2020, but also by a strong economic rebound (in 2021 real GDP increased by 2.9% compared with 2019). Despite the unprecedented geopolitical situation amid the ongoing Russia-Ukraine war, our investment banking arm, Galt & Taggart forecasts a 2022 real GDP growth of 4.5%, higher than the 2.0%-3.5% growth forecasts made by IFIs. Spillovers from the ongoing Russia-Ukraine war and the sanctions imposed against Russia are generally weakening the 2022 growth outlook; however, upsides to Georgia's growth stem from migrants' influx and the redirection of international trade flows through Georgia. As at 31 December 2021, Lari appreciated against US Dollar by 5.5%, compared with the beginning of the year, after depreciating by 14.3% in 2020. Since the beginning of 2022, Lari appreciated by 1.7% as at 25 April 2022. Volatility of Lari may adversely affect the quality of our loan portfolio and increase expected credit loss provisions and the cost of credit risk. The depreciation of Lari may also adversely affect the value of customers' collateral. At 31 December 2021, 39.7% and 77.6% of Bank of Georgia's gross Retail Banking and Corporate Banking loans, respectively, were denominated in foreign currency. 6.3% of Retail Banking gross loans and 39.8% of Corporate Banking gross loans were issued in foreign currency with no or minimal exposure to foreign currency risk. High inflation remains a challenge for Georgia. Annual average inflation stood at 9.6% in 2021, compared with 5.2% in 2020. In response to high inflation, the NBG raised the monetary policy rate four times during 2021, to 10.5% by year-end. On the back of the Russia-Ukraine war, inflation will remain one of the key challenges for the economy. Georgia has experienced political tensions throughout the year in the aftermath of the 2020 parliamentary elections. The situation escalated when former president of Georgia, Mikheil Saakashvili, was arrested in October 2021. If ongoing tensions between the ruling party and the opposition escalate, this may negatively affect economic growth.
Mitigation	The Group continuously monitors market conditions and performs stress and scenario analysis to test its position under adverse economic conditions, including adverse currency movements. The Bank's Asset and Liability Management Committee sets our open currency position limits and the Bank's proprietary trading position limits, which are currently more conservative than those imposed by the NBG. The Treasury department manages our open currency position on a day-to-day basis. The open currency position is also monitored by the Bank's Capital Adequacy and Financial Risk Management unit.

Principal Risks and Uncertainties continued

Macro risk continued

Mitigation continued

To manage exchange rate risk in our loan portfolio, we take the following mitigating actions:

- when there is a currency mismatch between a customer's loan and income, we assign additional risk weighting to foreign currency loans when income is in Lari, in line the NBG's requirements. From 1 January 2022 the currency induced credit risk (CICR) requirement is set at 40% risk weight if the loan dollarisation is 40% or below. For each percentage point increase in loan dollarisation above the 40% level, the risk weight increases by three percentage points up to 100%;
- PTI and LTV requirements are differentiated by currency: the NBG has imposed stricter limits on these ratios for foreign currency loans to mitigate borrower-level exchange rate risks. PTI requirements for foreign currency loans, differentiated by customer's monthly net income, are by 5% and by 20% lower comparing with loans denominated in Lari.

In December 2017, the NBG introduced the CICR buffer as a part of Pillar 2 capital requirements. The buffer aims to reduce systemic risks caused by dollarisation. The NBG aims to decrease dollarisation in the banking system to ensure the system's resilience to external shocks. Since 2016, the NBG has introduced a number of measures aimed at de-dollarising the Georgian economy:

- the threshold of small loans to be issued only in Lari has been raised from GEL 100,000 to 200,000;
- preferential treatment of the Lari has translated into a 75% LCR for local currency high-quality liquid assets and a 100% LCR for foreign currency high-quality liquid assets as well as for all currencies in total;
- since June 2018, to encourage financial institutions to raise funding in the local currency, the NBG has mandated changes in minimum reserve requirements on funds attracted in national and foreign currencies several times. Currently, the minimum reserve requirement on customer deposits in foreign currency is 25%. In addition, the Bank maintains a minimum average balance of 5% of its customers' deposits in Lari at its correspondent account at the NBG. For certificates of deposit (CDs) and unsubordinated funding, the NBG requires the Bank to set aside 25% of CDs and borrowings in foreign currency with a remaining maturity of less than one year, 15% of CDs and borrowings in foreign currency with a remaining maturity of one to two years, and 5% of its unsubordinated local currency wholesale funding for borrowings with a remaining maturity of less than one year. There is no minimum reserve requirement for CDs denominated in local currency;
- in July 2021, to further support de-dollarisation of client deposit portfolio, the NBG mandated additional changes in minimum reserve requirements. The above-mentioned minimum reserve requirements of 25% and 15% on client deposits and notes of respective maturities attracted in foreign currency are applied in case the dollarisation level of the client deposits and notes portfolio is more than 70%. If dollarisation falls to 40% or below, the minimum reserve requirement falls to 10%. For the dollarisation level between 40% and 70%, the reserve requirement is set within 10%-25% and 10%-15% range, respectively;
- in December 2021, the NBG announced that from 1 January 2022 the CICR buffer will be linked to the level of loan portfolio dollarisation within the bank. The CICR requirement will be set at 40% risk weight if the loan dollarisation is 40% or below. For each percentage point increase in loan dollarisation above the 40% level, the risk weight will increase by three percentage points up to 100%;
- in December 2021, the NBG also announced that the maximum maturity for foreign currency mortgage loans, issued from 1 January 2022, will be reduced from 15 to 10 years. The change intends to address the vulnerabilities caused by exchange rate and foreign interest rate risks.

From the beginning of 2017, the NBG has expanded the list of assets that banks are permitted to use as collateral for REPO transactions, which provides an additional funding source for our Lari-denominated loan book. This list has been expanded since the second quarter of 2020 as part of the NBG's response to the COVID-19 pandemic.

The Georgian economy is well-diversified, both by sector and in terms of trading partner country dependency. The inflation targeting framework and floating exchange rate regime have helped Georgia adjust to the COVID-19 shock. De-dollarisation efforts, the development of the macroprudential policy framework, the strengthening of the quality of supervisory oversight and the upgrade of the framework for bank resolution and crisis management have helped the financial sector to maintain its resilience.

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

Regional instability risk

Principal risk/ uncertainty

Regional instability risk is the risk of deterioration of the financial position of our business due to regional tensions and economic instability.

The Group's operations are primarily located in, and most of its revenue is sourced from, Georgia. The Georgian economy is well-diversified with no significant dependency on a single country. However, it is dependent on the economies of the region, especially Russia, Turkey, Azerbaijan and Armenia, which are its key trading partners. The Group's ability to deliver on its strategy may be impacted by major conflicts in the region, especially the current Russia-Ukraine war.

Key drivers/ trends

In response to the Russia-Ukraine war, international government sanctions have been imposed against Russia. Including blocking some key Russian banks' access to the SWIFT financial messaging system. The NBG has instructed the Georgian financial sector to comply with the applicable requirements of the US, UK, and EU sanctions regimes. The scope of sanctions against Russia has been evolving daily, impacting strategic sectors of the Russian economy and being particularly robust on the financial sector.

Another risk driver that has emerged in the context of the Russia-Ukraine war is the expansion of sanctions against Belarus, which has resulted in a designation of few key banks in Belarus either under sectoral sanctions or by direct designation. Some Belarusian banks have also been blocked from SWIFT. The scope of sanctions on Belarus is also evolving.

As at 25 April 2022, the Bank's exposure (stemming from the pre-sanctions period correspondent banking accounts) to the Russian banks impacted by the US, UK or EU sanctions was GEL 1.4 mln. In addition, as at 25 April 2022 we had a total exposure of GEL 32.5 mln to the Russian financial institutions that were not directly impacted by the sanctions.

As at 31 December 2021, our exposures to wine producer clients in the Corporate Banking segment as well as individual borrowers in the Retail Banking segment who had significant income streams from Russia and Ukraine were GEL 367.3 mln and GEL 32.1 mln, respectively (7.0% of Corporate Banking gross loan book and 0.3% of Retail Banking gross loan book. The expected credit losses on these exposures were GEL 1.0 mln and GEL 0.5 mln, respectively, at 31 December 2021. If there is a significant reduction in remittance and export inflows from Russia and Ukraine, our cost of credit risk ratio could increase by a range of 10-30 bps, depending on the severity of the impact.

In addition, Russian troops continue to occupy the Abkhazia and the Tskhinvali/South Ossetia regions, and tensions between Russia and Georgia persist. Russia is opposed to the eastward expansion of NATO to include the former Soviet republics, such as Georgia. Georgia's progression towards integration with the EU and NATO may intensify tensions between Georgia and Russia. On 8 July 2019, Russia's ban on direct flights to Georgia, imposed over anti-occupation protests in Tbilisi, came into effect. The ban had a short-term negative impact on the Georgian tourism sector, however, it has also provided incentives to further diversify the country's tourist base.

Principal Risks and Uncertainties continued

Regional instability risk continued

Mitigation	The Group has long adopted a zero tolerance policy with regard to sanctions risk that has been robustly followed. As sanctions have recently been imposed on Russia and Belarus, the Bank's sanctions compliance programme has been enhanced, and the applicable requirements of sanctions regimes have been swiftly incorporated into our systems, with the same zero tolerance approach that the Bank had historically followed towards the violations of applicable sanctions requirements. To add to mitigation mechanisms and limit the exposure to the sanctions against Russia and Belarus in the case of further extension of their scope, the Bank has designated Russia and Belarus as high-risk countries. An enhanced due diligence process is in place with regard to each Russia/Belarus-linked account application (which is subject to increased documentary scrutiny of source of income, funds and wealth), and Russia/Belarus-related transactions. We continuously monitor the changing environment, and as sanctions evolve, the Bank's compliance programme will adapt the Bank's operations in accordance with the changing requirements. As at 31 December 2021, the Group owned 99.98% of JSC Belarusky Narodny Bank (BNB), a commercial bank incorporated in Belarus. In line with the Group's zero tolerance policies with respect to the sanctions risk, the Supervisory Board of BNB has instructed the management of BNB to close all relevant relationships with sanctioned entities within applicable international and local laws. Given the high uncertainty and foreseeable economic difficulties in the country, the Group is assessing all strategic options in relation to BNB, including continuing to operate as a purely local lender as well as a carefully managed exit through a wind-down or disposal in case of demonstrated increase of sanctions risk. As at 28 February 2022, net assets of JSC Belarusky Narodny Bank stood at GEL 117.8 mln. The Group actively monitors the situation around the Russia-Ukraine war and its repercussions for the region. Despite the unprecedented geopolitical situation, we expect the impact on the economy to be less severe compared with the losses resulting from the COVID-19 pandemic. Georgia's resilience to external shocks has been supported by a stable macroeconomic environment, prudent monetary and fiscal policies, a business-friendly environment, and a healthy banking sector. The NBG has claimed that it would mitigate the impact of market turbulence, if needed. Our Corporate Banking loan portfolio is well-diversified. We do not expect a significant negative impact on our business. Our wine producer clients have healthy equity and working capital structure, and we believe this would enable them to manage through the potentially challenging external environment. Another sector that may be impacted is hospitality. However, we expect the recovery, which started in the second half of 2021, to continue and the potential decrease in tourism from Russia and Ukraine to be compensated by tourist inflows from other countries. Overall, we expect the Group to comply with capital and liquidity requirements in the case of both milder and more severe macroeconomic scenarios presented above. The Board of Directors is regularly updated on major developments and on their potential impact on the Group.

Credit risk

Principal risk/ uncertainty	**Credit risk is the risk that the Group will incur a financial loss because its customers fail to meet their contractual obligations.** Credit risk arises mainly in the context of the Bank's lending activities. Key sources of credit risk are: • inability of the borrowers to make scheduled principal and interest payments; • unavailability or limited availability of credit information on borrowers; • portfolio concentration risk; and • collateral devaluation.
Key drivers/ trends	Expected credit loss (ECL) and, in turn, the Bank's cost of credit risk could increase if a single large borrower defaults or a material concentration of smaller borrowers default. The Corporate and Investment Banking loan portfolio is concentrated, with the Bank's top ten Corporate and Investment Banking borrowers accounting for 8.3% of gross loans to customers and finance lease receivables at 31 December 2021, as compared with 9.7% at 31 December 2020 and 9.9% at 31 December 2019. As at 31 December 2021, the Bank held collateral against gross loans covering 83.8% of total gross loans to customers. The main forms of collateral in Corporate and Investment Banking and MSME segments are liens over real estate, property, plant and equipment, inventory, transportation equipment, corporate guarantees, and deposits and securities. The most common form of collateral in Retail Banking is a lien over residential property. Downturns in residential and commercial real estate markets, or a general deterioration of economic conditions in the industries in which the Bank's customers operate, may result in a decline of the value of collateral, including a decline to a level below the outstanding principal balance of those loans. In addition, declining or unstable prices of collateral in Georgia may make it difficult for the Bank to accurately value the collateral it holds. If the fair value of the collateral declines significantly in the future, the Bank may be required to post additional provisions and may experience lower-than-expected recovery levels on collateralised loans. Further changes to laws or regulations may impair the value of collaterals. A general deterioration of economic conditions may result in the inability of the borrowers to repay loans. In the first quarter of 2020, following the COVID-19 pandemic outbreak, the Bank created upfront provision for the full economic cycle in both Retail Banking and Corporate and Investment Banking businesses. This COVID-19-related charge was based on our expectations of future credit losses on our portfolio given the application of the future economic scenarios provided by the NBG. The assumptions are being continuously revisited to reflect the macroeconomic forecast scenarios published by the NBG, and the better visibility of the portfolio and the detailed review of the creditworthiness of the borrowers. As a result, our cost of credit risk ratio was 0.0% in 2021 compared with 1.8% in 2020. As at 31 December 2021, 31 December 2020 and 31 December 2019, the NPLs to gross loans ratio stood at 2.4%, 3.7% and 2.1%, respectively.

Principal Risks and Uncertainties continued

Credit risk continued

Mitigation

The Bank has implemented Credit Policies, which outline credit risk control and monitoring procedures and the Bank's credit risk management systems. The Credit Policies are reviewed annually or more frequently if necessary.

Evaluation of customer creditworthiness: Prior to disbursing loans to customers, the Bank performs a rigorous assessment of customer's debt-paying ability. The Bank assesses relevant quantitative and qualitative measures (including PTI, LTV, debt to EBITDA and other ratios), including the limits defined by the NBG.

The Bank also reviews external credit rating scores when this information is available. If external ratings are not available, internal ratings are assigned. The Bank has developed internal scoring models for evaluating the creditworthiness of its Retail and MSME customers.

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

For Corporate and Investment loans above US$ 5 million the Bank quarterly updates the financial information of borrowers and reviews significant non-financial changes. Exposures up to US$ 5 million are monitored semi-annually.

The Bank strictly adheres to customer exposure limits set by the NBG for Corporate and Investment Banking as well as to limits set internally, monitors the level of concentration in the loan portfolio and the financial performance of largest borrowers, and maintains a well-diversified loan book.

The Bank's Chief Risk Officer and the Credit Risk Management departments review the credit quality of the portfolio on a monthly basis.

The Bank provides quarterly updates to the Board of Directors on its exposures, loan portfolio quality, as well as providing information on its largest Corporate and Investment Banking borrowers.

Collateral valuation: The Bank mitigates its credit risk by obtaining collateral and using other security arrangements. The Bank monitors market value of collateral obtained during its review of the adequacy of the allowance for ECL. When evaluating collateral for provisioning purposes, the Bank discounts the market value of the assets to reflect the liquidation value of the collateral. As at 31 December 2021, 83.3% of gross loans to customers were collateralised. An evaluation report of the proposed collateral is prepared by the Asset Evaluation department or by a reputable third-party asset appraisal company and submitted to the appropriate Credit Committee, together with the loan application and Credit Risk Manager's report.

ECL measurement: The allowance for credit losses is based on the ECL associated with the probability of default in the next twelve months, unless there has been a significant increase in credit risk since loan origination, and in such case the allowance is based on the ECL over the life of the asset. The allowance for credit losses is based on forward-looking information, considering past events, current conditions and forecasts of future economic conditions.

The Bank establishes the ECL of financial assets on a collective basis, and for individually significant loans on an individual basis, when a financial asset or a group of financial assets is impaired. The Bank creates the ECL by reference to a particular borrower's financial condition, the number of days the loan is overdue, changes in credit risk since loan origination, any forecasts for adverse changes in commercial, financial or economic conditions affecting the creditworthiness of the borrower, and other qualitative indicators, such as external market or general economic conditions. If, in a subsequent period, the amount of the ECL decreases, the previously recognised loss is reversed by an adjusted ECL account. The determination of ECL is based on an analysis of the assets at risk and reflects the amount which, in the judgement of the Bank's Management Board, is adequate to provide for expected losses considering forward-looking information.

Under the Bank's internal credit loss allowance methodology, which is based on IFRS requirements, the Bank categorises its loan portfolio into significant and non-significant loans. Significant loans are loans above US$ 1.0 million and non-significant loans are loans below US$ 1.0 million. The Credit Risk Management departments assess all defaulted significant loans individually. Non-defaulted significant loans are given a collective assessment rate. For provisioning purposes, all loans are divided into different groups (such as mortgage, consumer and micro loans).

Effective 1 January 2018, loans up to US$ 1.0 million secured by real estate are subject to a write-off once overdue for more than 1,460 days. Unsecured loans and loans secured by collateral other than real estate are subject to a write-off once overdue for more than 150 days. Corporate loans and loans above US$ 1.0 million secured by real estate may be written off following an assessment by the Bank's Chief Risk Officer and the Credit Risk Management departments.

Other debt product: The Bank also makes available to its customers guarantees/letters of credit, which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the guarantee/letter of credit. They expose the Bank to risks similar to those in case of loans, and those risks are mitigated with the same control processes and policies.

Response to the COVID-19 pandemic: To respond to the ongoing challenges and impact of the COVID-19 pandemic, the Bank continues to actively monitor the portfolio of impacted customers, specifically in the hotels, restaurants and catering (HORECA) sectors, and, depending on customer needs and requests, offers suitable loan modification options to help customers meet their credit obligations.

Liquidity and funding risk

Principal risk/ uncertainty	**Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances.** Although the Group expects to have sufficient liquidity over the next 12 months and beyond to execute its strategy, liquidity and funding risk is nevertheless inherent in banking operations and may be exacerbated by a number of factors, including an overreliance on or an inability to access a particular source of funding, changes in credit ratings or market-wide phenomena, such as financial market instability.
Key drivers/ trends	In recent years, except 2020, credit markets worldwide have experienced, and may continue to experience, a reduction in liquidity and long-term funding as a result of global economic and financial factors. The availability of credit in emerging markets, in particular, is significantly influenced by the level of investor confidence and, as such, any factors that affect investor confidence (for example, a downgrade in credit ratings, state interventions, or debt restructurings in a relevant industry) could affect the price or availability of funding for the Group companies, operating in any of these markets. The Group's current liquidity may be affected by unfavourable financial market conditions. If assets held by the Group in order to provide liquidity become illiquid or their value drops substantially, the Group may be required, or may choose, to rely on other sources of funding to finance its operations and future growth. Only a limited amount of funding, however, is available on the Georgian inter-bank market, and recourse to other funding sources may pose additional risks, including the possibility that other funding sources are more expensive and less flexible. In addition, the Group's ability to access external funding sources depends on the level of credit lines available to it, and this, in turn, depends on the Group's financial and credit condition, as well as general market liquidity. The Group is also exposed to the risk of unexpected, rapid withdrawal of large volumes of deposits by its customers, adversely impacting the Group's business, financial position and performance. This may happen in cases of severe economic downturn or a period of political, social, and economic instability, a major deterioration in consumer confidence or an erosion of trust in financial institutions. Furthermore, should the COVID-19 pandemic continue to disrupt economic activities globally and in Georgia, there could be adverse impacts on the Group's liquidity and funding positions.
Mitigation	The Group manages its liquidity risk through the liquidity risk management framework, which models the ability of the Group to meet its payment obligations under both normal conditions and crisis. The Bank has developed a model based on the Basel III liquidity guidelines. It maintains a solid buffer on top of the Liquidity Coverage ratio (LCR) requirement of 100%, mandated by the NBG since September 2017. A strong LCR enhances the Group's short-term resilience. The Bank holds a comfortable buffer on top of the net stable funding ratio (NSFR) requirement of 100%, which came into effect on 1 September 2019. A solid buffer over NSFR provides stable funding sources over a longer time span. This approach is designed to ensure that the funding framework is sufficiently flexible to secure liquidity under a wide range of market conditions. Notably, both LCR and NSFR measures as implemented by the NBG are already more conservative compared with the minimum levels required under the Basel III framework. As at 31 December 2021, 2020 and 2019, the LCR was 124.0%, 138.6%, and 136.7%, respectively, while NSFR was 132.5%, 137.5% and 132.5%, at 31 December 2021, 2020 and 2019, respectively, comfortably above the NBG's minimum regulatory requirements. The Group maintains a diverse funding base comprising short-term sources of funding (including Retail Banking and Corporate and Investment Banking customer deposits, inter-bank borrowings and borrowings from the NBG) and longer-term sources of funding (including Retail Banking and Corporate and Investment Banking term deposits, borrowings from international credit institutions, and long-term debt securities). As at 31 December 2021, the Group's 33%, 41%, and 26% of long-term funding sources were deposits, amounts owned to credit institutions, and debt securities, respectively. Client deposits and notes are one of the key sources of funding. As at 31 December 2021, 2020 and 2019, 88.8%, 88.7%, and 90.4%, respectively, of client deposits and notes had contractual maturities of one year or less, of which 56.1%, 48.2%, and 55.2%, respectively, were payable on demand. As of the same dates, the ratio of net loans to client deposits and notes was 115.2%, 101.2%, and 118.4%, respectively, and the ratio of net loans to client deposits and notes and DFIs was 100.0%, 89.4%, and 103.2%, respectively. The Bank has strong support from International Financial Institutions. It signed a number of new local and foreign currency long-term borrowings during 2020-2021 – more than US$ 400 million in total, part of which was drawn down during 2020 and 2021. As at 31 December 2021, the Group had around GEL 960 million undrawn long-term facilities from DFIs with maturity of up to twelve years, as well as a strong pipeline to secure resources needed for the next 12 months.

Principal Risks and Uncertainties continued

Liquidity and funding risk continued

Mitigation continued	In 2020 the NBG announced its readiness to revisit and reduce LCR requirements, as part of its updated supervisory plan for the Georgian banking sector, aimed at alleviating the negative financial and economic impacts created by COVID-19 in Georgia. On 1 May 2020, the NBG temporarily cancelled the 75% LCR requirement for local currency for a one-year period and restored it in May 2021. Furthermore, the NBG has also introduced the FX swap instruments and has already extended the eligibility criteria for repo-eligible securities.

Capital risk

Principal risk/ uncertainty	**Capital risk is the risk of failure to deliver on business objectives, meet regulatory requirements or market expectations due to insufficient capital.**
Key drivers/ trends	Since December 2017, the Bank has been subject to the NBG capital adequacy regulation, which is based on the Basel III guidelines of the Basel Committee of Banking Supervision, with regulatory discretion applied by the NBG due to the specifics of the local banking industry. The increased capital requirements are phased in gradually with fully loaded requirements of capital adequacy ratios effective by end of March 2023 (amended in March 2020, as part of the NBG's response to the COVID-19 pandemic). Our ability to comply with existing or amended NBG requirements may be affected by a number of factors, including those outside of our control, including an increase in risk-weighted assets, our ability to raise capital, losses resulting from the deterioration of our asset quality and a reduction in income levels and/or an increase in expenses, local currency volatility, and overall weakening of global and Georgian economies. In March 2020, in the wake of the COVID-19 pandemic, in agreement with the NBG, the Bank created a GEL 400 million general provision under the Bank's local regulatory accounting basis that is used to calculate capital adequacy ratios. This provision covers the NBG's expectation of estimated credit losses on the Bank's lending book for the full economic cycle. Although a significant portion of provisions was reversed in 2021, should the COVID-19 pandemic continue to disrupt economic activities globally and in Georgia, there could be further adverse impact on the Bank's capital adequacy position.
Mitigation	The Group maintains an actively managed robust capital base to cover the risks inherent to its business. As part of our capital adequacy management framework, we continuously monitor market conditions and review market changes, and perform stress and scenario testing to test our position under adverse economic conditions and market and regulatory developments. Capital position is continuously monitored by the management, and by the Board of Directors, to ensure prudent management and timely actions, when necessary. In 2019, we underwent a capital optimisation exercise to strengthen the Bank's capital position and enable the realisation of potential upsides. For that, in March 2019, the Bank issued inaugural US$ 100 million Additional Tier 1 Capital Notes, which marked the first ever AT1 transaction from Georgia. The issuance helped the Bank optimise its capital structure from a foreign currency perspective and provided a natural hedge against operating in a dollarised economy. Further, in December 2019, the Bank signed a ten-year US$ 107 million subordinated syndicated loan agreement arranged by FMO – the Dutch entrepreneurial development bank in collaboration with other participating lenders, which qualified for the Tier 2 capital instrument under the NBG Basel III framework. In addition, in December 2020, the Bank signed an amendment to the syndicated Tier 2 facility on increasing the loan exposure by additional US$ 20 million. In March 2020, given the uncertainty regarding the severity of the impact of COVID-19, the Board of Directors decided not to recommend a dividend to shareholders for the financial year 2019 year at the 2020 Annual General Meeting. Furthermore, as part of its updated supervisory plan for the Georgian banking sector, aimed at alleviating the negative financial and economic challenges created by COVID-19 in Georgia, the NBG allowed the banks to use existing regulatory capital buffers to support customers in financial stress, to continue normal business activities and to support the economy through ongoing lending operations. As some capital buffers were released, minimum regulatory capital requirements were reduced at the time. During the period that banks partially or fully used the reduced Pillar 2 and conservation buffers, they were not allowed to make capital distributions in any form. Subsequently, in June 2021 the NBG announced a plan to rebuild the released capital buffers and updated the timeline for the phase-in of additional Basel III capital requirements for the banking sector.

Capital risk continued

Mitigation continued

Throughout the pandemic, the Bank has delivered strong operating performance, with good operating income, well-managed costs, and robust asset quality, resulting in a return on average equity above 20% during the last seven quarters, and maintained capital adequacy ratios comfortably above the minimum regulatory requirements. As a result, considering the Bank's strong capital position, the Bank confirmed to the NBG in June 2021 that we no longer used or expected to use any of the Pillar 2 or conservation buffers that had been waived in 2020. As a result, in August 2021, the Board of Directors declared an interim dividend of GEL 72 million that was paid in November 2021. At the 2022 Annual General Meeting, the Board intends to recommend a final dividend for 2021 of GEL 110 million.

The Group's capital position remains robust and comfortably above the minimum regulatory requirements. At 31 December 2021, the Bank's Basel III Common Equity Tier 1, Tier 1 and Total capital adequacy ratios stood at 13.2%, 15.0% and 19.3%, respectively, above the minimum required levels of 11.5%, 13.6% and 17.7%, respectively.

Market risk

Principal risk/ uncertainty

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

Key drivers/ trends

The volatility of the Lari against foreign currencies may adversely affect the Bank's financial position. The Bank's currency exchange risk is calculated as an aggregate of open positions which is limited by the NBG to 20% of regulatory capital.

The Bank has exposure to interest rate risk as a result of lending at fixed and floating interest rates in amounts and for periods that differ from those of term borrowings at fixed and floating interest rates. Interest margins on assets and liabilities having different maturities may increase or decrease as a result of changes in market interest rates.

The Bank calculates a possible change of economic value of equity (EVE) using a calculation method published by the NBG. This method is based on predefined shock and stress scenarios. The NBG has limited the maximum EVE change to 15% of the core capital.

Mitigation

The general principles of the Bank's market risk management policy are set by the ALCO. The Bank classifies exposures to market risk into either trading or non-trading positions. Trading and non-trading positions are managed and monitored using different sensitivity analyses.

Currency exchange rate: The Bank's currency risk is calculated as an aggregate of open positions and is controlled by setting a VAR calculation with respect to the Bank's currency basket. The Bank uses the historical simulation method based on 400-business-day statistical data. The ALCO sets open currency position limits with respect to both overnight and intra-day positions and stop-loss limits. Currently, the Bank's proprietary trading position is limited by the ALCO to a maximum of 10% of the Bank's total regulatory capital as defined by the NBG. In addition, open positions in all currencies except for Lari are limited to a maximum of 1% of the Bank's total regulatory capital as defined by NBG. The open currency position is also limited by the ALCO to an annual VAR limit of GEL 50 million with a 98.0% "tolerance threshold".

The ALCO limits are more conservative than the NBG requirements, which allow banks to keep open positions of up to 20.0% of regulatory capital. The Bank also applies sensitivity stress tests to its open currency positions to estimate any potential negative impact on its net assets and earnings.

Interest rate: The majority of the Bank's assets have floating interest rates and the majority of deposits have fixed interest rates. In order to minimise interest rate risk, the Bank monitors its interest rate (re-pricing) gap and maintains an interest rate margin (net interest income before impairment of interest earning assets divided by average interest earning assets) sufficient to cover operational expenses and risk premium. Within limits approved by the Bank's Supervisory Board, the ALCO approves ranges of interest rates for different maturities at which the Bank may place assets and attract liabilities. As per a regulatory requirement, the Bank assesses the impact of interest rate shock scenarios on EVE and net interest income (NII) and sets limits in respect to regulatory capital. The Bank's EVE sensitivity with respect to Tier 1 capital remains comfortably below the maximum regulatory requirement. As at 31 December 2021, the Bank's EVE ratio stood at 6.6%, that is below the maximum required limit of 15%.

For further information on the Group's market risk see Note 28 of the Notes to Consolidated Financial Statements.

Principal Risks and Uncertainties continued

Regulatory and legal risk

Principal risk/ uncertainty	**Regulatory and legal risk is the risk of financial loss, regulatory censure, criminal or civil enforcement action or damage to the reputation as a result of failure to identify, assess, correctly interpret, comply with, or manage regulatory and/or legal requirements.**
Key drivers/ trends	The Group is subject to increasing regulatory requirements, and the competitive landscape in which we operate may change as a result of new regulations, the extent and impact of which may not be fully predicted. Since the Group is listed on the London Stock Exchange's main market for listed securities, it is subject to the UK Financial Conduct Authority's regulations. The Group is also subject to regulatory oversight of the NBG. Furthermore, the Group companies are also subject to relevant laws and regulations in Georgia, and the banking subsidiary in Belarus, BNB, is subject to regulatory oversight of the National Bank of the Republic of Belarus. The Russia-Ukraine war has resulted in increased regulatory burden with regard to sanctions regimes introduced by the UK, US and EU against Russia. The NBG has instructed the Georgian financial sector to comply with the applicable requirements of the US, UK, and EU sanctions regimes.
Mitigation	The Group undertakes the following key mitigating actions to manage regulatory and legal risk: **Compliance policies:** The Group maintains compliance policies and procedures that enable the integration of compliance risk management principles across the operations and are in line with relevant regulations. These policies set the principles and standards for managing compliance risks across the Group and define key roles and responsibilities of an independent compliance function. The adherence to the policies is mandatory for all employees. To increase employee awareness the Bank has requisite compliance online training module. The completion of mandatory compliance training was introduced as a KPI in 2021. The completion rate for compliance training at the end of 2021 was 85%. **Regulatory change management:** In line with our integrated control framework, we carefully evaluate the impact of legislative and regulatory changes during our formal risk identification and assessment processes. Our regulatory change management system ensures that changes in regulation are proactively identified by the Legal function and the AML and Compliance function. In addition, we maintain a standardised process to design and implement appropriate changes by generating workflows, assignments, tasks, and automated follow-ups. As part of the regulatory change management process, we engage in constructive dialogue with regulatory bodies, where possible, and seek external advice on potential changes to legislation. We have a formal link and a coordinated communication process with the NBG. **Treating customers fairly:** The Bank has a Customer Protection Policy, which was updated in 2021 to reflect new local regulatory requirements. The Policy covers all stages of the product and services lifecycle and includes requirements related to transparent product offerings and clear and accurate communications to enable customers to make informed decisions. The Audit Committee receives quarterly information on any material reported incidents. **Related party transactions monitoring:** In 2021 the Bank revised policies and processes to ensure that related party transactions are identified, assessed and monitored in line with the requirements of the NBG. Controls are defined and the process is organised through the three lines of defence model. Significant regulatory and legal changes as well as material regulatory inspections are regularly discussed with the Bank's Audit Committee. Our compliance risk management framework and policies are subject to review by the Bank's Internal Audit function. **Sanctions compliance:** The Group has long adopted a zero tolerance policy with regard to sanctions risk that has been robustly followed. As sanctions have recently been imposed on Russia and Belarus, the Bank's sanctions compliance programme has been enhanced, and the applicable requirements of sanctions regimes have been swiftly incorporated into our systems, with the same zero tolerance approach that the Bank had historically followed towards the violations of applicable sanctions requirements. To add to mitigation mechanisms and limit the exposure to the sanctions against Russia and Belarus in the case of further extension of their scope, the Bank has designated Russia and Belarus as high-risk countries. An enhanced due diligence process is in place with regard to each Russia/Belarus-linked account application (which is subject to increased documentary scrutiny of source of income, funds and wealth), and Russia/Belarus-related transactions. In addition, in line with the Group's zero tolerance policies with regard to sanctions risk, the Supervisory Board of BNB has instructed the management of BNB to close all relevant relationships with sanctioned entities within applicable international and local laws.

Financial crime risk

Principal risk/ uncertainty	**Financial crime risk is the risk of knowingly or unknowingly facilitating illegal activity, including money laundering, fraud, bribery and corruption, tax evasion, sanctions evasion, the financing of terrorism and proliferation, through the Group.**
Key drivers/ trends	Financial crime risks continue to evolve globally. The Group faces stringent regulatory and supervisory requirements related to the management of financial crime risks. Failure to comply with these requirements may lead to enforcement action by the regulator, leading to financial loss and/or damage to the Group's reputation. The main sources of financial crime risk are: • an inherent risk related to providing products and services to customers that may expose the Group to financial crime; • inadequate controls to detect risk and/or reduce the residual impact and likelihood of financial crime risk; and • business activities with an unacceptable level of risk exposure that may not be adequately managed. Globally, increased volume and speed of transactions together with increasing digital transformation in financial services are fuelling the following trends in financial crime risk management: • as transactions are being executed more quickly, the Group needs to use more advanced detection techniques and data to mitigate risks. • the number of identity frauds, account takeovers and fabricated customer accounts is expected to rise globally. The Group will need to combine the breadth of information with a more advanced data analytics and machine learning capabilities to be able to mitigate the risk. • recent events around the Russia-Ukraine war have heightened sanctions compliance risks. • diagnose products (new and non-traditional) for money laundering — criminals are more likely to shift their attention to more non-traditional products, including trade finance, securities and transaction laundering, and thus the Group will need to implement more advanced technological solutions and comprehensive policies to prevent and detect money laundering across. • the financial crime risks related to the use of innovative fintech are not yet fully understood, while the changing sanctions regulatory landscape presents execution challenges.

Principal Risks and Uncertainties continued

Financial crime risk continued

Mitigation

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

Anti-money laundering: We have an anti-money laundering (AML)/counter-terrorist financing (CTF) framework that reflects a risk-based approach (RBA) towards ML/FT risks. The framework complies with the local legislation, international standards (Financial Action Task Force (FATF) recommendations) and international financial sanctions programmes. Annual training on ML/FT policies and procedures is mandatory for all relevant employees. In 2021, targeted modules that address business segment-specific risk perspectives of ML/FT were introduced to middle management and to relevant employees. The completion rate for AML training was 90% at the end of 2021.

To mitigate risks related to ML/FT, we have established a risk governance structure based on the three lines of defence model. To strengthen our ability to detect and prevent financial crime, we continue to enhance our ML/FT risk management function. We have updated policies and procedures to make our ML/FT risk management activities more robust, and we have invested significant resources to improve our ML/FT risk management capabilities, including implementing screening and filtering tools supported by advanced analytics and transaction monitoring solutions. The Bank continues to improve customer due diligence practices and transaction monitoring capabilities, including monitoring supported by risk-based scenarios, handling alerts and reporting suspicious activities where required.

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

All employees receive annual mandatory training on anti-bribery and anti-corruption policies and procedures. Training includes information on how to use the Bank's anonymous whistleblowing channel, available to all employees. The completion rate for anti-bribery/anti-corruption training was 84% at the end of 2021.

Fraud risk: To mitigate fraud risk the Bank has implemented the following measures:

- the Know Your Employee (KYE) procedures, which include screening requirements at recruitment, employment and departure stages of the employment, allow us to have a clear understanding of an employee's background and actual or potential conflicts of interest.
- the Know Your Customer (KYC) procedures that define procedures for customer screening and transaction monitoring to ensure compliance with international economic sanctions regulations as well as procedures for verifying customer identity to protect the Bank against money laundering.
- the mandatory training for all new employees to increase awareness regarding fraud risk.
- the communication channels to inform our customers about fraud risk.

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

In 2021, no bribery or corruption incident was registered in the Bank, nor were any bribery or corruption fines imposed.

Information security and data protection risks

Principal risk/ uncertainty

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

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

- zero-day attacks, which exploit a previously unknown vulnerability;
- cases where we do not have direct control over the cybersecurity of the systems that cyberattack targets (e.g. our customers and third-party service providers), ultimately limiting our ability to effectively defend against certain threats; and
- failure by employees to adhere to our policies, procedures and technical controls.

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

Key drivers/ trends

Information security risk is a top risk globally for organisations, especially in financial services. The Bank remains a subject of attempts to compromise its information security. The external threat profile is continuously changing, and we expect threats to increase.

Local data protection legislation in Georgia requires a robust and multidisciplinary approach to privacy organisation and a strong and more coherent data protection framework. We are committed to ensuring that personal data is handled in accordance with the requirements of laws of Georgia and state-of-the-art principles.

Mitigation

We have an integrated control framework and policies encompassing information security management, access management and vulnerability management. The Bank reviews and invests in its control environment to ensure it addresses the risks it faces.

We have established a rigorous information security and data protection programme, which is aligned with current business and regulatory requirements, and we continuously enhance the programme to effectively respond to an emerging threat landscape.

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

Zero-day attacks: To mitigate this risk, we regularly monitor zero-day vulnerability announcements that may affect our systems. If such vulnerability is detected, the designated team ensures that it is attended to as soon as possible. Moreover, we employ defence in depth approach. This means that we have multiple complementary security layers, and if one mechanism fails, another will be activated immediately to prevent an attack.

Customer-targeted phishing: Malicious actors may carry out successful customer-targeted phishing attacks by defrauding customers through fake websites, social network, email and other channels. During 2021, to mitigate this risk, we focused on:

- improving our information security controls to detect unauthorised access to customers' accounts; and
- running awareness-raising campaigns to enable our customers and the wider public to recognise phishing and respond duly to avoid the negative impact.

Supply chain cyber attack: Malicious actors may gain unauthorised access to our third-party service providers' systems. In 2021, the Bank focused on mitigating this risk by:

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

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

Annual information security and data protection training is mandatory for all relevant employees of the Bank. During the COVID-19 pandemic, we added a tailored course on mitigating information security risks while working remotely. The course is still part of mandatory training for all employees. We provide continuous and role-based data protection training to keep employees aware of data protection risks and to explain their role in mitigating those risks.

Principal Risks and Uncertainties continued

Information security and data protection risks continued

Mitigation continued

We initiate quarterly phishing campaigns to test the ability of our employees to detect phishing and respond appropriately. Periodically, we send awareness emails and share posts on current information security threats through internal communication channels.

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

Access management: In 2021, we focused on access management. We have started to implement role-based access control, which contributes to automation of employee onboarding and existing employee rotation processes, enables restricting network access based on the roles of individual users and thus is in line with the principle of least privilege, which the Bank follows. Moreover, the Bank has taken steps to raise information security risk awareness among privileged users, i.e. employees with privileged access rights. In 2021 we refined our semi-annual privileged user evaluation process and developed mandatory and tailored guidelines for the relevant employees.

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

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

The Bank has enhanced its approach to information asset management to enable visibility necessary to prioritise and attend to the information assets based on their criticality to our business processes.

The Bank's Internal Audit function, on a risk-based approach, provides assurance on the adequacy and effectiveness of our risk management, internal controls and systems. Information security is on the Risk Committee's regular agenda. We also engage external auditors to conduct a cybersecurity audit.

For more details on information security please refer to pages 129 to 130 in the Sustainable Business section.

Data protection strategy: Our data protection strategy and vision is a strong starting point to determine high-level direction and risk appetite, upon which the organisation builds its data protection. We perform data protection gap assessments to evaluate where an organisation currently stands with respect to the local data protection legislation, GDPR and industry best practices. The outcome of this exercise is a specific risk-based implementation plan that prioritises the steps required to improve data protection compliance within the Bank. This helps us:

- determine whether data protection requirements or objectives are met;
- remediate/mitigate data protection gaps;
- make informed decisions regarding the use of personal data; and
- increase control over data protection risks.

The Data Protection Officer (DPO) regularly reports to the Bank's Audit Committee on the status of the implementation and compliance with data protection laws. As a result, the Bank's senior management and the Board of Directors are regularly informed of all relevant data protection matters.

Data protection controls: The personal data management lifecycle is considered and focused on the controls that protect accuracy, confidentiality, integrity and physical security. We have appropriate technical and organisational measures in place to ensure a level of data protection that is appropriate to the level of prevailing data protection risk. We are able to demonstrate that data processing is performed in accordance with the law and general good practice and have achieved data protection culture. Key to compliance is an internal Data Protection Policy, which outlines basic principles with respect to the processing and handling of personal data. Additionally, we have developed relevant policies and procedures embedding state-of-the-art data protection standards within the corporate operations and structure. We ensure that data is protected, governed, managed and utilised effectively in line with our strategy. These policies and standards are reviewed and approved by the Management Board on an annual basis, are aligned with recognised industry standards, and are available to all relevant employees through internal channels.

Privacy measures are implemented and taken into consideration in all new processes and projects that are initiated. We conduct data privacy impact assessments to ensure that the projects we undertake comply with data protection legislation.

Operational risk

Principal risk/ uncertainty	**Operational risk is the risk of financial and non-financial loss resulting from inadequate or failed internal processes, people and systems or from external events.** Operational risk may result in losses emerging from following events, among others: • Internal and external fraud; • Business disruption and system failures; • Employment practices; • Clients, products and business practices; • Damage to physical assets and infrastructure; and • Execution, delivery and process management.
Key drivers/ trends	Deficiencies or ineffectiveness in operational risk management may result in inaccurate financial, regulatory or risk reporting, which may have an adverse effect on accurate and timely visibility of the Group's risk profile to our key stakeholders. The trends that are driving the need to transform, other than above-mentioned emerging risks, stem from multiple sources: • Customer expectations of banking products and services will change with the emergence of new technologies and new service models that will force banks to rethink their business models and to deal with new operational risks. • Accelerating digitalisation and automation will make IT and operational resilience more sophisticated. The speed of change and the need to innovate has spurred the introduction of technologies whose deployment needs careful management. • The talent pool will need to shift to more IT, data-savvy profiles to catch up with the increased level of digitalisation and automation of processes.
Mitigation	To manage operational risk, the Group has implemented policies and procedures and has established an operational risk framework for anticipating, mitigating, controlling and communicating operational risks and the overall effectiveness of the internal control environment across the Group. Through effective alignment of roles and responsibilities related to operational risks among the three lines of defence, the Group identifies, monitors, measures, reports on and manages risks and related controls. The Group has implemented the risk and control self-assessment (RCSA) process through which operational risks and the effectiveness of controls are assessed and examined, providing reasonable assurance that all business objectives will be met. **Internal controls:** We have designed internal controls that ensure the Bank has efficient and effective operations, safeguards its assets, produces reliable financial reports, and complies with applicable laws and regulations. The following elements of the internal control framework enable us to mitigate operational risks: • established clear authorities and processes for approval; • close monitoring of key risk indicators and the alert system to ensure adherence to thresholds or limits; • infrastructure security; • appropriate employee recruitment, learning and development practices to maintain expertise; • continuous processes to identify business lines or products that appear to under- or over-perform in comparison with reasonable expectations; • regular verification and reconciliation of transactions and accounts; and • vacation policy that ensures that employees are absent from their duties for a period of not less than ten working days. **Policies and standards:** Operational risk management department develops and maintains framework and a comprehensive set of policies and standards. These policies and standards are reviewed and approved by the relevant governance bodies to ensure they are aligned with recognised industry standards, such as Basel and EBA, and are made available to all relevant employees through internal channels. The Operational Risk Management Committee is responsible for setting and overseeing qualitative and quantitative parameters of operational risk appetite and tolerance. The Bank's Management Board and the Risk Committee are also responsible for setting an overall risk appetite. **Segregation of duties:** The existing risk and control frameworks require that the appropriate segregation of duties is in place, so that the conflicting duties that may result in the concealment of losses, errors or other inappropriate action are eliminated.

Principal Risks and Uncertainties continued

Operational risk continued

Mitigation continued

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

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

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:

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

Awareness programmes: We conduct awareness campaigns to enable our employees to identify existing and potential risks. The training is mandatory for all employees.

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.

Human capital risk

Principal risk/ uncertainty

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

We are exposed to the following key risks:

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

Key drivers/ trends

Employees are one of the key enablers of the success of our business. To be able to learn and innovate quickly, organisations globally have focused more on building rigorous talent management capabilities, including building a data analytics capability, to hire, develop, and retain the best employees and put the right people into the right roles. Demographic changes have also highlighted the need to think more deeply about what kind of experiences employees value and how best to align their values and motivations with the values and objectives of an organisation.

Increasing digitalisation and the growing focus on and importance of advanced data analytics and artificial intelligence in business processes across the organisation have made the recruitment, development, and retention of IT, computer and data science professionals one of our priorities. Globalisation and the shifting working patterns accelerated by the pandemic make it even more challenging to recruit top talent in these areas due to the scarcity of qualified candidates and availability of jobs both locally as well as globally.

The COVID-19 pandemic has accelerated the shift towards more flexible working environments and magnified the focus on employee health and well-being.

Human capital risk continued

Mitigation

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

- We attract young talent by participating in job fairs and running extensive internships and student development programs. We actively partner with leading Georgian business schools and universities to recruit top talent in different fields. We have a student development programme Leaderator that gives talented undergraduates the opportunity to have a 360° view of the Bank in action, work on real projects, and receive coaching and support from the Bank's executives and middle managers. The programme also helps us to attract IT, digital and data science and analytics students as it guarantees high qualification and fast professional growth within the one of the best tech teams in Georgia.
- We offer our employees learning opportunities to enhance their competencies and skills throughout their careers.
- We offer competitive remuneration and benefits packages and support work-life balance. We monitor employee pay trends via labour market compensation surveys in the financial sector. Our remuneration structure is based on employee performance reviews, part of our continual feedback process. We are fine-tuning our job architecture and grading structures by currently running job levelling project to ensure our remuneration system and practices are more clear and transparent for employees, allowing them to fairly plan their career moves and progression.
- We have forums and communication channels enabling employee voices to be heard across the organisation, like CEO vlog on Workplace – regular live sessions with employees on current developments, Employee Voice meetings with the Board of Directors, Town hall meetings and agile quarterly business reviews (QBRs).
- We ensure that human resources (HR) policies and practices are developed and implemented to support our business activities and are in line with Georgian legislation and relevant international standards. We regularly review our policies and procedures to ensure that they reflect best practices, organisational changes, and legal requirements. For further information on our HR policies please see page 111 in the Sustainable Business section.
- We have ensured safety in the workplace during the pandemic and introduced fully remote and hybrid work arrangements. We have launched "Health Club" – an online support group, to help employees during these challenging times and increase awareness of physical and mental health aspects. In 2021 we also conducted awareness-rising campaigns on the benefits of the COVID-19 vaccination, and by the end of 2021, 75% of our employees were vaccinated with at least one dose.
- We monitor human capital risk through a series of quantitative and qualitative indicators, such as ongoing deep interviews with each individual employee, eNPS, engagement scores, internal mobility, retention, and employee turnover.

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

For further information on human capital management activities please see pages 111 to 121 in the Sustainable Business section.

COVID-19 pandemic risk

Principal risk/ uncertainty

The COVID-19 pandemic risk is the risk of ongoing pandemic affecting lives and livelihoods in Georgia, resulting in further restrictions and negative impacts on our customers, employees, and on the overall business performance.

Key drivers/ trends

The global COVID-19 pandemic, which began full-scale in early 2020, is still ongoing. New COVID-19 variants and low vaccination rates may derail the recovery on the back of potential restrictions and reduced external demand. Although the Georgian economy is well-diversified, in terms of both sector and trading partners, a significant negative impact on the hospitality sector in Georgia is expected, if the pandemic is prolonged. This may also impact other areas of the Georgian economy, such as the real estate sector.

Economic activity in Georgia slowed down significantly in 2020 in the wake of the COVID-19 pandemic, resulting in a 6.8% real GDP contraction in 2020. The Government responded quickly by introducing support measures for businesses and households, including health-related spending, transfers for vulnerable households, and support to SMEs and businesses in hard-hit sectors.

The local response to the COVID-19 pandemic consisted of the following measures:

- First outbreak in spring 2020: Full lockdown was introduced on 21 March 2020, and a state of emergency declared, lasting for about two months. The early response and major restrictions on economic activity helped curb the spread of the virus initially.

Principal Risks and Uncertainties continued

COVID-19 pandemic risk continued

Key drivers/ trends continued	• From mid-May 2020, businesses gradually reopened, but international flights resumed only to a limited number of countries from August 2020. A surge in COVID-19 cases in autumn 2020 led to lockdown measures in Retail and hospitality sectors at the end of November 2020, as well as a curfew and a ban on public transportation. • As COVID-19 cases gradually declined, the gradual reopening of the economy began from March 2021. • The COVID-19 green pass became effective in December 2021, requiring individuals to present a green pass (based on a proof of vaccination, recent test for or recovery from COVID-19) when entering public spaces. Since February 2022, the Georgian Government has eased COVID-19-related restrictions (including the removal of green pass), reflecting less severe implications of the omicron variant. • Since February 2022, COVID-19 cases have declined. Currently 43.9% of Georgia's adult population is fully vaccinated. The Government plans to undertake several initiatives to increase the rate. The Government has secured sufficient vaccine supplies for 2022.
Mitigation	The Group has introduced a number of resilience protocols and a comprehensive Business Continuity Plan (BCP) aimed to mitigate the pandemic negative impact on our business and the community. We started to develop the BCP at the end of January 2020 when the news of the COVID-19 outbreak emerged to ensure that we could promptly adapt our operations if such need arose, and ensure the health and safety of our employees and customers. The four main pillars of our BCP were: operational continuity, supporting the public health system and our communities, ensuring abundant liquidity and maintaining the strength of capital. To better respond to uncertainties and maintain strong operational resilience during ongoing COVID-19 pandemic, we have also developed a recovery plan that includes pre-determined and deliberate actions to enable us to deal with severe financial stress. The plan consists of capital adequacy, liquidity, profitability, macroeconomic and assets quality early warning indicators to ensure timely and effective identification of possible financial deterioration as a result of the materialisation of different risks. We continue to monitor the developments related to the COVID-19 pandemic and assess their impacts on our business. We will continue to take necessary actions to proactively manage the evolving circumstances.

Model risk

Principal risk/ uncertainty	**Model risk is the risk of potential adverse consequences arising from decisions based on model results that may be incorrect due to the use of inaccurate assumptions, inappropriate variables, weak algorithms and low quality data.** We recognise the importance of proper model risk management process and controls to effectively address the above mentioned risks.
Key drivers/ trends	As banking operations become more complex and digitised, models are becoming increasingly prominent in decision-making. Increased adoption of statistical, machine learning models and artificial intelligence helps us improve decision-making and gain a competitive intelligence. To sustain the benefits of model use in banking operations it is crucial to have sound model risk assessment framework and validation practices in place. The Bank currently runs online 127 data models, covering different business processes including lending, sales, automation and customer satisfaction. In January 2021 the NBG's regulation on Managing Risks for Data-based Statistical, Artificial Intelligence and Machine Learning Models became effective. It sets out the basic principles of model development, validation, monitoring and application. It is compulsory that, all relevant new or existing models (within the scope of the regulation) are developed according to the regulator's requirements.
Mitigation	The Bank is actively developing the model risk management framework, which is continuously reviewed and refined to adequately address key model risks. The Bank's Model Risk Management policy further defines the following: • Segregation of roles and responsibilities of those involved in model development life cycle, including ownership of model development, independent oversight and approval; and • Key controls with respect to data integrity, model development, validation, implementation, backtesting and monitoring. The Bank's independent risk function validates that every new model is in line with regulatory requirements by focusing on the soundness of an algorithm used, the model's predictive ability and complexity, business objectives and assumptions, and data quality. Further, to ensure effective model performance, the Bank has implemented ongoing model performance monitoring automated processes. Based on model risk significance, cyclically (monthly, quarterly, ad-hoc) automated notifications are generated on models' performance for relevant stakeholders. The Bank maintains a structured model development life cycle, including recalibration. All new models or changes within existing models should be authorised by Chief Risk Officer for further model implementation and use. Model issues are regularly reported to the Bank's Board of Directors and the Bank's senior management is aware of key topics related to model risks.

Emerging risk – Climate change

Principal risk/ uncertainty	**Climate-related risk is the risk of financial loss and/or damage to the Group's reputation as a result of accelerating transition to a lower-carbon economy as well as the materialisation of actual physical damage that may materialise as a result of acute or chronic weather events from changing climate.** Among other things, transition and physical risks can impact the performance and financial position of our customers and their ability to repay their loans.
Key drivers/ trends	There is a growing demand for climate-related disclosures by key stakeholders, including investors and creditors for aspects such as climate risk assessment and greenhouse gas emission reporting. Beginning in 2021, as a premium-listed UK company, we are required to make disclosures in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. In 2021, Georgia launched its updated Nationally Determined Contribution (NDC), published its Fourth National Communication under the United Nations Framework Convention on Climate Change (including updated Greenhouse Gas Inventory), adopted its Climate Change Strategy (2030) and Action Plan (2021-2023) and developed its National Energy and Climate Plan (2021-2030) and Long-Term Low Emission Strategy (LT-LEDS). These strategies and their implementation may drive change across the Georgian economy and increase the importance of climate change mitigation and adaptation. We recognise climate change as an emerging risk and are working on integrating climate-related risks, both physical and transition, into the overall risk management framework and decision-making processes across the Bank.
Mitigation	During 2021, we have started to develop a climate action strategy and prepared for the integration of climate-related risks into our risk management framework and business resilience assessments. We are working on each of the four TCFD pillars – Governance, Strategy, Risk Management, and Metrics and Targets. We have focused on mitigating climate-related risks by: • raising climate awareness across the Bank and deepening our understanding of climate-related risks and opportunities, including identifying how transition and physical risks of climate change can drive credit, liquidity, market, capital, operational and reputational risks for the Bank over short- to long-term time horizons; • conducting a preliminary qualitative portfolio-level assessment of corporate and MSME portfolios to understand hypothetical risks for different sectors; • developing updates to our Environmental and Social Policy and credit risk management processes to address climate-related issues; • monitoring Scope 1 and 2 GHG emissions and increasing the coverage of relevant Scope 3 emissions from the Bank's own operations; and • identifying metrics and data needs for the assessment, management and disclosure of climate-related risks and opportunities. Other initiatives to further embed climate risk and opportunity management into the Bank's operations include the establishment of Environmental and Social Impact Committee, comprising Management Board members and senior managers of the Bank. The Committee will be responsible for monitoring and managing the Bank's climate, environmental and social risks and impacts, arising primarily as a result of our lending activities. For more information on climate-related matters, please see pages 138 to 148 of this report.

Going Concern and Viability Statements

Going concern statement

In adopting the going concern basis for preparing the consolidated financial statements, the Directors have considered the Group's business activities, objectives and strategy, principal risks and uncertainties in achieving its objectives, and performance that are set out on pages 19 to 93 and pages 151 to 167. The Directors have performed a robust assessment of the Group's financial forecasts across a range of scenarios over a 12 month period from the date the financial statements are authorised for issue by carrying out stress testing, incorporating extreme downside scenario and reverse stress testing, which involved examining the level of disruption that may cause the Group to fail. The assessment specifically incorporated an analysis of the implications of the COVID-19 pandemic impact and of the Russia-Ukraine conflict on the Group's projected performance, capital, liquidity and funding positions, including the impact of scheduled repayment of borrowings and other liabilities. Based on these, the Directors confirm that they have a reasonable expectation that the Company and the Group, as a whole, have adequate resources to continue in operational existence for the 12 months from the date the financial statements are authorised for issue. Therefore, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the accompanying consolidated financial statements.

Viability statement

The Directors performed a robust assessment of the Group's prospects to meet its liabilities by taking into account its current financial position and principal risks over a three-year period beginning 1 January 2022, being the first day after the end of the financial year to which this report relates.

In determining the appropriate period over which to make their assessment, the Directors considered the duration of strategic plans and financial forecasts, which are usually set and prepared for a three-year period, the nature of the Group's activities, as well as the evolving nature of the regulatory and macroeconomic environment in which the Group operates. A period of three years beyond the balance sheet date was therefore considered the most appropriate viability period for the Group.

In order to consider the Group's viability, the Board considered a number of key factors, including:

- the Group's financial and operational position, including capital allocation and other key financial ratios;
- the Group's risk appetite;
- the Group's business model and strategy, as set out on pages 19 to 33;
- the Group's principal risks, including emerging risks, as set out on pages 75 to 93;
- the effectiveness of the Group's risk management framework and internal control processes; and
- stress testing and reverse stress testing, as described below.

The key factors above have been reviewed in the context of the Group's current financial position and strategic plan, financial budgets and forecasts, assessed annually and on a three-year basis.

The viability assessment involved a risk identification process which included recognition of the principal risks to viability (risks that could impair the Group's business model, future performance, solvency or liquidity), including the impact of the COVID-19 pandemic and of the Russia-Ukraine conflict, excluding risks not sufficiently severe over the period of assessment.

The principal risks, including emerging risks, are set out on pages 75 to 93. We also identified other risks which, while not necessarily severe in themselves, could escalate when combined with others. For each risk, we considered our risk appetite and tolerance, as well as risk proximity and momentum.

For those risks considered sufficiently severe to affect our viability, we performed stress testing for the assessment period, which involved modelling the impact of a combination of severe and plausible risks. In addition, we performed reverse stress testing, which involved examining the level of disruption that may cause the Group to fail. The Group has examined, among others, the impact of the following risks over the assessment period: the risk of macroeconomic environment and regional instability (decline in growth rate of the economy, Georgian Lari depreciation against US Dollar; increase in unemployment rate; increase in inflation rate; change in real estate prices; increase in market interest rates on attracted funds, as a result of increase in NBG's monetary policy rate, US Fed rate, and ECB rate); liquidity risk (one-off withdrawal of customer funds); the risk of non-compliance with regulatory requirements (capital adequacy and liquidity); and operational risk, including cyber-security risk in connection with our digitalisation strategy. Each of these stress and reverse stress testing scenarios are referred to in our principal risks. The test scenarios were then reviewed against the Group's current and projected capital adequacy position and solvency, and liquidity position, considering current committed funding. The testing also took into account the availability and likely effectiveness of mitigating actions that could be taken to avoid or reduce the impact or occurrence of the identified underlying risks to which the Group is exposed, such as a decline in lending activity, partial or full suspension of share buybacks for the share-based compensation scheme and dividend distribution, and decrease in excess liquidity via release of customer deposits. It also took into account the assumption that the Group will be able to prolong or refinance existing borrowings, or increase the financing from DFIs, on terms similar to existing ones. In relation to the reverse stress testing scenario, we also took into account the write-down of the Bank's AT1 capital notes, use of mandatory reserves placed at the NBG, and the release of all Pillar 1 and Pillar 2 buffers under the Basel III capital requirements set by the NBG.

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

Based on these analyses, the Directors confirm that they have a reasonable expectation that the Group will be able to continue operation and meet its liabilities as they fall due over the three-year period from 1 January 2022 to 31 December 2024.

Sustainable Business

Creating Sustainable Opportunities

We believe in shared success, and our approach to sustainability stems from this belief – that the resilience and value of our business depend on the success of the communities where we operate. To create shared opportunities, we are committed to running our business sustainably – that is with the highest standards of corporate governance and robust risk management practices. This ensures that we effectively mitigate the negative impacts we may have, directly or indirectly, on the economy, people and environment, and that we create opportunities that support and empower more people. Bank of Georgia, the core entity of the Group, is a leading organisation and financial institution in Georgia, and we are committed to being a driving force for good and enabler of Georgia's sustainable development.

Evolving strategy

For many years Bank of Georgia Group has sought to maintain exemplary corporate governance practices. With the key strategic priority areas that we outlined on page 19, we have increasingly focused on the social aspects – on customers and employees. In 2020, we linked our corporate strategy with the five UN Sustainable Development Goals 2030 (SDGs) which we consider material for our organisation and where we have, or can have, the greatest impact.

To evolve and formalise our ESG strategy, we undertook our first formal ESG materiality assessment in 2021. As a result, we identified material issues and defined commitments for each of them. In 2021 we also enhanced our understanding of climate change and related risks and opportunities, developed a climate action strategy, and started to prepare for the implementation of climate risk and opportunity management processes across Bank of Georgia in 2022. This is the first annual report of the Group where we included climate-related disclosures consistent with the Task Force on Climate-Related Financial Disclosures (TCFD) Recommendations and Recommended Disclosures. Please see "Climate-related disclosures" on pages 138-148 for further information on how Bank of Georgia has implemented the TCFD recommendations.

You can see our selected SDGs on page 99. Our contributions to these goals in 2021 are signposted by the SDG icons throughout the report.

The information throughout this section is presented in relation to Bank of Georgia, unless otherwise stated. Bank of Georgia Group's impacts mainly stem from Bank of Georgia given that the Bank is the core entity of the Group, representing 94.7% of the Group's total assets and 89.7% of the Group's operating income.

We believe that the impacts and the data presented in this section are representative of the Group's impacts.

Throughout the Annual Report, including the Sustainable Business section, we used Global Sustainability Reporting (GRI) standards, a global sustainability reporting framework. This year we have produced the report with reference to the GRI 2021 standards. You can find the GRI Content Index at the end of the Annual Report on pages 370 to 373.

The whole Annual Report, including the Sustainable Business section, also serves as a Communication on Progress for the UN Global Compact.

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

Materiality assessment

The aim of the materiality assessment was to determine the relative priority of relevant environmental, social, and governance (ESG) topics and to define the material topics to base our ESG strategy on. The materiality assessment followed a four-stage process summarised below:

Desk-based research	Internal stakeholder engagement	External stakeholder engagement	Data analysis

Desk-based research

To identify a list of potentially relevant ESG topics, we conducted a screening exercise that included an analysis of:

- sustainability megatrends;
- sector-specific ESG topics based on peer benchmarking, sector research, and ESG ratings reviews;
- global sustainability standards, including GRI and SASB;
- Bank of Georgia's mission, business model, including strategic objectives, and existing ESG practices and commitments.

We also analysed the sustainability context, including economic, environmental, and societal, including human rights, challenges facing the communities where we operate, as well as Georgia's sustainable development and climate action agenda. Considering that stakeholder engagement is an ongoing process for us, we also considered internal data and feedback from stakeholders, such as customers and employees, to understand concerns raised or topics that matter most to those groups. As a result of this exercise, we identified a list of 27 potentially relevant ESG topics for the Group.

Stakeholder engagement: feedback from internal and external stakeholders

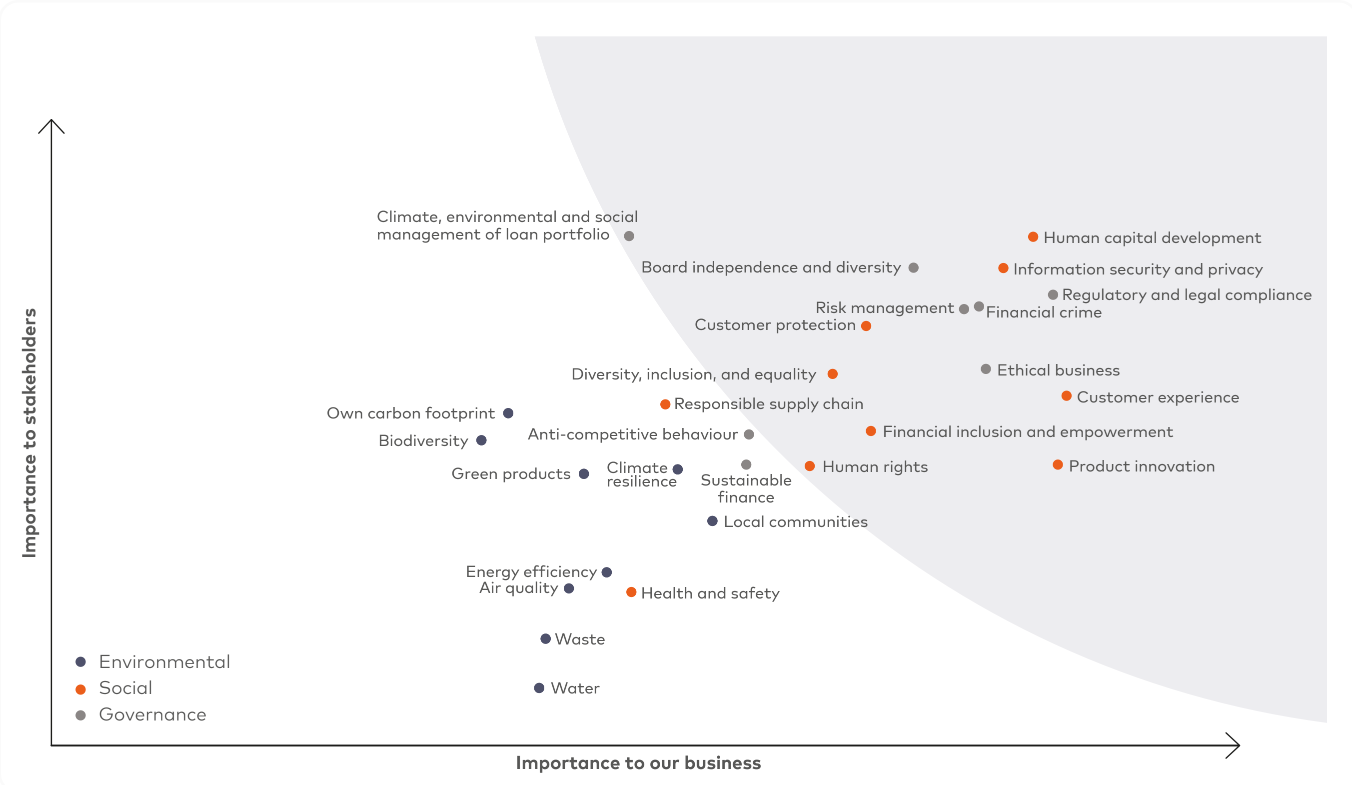
The second and third stages included targeted stakeholder engagement. We reached out to both internal and external stakeholders to determine the relative priority of the 27 ESG topics and thus define our material topics.

An online survey was sent out to middle and senior management and the Management Team of Bank of Georgia to get their views on the identified ESG topics, including questions that asked them to rank each of the 27 topics.

An online survey was sent out to external stakeholders – investors and lenders. We also held one-on-one online meetings with a number of our institutional investors to get their perspectives on the ESG topics that they considered priority areas for our sector and geography in general, and for the Group specifically. We discussed some of the key ESG risks and opportunities that they had noted in pre-interview questionnaires. The stakeholder engagement process ensured that we had not overlooked any topics that are likely to be material for our sector and our organisation.

Data analysis

The stakeholder engagement exercises enabled us to assign a relative importance score to each ESG topic. We averaged the scores for each stakeholder group – internal stakeholders and external stakeholders, and developed a Company-level materiality analysis, which is presented graphically in a materiality matrix. The topics that received higher scores from either internal or external stakeholders, presented in the shaded area on the matrix, are defined as the Group's material topics – **14 topics in total**. The materiality matrix will enable us to focus our priorities, initiatives and programmes.



Given the importance of this robust materiality assessment process to the Group's ESG strategy, we will work on enhancing the process the next time we carry out a formal assessment, taking into account new guidelines and developments in the sustainability space. Our materiality assessment process identified and assessed our ESG impacts in alignment with the GRI guidance for determining material topics. In the coming years, we will build on our inaugural materiality assessment by continually monitoring and assessing our most important ESG impacts and topics. Through ongoing engagement with key stakeholders and experts, we will evaluate any emerging trends and impacts that may impact our ESG focus areas.

The results of our inaugural materiality assessment helped us review and rethink existing governance systems for our most significant ESG impacts. Our governance systems aim to enhance data collection, oversight and accountability, and management of our most important ESG topics.

Approval of the material topics

The Board of Directors reviewed the findings of our materiality assessment in detail, including the materiality matrix, and approved the list of material topics. The Board will regularly review the list of material topics to determine the ongoing relevance of the topics for the Group, considering organisation-wide, local and global sustainability developments and stakeholder interests.

ESG governance

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

The full Board also retains primary responsibility for the development and implementation of the Group's climate action strategy and the management of climate risks and opportunities. In addition to climate-related matters, the full Board oversees the management of other environmental and social risks and opportunities that may arise in the Bank's loan portfolio.

Updates on material ESG topics are regularly reported to the full Board or respective Board Committees.

At Bank of Georgia, the management of ESG topics and implementation of ESG strategy are delegated to the Management Team of the Bank. Discrete ESG matters are managed by individual members of the Management Team. The development and implementation of the Bank's climate action strategy will be the responsibility of the newly created Environmental and Social Impact Committee, comprising Management Board members. The Committee will receive quarterly updates and will report to the full Supervisory Board semi-annually.

ESG strategy

WE ARE HERE TO HELP PEOPLE ACHIEVE MORE OF THEIR POTENTIAL

Employee empowerment	Financial inclusion	Communities	Robust governance and risk management
OUR OBJECTIVES			
To be the employer of choice for top talent, providing equal opportunities for development and ensuring best employee experience based on our values and business principles	To use the power of technology and product innovation to drive digital financial inclusion in Georgia	To give more school students in Georgia access to quality educational infrastructure and opportunities	To do business in line with the highest standards of corporate governance and highest ethical principles and effectively manage risks, including climate-related and other E&S risks in our loan portfolio
OUR MATERIAL ISSUES			
• Human capital development • Diversity, inclusion and equity • Human rights	• Customer satisfaction • Customer protection • Financial inclusion and empowerment • Product innovation	• Financial inclusion and empowerment • Product innovation	• Ethical business • Regulatory and legal compliance • Enterprise risk management • Board independence and diversity • Human rights • Climate, environmental and social management of loan portfolio • Financial crime • Information security and privacy

UN SUSTAINABLE DEVELOPMENT GOALS

KEY PERFORMANCE INDICATORS: 2022 TARGETS

Employee empowerment	Financial inclusion	Communities	Robust governance and risk management
eNPS: in the range of 54% - 62%	Monthly active digital users: 1 million Payment MAU (customers with at least one card payment in the last month): 1 million	Reach: 100k school students in Georgia	Key risk indicators within risk appetite (as defined by the Risk Committee)

Memberships and external recognition

Bank of Georgia became a member of the UN Global Compact
In 2021, Bank of Georgia became a member of the UN Global Compact, highlighting its commitment to the Ten Principles of the UN Global Compact and to sustainable development of the communities where it operates.

Bank of Georgia received two awards in the UN Global Compact Corporate Responsibility Competition
In 2021, Bank of Georgia was selected the winner of the UN Global Compact Georgian Network Corporate Responsibility Competition – "Business for Sustainable Development 2021" – in two nominations – "Quality Education" and "Decent Work and Economic Growth," reflecting the Bank's contribution to these SDGs as part of overall ESG strategy.

Bank of Georgia received the "Meliora 2021" Responsible Business Competition Award
Bank of Georgia won the "Meliora 2021" Award for Responsible Georgian Business for supporting education during the pandemic. The winner in this category was selected among companies that supported local communities amid the COVID-19 pandemic. "Meliora" is organised annually by the Georgian Center for Strategic Research and Development ("CSRDG") with the support of the European Union and the Konrad Adenauer Foundation (KAS).

The Group has been included in the global responsible investment index **FTSE4Good** since 2017. This index is designed to track the business performance of companies that demonstrate strong and transparent ESG practices.

Other memberships of industry and other associations

Georgian Banking Association

Business Association of Georgia

American Chamber of Commerce

International Chamber of Commerce

Deutsche Wirtschaftsvereinigung (DWV)

International Investors Association

Georgian Financial Markets Treasuries Association

Women for Tomorrow

Pro Bono Network of Georgia

Georgian Stock Exchange

International Association of Privacy Professionals

Our ESG performance based on independent ratings agencies

ISS*

ENVIRONMENT	SOCIAL	GOVERNANCE
3	2	3

MSCI**

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

CCC	B	BB	BBB	A	**AA**	AAA
LAGGARD		AVERAGE			LEADER	

2X CHALLENGE
FINANCING FOR WOMEN

In 2020, Bank of Georgia was recognised by its lending partner Development Finance Institutions (DFIs) as meeting the criteria of the 2X Challenge for women's economic empowerment and gender equality. The 2X Challenge was launched in June 2018 as a major new commitment of the DFIs from the G7 countries to unlock resources that will help advance women's economic empowerment and gender equality.

* ISS uses 1-10 scale. 1 indicates lower governance risk, while 10 indicates higher governance risk versus its index or region. 1 indicates higher E&S disclosure, while 10 indicates lower E&S disclosure. Last governance data profile update – 14 March 2022; Last E&S data profile update – 10 June 2021.
** MSCI score is as of 24 December 2021.

Sustainable financial inclusion

Objective

To use the power of technology and product innovation to drive digital financial inclusion

Our material topics

Financial inclusion and empowerment	Product innovation	Customer protection	Customer experience

At Bank of Georgia our core activity is developing new tools and innovative products that enable greater financial inclusion in Georgia. Financial inclusion is a complex topic, and for us it boils down to two key dimensions: **use of digital payments instead of cash and use of financial mobile app**. We believe that measuring the usage of our products and services better reflects the level of financial inclusion in the country rather than just focusing on metrics, such as the number of cards or accounts. Georgia already has one of the highest rates of bank card and account ownership compared with peers, but we dive deeper to increase the use of products and services to drive more digital financial inclusion in the country.

Our goal is to make our tools, products, and services **more accessible** and to **increase their usage** and do so sustainably. Sustainability means that we create opportunities for our customers, while mitigating potential or actual negative impacts, and that we simultaneously ensure the resilience and success of our business over the longer run.

Family prosperity, GDP growth and reduction in poverty have been linked to financial inclusion. Considering how integral financial inclusion is to individual wellbeing and the prosperity of our communities, and our unique position as a leading financial organisation in Georgia with market-leading payments business and our popular financial mobile app, we have defined this area as one of the core pillars of our ESG strategy that is interlinked with our business strategy.

How inclusion creates opportunity for people

Use of cashless payments

- Lower risk of losing money and greater convenience
- More digital transactional activity enables people to build a financial history and allows us to better understand customer preferences so that we deliver more personalised offers and recommendations to them
- Increased control over personal finances, enabling people to have a clear and full view of where and how they spend their money so that they can better manage personal finances
- More benefits through the Loyalty programme
- Greater visibility of customers' incomes and behaviours, enabling us to better assess their creditworthiness, and enabling them to access finance when they need it

One of the key metrics we track to understand the use of cashless payments is what we refer to as Payment MAU – that is customers with at least one card payment in the past month.

Number of customers with at least one card payment in the last month

781 thousand individuals

As of 31 December 2021

2022 TARGET: 1 MILLION CUSTOMERS

Decreasing cash usage needs a two-pronged approach: on the one hand, it is about targeting individuals who use cash and increasing the accessibility to and use of card payments, and on the other hand, it is about targeting merchants and increasing the acceptance of card payments both in-store and online. We focus on both aspects and develop solutions that fulfil the needs of our individual customers as well as those of our merchant clients.

Individuals

Our market-leading loyalty programme is one of the main enablers of cashless payments in Georgia.

Within our loyalty programme we offer our customers different status levels based on their activity and reward points (different by status level) accumulated through card payments. These can be redeemed in exchange for partner companies' products or services, utility payments, public transport payments or mobile top-ups.

In 2021, we changed the loyalty programme to include transactional activity (card payments) as another component that allows customers to accumulate points and upgrade to a higher status within the programme, thus becoming eligible for more benefits. Focusing on transactional activity has also helped us promote more card payments and has made the loyalty programme more engaging for our customers. These changes have been reflected in increased customer activity: the number of transactions per customer per month increased from 20 in 4Q20 to 24 in 4Q21.

Another milestone in 2021 was the launch of a new debit card – PLUS card – in partnership with American Express. PLUS card enables us to transfer more benefits to our customers (for example, more cashbacks and discounts), especially in daily spend categories, as a result of lower transaction costs. PLUS card will be a strong incentive for our customers to use cards instead of cash for payments and will further increase the number and the volume of cashless payments in the country.

Our payments business constantly develops and enhances payment solutions for individual cardholders to make cashless payments easy and flawless.

In 2021 we launched a buy now, pay later payments product for online purchases and are now working on expanding it to in-store purchases.

Diversity of Bank of Georgia's payment methods

- Contact and contactless card payments
- Apple Pay
- QR
- Payment with PLUS points (accumulated within our loyalty programme)
- Online instalment/BNPL
- Account transfers
- Recurring payments
- E-invoicing

Over the last two years, we have launched a number of innovative features in our mobile application to make payments and transfers easy and smooth – at the fingertips of our customers. For details on the functionalities of our financial mobile app, please see pages 20 to 25 of this report.

Merchants

To increase the acceptance of our digital payment methods both in-store and online, we regularly engage with merchants and develop and enhance our solutions to address their needs, and facilitate cashless economy in Georgia.

Merchant needs	Our solutions
• Cheaper payment acceptance solutions	• No monthly fee on POS terminals • Mobile POS for Android (cheaper solution for smaller merchants) • Lower fees on Bank of Georgia transactions
• Fast settlement	• Instant settlement
• Simple onboarding process without complex steps and intermediaries	• Simple, online onboarding with smart contracting (no paperwork required) and online activation
• Simple integration of payment methods to sell online	• Ready-made solutions for e-commerce merchants with embedded payment methods, including online instalments and BNPL – in partnership with a popular platform that builds e-commerce websites for merchants
• Access to analytics	• Merchant portal to manage sales, do refunds/ cancellations, and view transaction stats

Use of financial mobile application

To fully unlock some of the benefits of using cashless payments as well as additional benefits, more people need to become active users of the financial mobile app. Key benefits of our financial mobile application are:

- Greater convenience and access to our products and services ("few clicks" user experience; no need to visit a branch). During the past two to three years, we have added a number of innovative products to our mobile application and redesigned end-to-end digital product journeys so that customers can now onboard, order a digital card or a physical card with delivery, activate a loan, open a deposit, send and receive money, including remittances, manage personal finances, look up personalised financial and non-financial offers, invest, and chat with our representatives without needing to leave their homes.
- Greater control and visibility of personal finances coupled with simple tools to manage money better and access to information and educational content to raise financial literacy.
- Easy access to the benefits of the Loyalty programme: seeing accumulated PLUS points and transactions, redeeming PLUS points (through a mobile top-up, for instance) and accessing personalised recommendations and current offers on the Offers Hub (launched in November 2021), underpinned by our recommendation engine (developed in 2021).

As at 31 December 2021, we had c.1.6 million active individual customers Around 59% of these customers – 921,018 – were active digital users – up 21.2% y-o-y. The number of monthly active digital uses stood at 852,711 at year-end, up 22.0% y-o-y. Our goal is to make more people monthly active digital users, and we are setting an ambitious target for 2022.

Number of customers who are monthly active users of digital channels (mBank/iBank)

853 thousand individuals

2022 TARGET: 1 MILLION CUSTOMERS

How we ensure the accessibility of our products and services

- Our customers don't need Wi-Fi or mobile data to access our financial mobile application – they can access the full functionality of mBank even without Wi-Fi or mobile data
- Free or low cost current accounts and debit cards
- Free basic product bundle for people under 25
- Cheaper payment acceptance solutions for smaller merchants
- Wide network of ATMs and self-service terminals across Georgia
- Digital onboarding in mBank/iBank
- Tutorials on new digital products and web-based instructions

Access to credit

While using cashless payments and the financial mobile application is critical for financial inclusion and for getting increased benefits, our core products are loans to customers, and we believe that through the use of cashless payments and financial mobile application, more people will have access to credit – they will have greater visibility on what's available to them and we will have greater visibility on who they are.

In 2021 we transformed our retail lending process, significantly improving the end-to-end customer experience and facilitating frictionless access to credit for those who are eligible. Before the transformation, individuals encountered several challenges as they applied for a consumer loan:

- lack of clarity on the loan limits available when pledging different types of collateral;
- no guidance on "how to get to yes" – individuals who were denied loans were not aware of the steps they could undertake to improve their access to credit in the future;
- complexity in managing the loan application process in digital channels (mBank/iBank), thus requiring branch visits; and
- same flow during the loan application process irrespective of whether an individual had applied for a similar type of loan previously.

What we changed in 2021:
We reviewed the end-to-end process from a customer's perspective and initiated a major redesign of the process to solve customer pain points:

- Focusing on our mobile application, we simplified the process in all digital channels, enabling customers to request access to credit in just a few steps.
- Rapid response in all channels – customers promptly receive a decision, including the amount that they are eligible for.
- Accessing credit is possible through all digital channels.
- In case of a rejected application, customers are informed on the reason for rejection as well as the conditions they need to fulfil to get credit in the future.

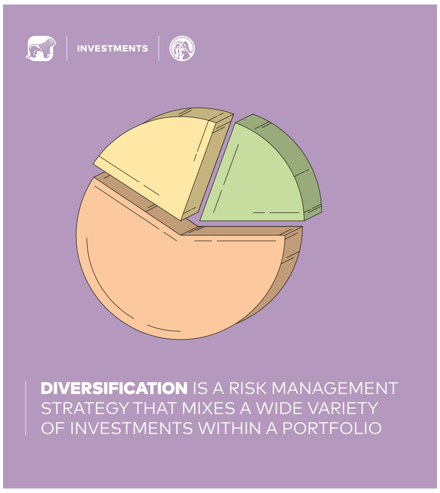
The redesign of this process boosted product sales through mobile application and internet banking platforms to 30%, from 19% at the end of 2020. 58% of all consumer loans activated in the Bank in December 2021 were activated through mBank/iBank, compared with 37% in December 2020.

Access to investments

Launching retail brokerage in our financial mobile application to facilitate access to investments

We continue to bring financial innovation to our customers. With the onset of the COVID-19 pandemic globally, retail investing has become more popular, with millions of retail investors accessing capital markets and starting investing. A similar trend has been observed in our region as well. Until now, investing in Georgia was accessible only by high-net-worth individuals, leaving much of the population without access to liquid stock markets. We have closed this gap and given more people in Georgia an opportunity to benefit from an alternative way of saving and building their wealth.

In December 2021, we launched a brand new investment platform for retail investors, embedded in our mBank. Together with the Group's investment banking arm, Galt & Taggart, we partnered with DriveWealth, to create a simple, affordable and accessible platform. Our customers can now invest in over 6,000 US stocks and ETFs on a Dollar-equivalent basis (i.e. fractional shares).



To increase customer awareness of the risks and benefits of investing, we have launched educational campaigns and developed comprehensive content to help our customers build more knowledge in this area. Our key initiatives include:

- educational videos – investing basics;
- extensive media coverage to provide articles on investing basics as well as current market news and analyst recommendations;
- a course on investments – available for everyone in the Georgian language via our e-learning platform businesscourse.ge;
- stock market weekly updates – we provide weekly stock market updates to our customers, covering key financial news and company updates of the week; and
- video series and podcasts covering key market news and other interesting topics on investments.

This educational content is becoming popular, with **c.200,000** people reached, on average, with each social media post.

Sustainable financial inclusion is responsible financial inclusion

Financial inclusion enables individuals to participate in and benefit from the formal financial system, with the potential to improve their quality of life. However, the only type of financial inclusion that empowers individuals and supports economic development of communities is responsible financial inclusion. The sustainability of our business and sustainable development of the local economy depend on how responsibly Bank of Georgia delivers its products and services to its customers.

Three pillars of responsible financial inclusion

Responsible lending	Customer protection	Customer experience

Responsible lending

- We do not lend without assessing and checking a customer's income.*
- We adhere to the PTI and LTV limits set by the NBG.
- The monthly debt load for any individual cannot exceed 50% of their monthly income, and this ratio is set even lower for individuals with lower incomes (maximum 25%) as well for those who face currency risk – that is if a borrower's income is in GEL while the loan is in foreign currency, maximum debt burden cannot be more than 30% (and 20% for those with lower income).
- LTV: maximum 85% for GEL loans and maximum 70% for loans in foreign currency.
- We set an income threshold below which an individual is not eligible for a loan.
- We perform regular portfolio monitoring to identify any signs of potential loan repayment problems.
- We send regular automatic loan repayment reminders to all customers.
- We provide information on existing Government programmes to our customers to help them benefit from Government subsidies if they are eligible.
- For floating-rate loans, we always inform our customers when the interest rate changes.
- Responsible collections: early collections – we offer our customers the possibility to restructure loans in all channels, including our mobile application.
- During the pandemic, we offered our customers payment holidays to help them weather the crisis. 70.5% of individual customers used payment holidays. As at 31 December 2021 92.7% of customers whose payments holidays had ended, resumed regular loan payments.

Customer protection

We are committed to always treating our customers fairly

Bank of Georgia is the most trusted bank in Georgia. We aim to maintain the trust of our customers and communities by adhering to the highest ethical standards in doing business. Fairness and customer-centricity are two of our six business principles. This is reflected in our Code of Conduct and in the Customer Protection Policy, which was updated in 2021 to reflect new local regulatory requirements. The Policy covers all stages of the product and services lifecycle and includes requirements related to transparent product offerings and clear and accurate communications to enable customers to make informed decisions. We are developing an online training module on the responsible treatment of customers to ensure that all employees clearly understand our commitments.

Our commitment to customer-centricity implies that we offer our customers the products and services that are suited to their needs and preferences, while adhering to our internal policies and procedures as well as applicable laws and regulations.

We clearly disclose all features and terms and conditions, including applicable fees and charges, for the products and services offered so that our customers can make informed decisions. All marketing communications must be fair, clear, and not misleading. The communications in all the Bank's channels must meet minimum standards and requirements

* Excluding pawn loans, which constituted 2.5% of retail loans to individuals as at 31 December 2021

defined in the Customer Protection Policy. The Legal department serves as a second line of defence, monitoring the Bank's marketing communications and ensuring they are fully compliant with internal policies and procedures as well as applicable laws and regulations.

The Bank has a Customer Claims Management procedure that defines how to handle customer complaints and concerns in a timely and effective manner. The Customer Claims Management and Support Centre reviews and manages all incoming claims. In case of a material violation, the Customer Claims Management and Support Centre is obliged to escalate the matter to the Bank's Compliance Committee.

Customers can file complaints via any channel, including the Bank's website. The Compliance department reviews all customer complaints to identify any trends and recurring claims potentially indicating a systemic issue.

If the Compliance department identifies a systemic issue from customer complaints or reports received through the Whistleblowing channel, it reports such findings to the Audit Committee in its quarterly compliance reports.

The Bank has in place a product and service approval process, which includes an assessment of compliance risks related to new products or services. The assessment and approval are required for new products and for changes to existing products. We aim to ensure that our products and services are in line with relevant regulatory and legal requirements as well as internal compliance and control framework. The Legal department serves as second line of defence in the product and service approval process and reviews the compliance of products and services from a legal and regulatory perspective. All product developments, including changes to existing products, are reviewed by key control functions.

Customer experience

We are committed to being a truly customer-centric organisation – putting customers first and creating customer experiences that are aligned with our mission and values

Few years ago Bank of Georgia began a customer-experience transformation, embedding a customer-centric model across its operations. Customer satisfaction has been defined as one of the key enablers of the Bank's resilience and success. A customer experience (CX) management department supports the Bank in delivering its customer-centric strategy and ensures that a rigorous and systematic approach is in place to not only mitigate negative impacts we may have on people, but also and most importantly to be the type of organisation that always learns and improves with customer feedback. The department reports to the Head of Customer Experience and Human Capital Management, a member of the Management Team who reports directly to the CEO.

As customer needs, preferences and expectations evolve, having a strong customer-centric culture is what will enable the Bank to maintain and build on its competitive advantages. We are serious about customer feedback. The Bank's senior management regularly receives and discusses the reports prepared by our CX team, including action plans and how those have been executed. We gauge information about what our customers value so that we can prioritise the experiences that matter most. The CX team continuously monitors and collects real-time customer feedback. When we define priorities, we then identify the internal processes and capabilities we need to reimagine and improve customer experiences. The CX team develops and updates a road map that identifies critical activities quarter-by-quarter.

The customer-experience management process has been incorporated across all levels of the Bank. We recognise that robust CX governance is crucial for the success of the Bank's overall strategy. Our CX governance framework covers all key elements:

- measurement framework/data collection framework;
- senior management ownership (monthly meetings to discuss key issues raised by our customers);
- customer-centric culture (employee KPIs framework, measuring employee experience, etc.); and
- continuous improvement process based on customer's voice (processes/products/channels) (surveys after new product launches, access to daily reports for key staff, CX product improvement initiatives sent quarterly to agile teams).

A variety of data collection methods are used to understand what our customers think about Bank of Georgia, and whether the interactions and the experiences they have with us are aligned with what we promise and aspire to.

Telephone surveys

We collect, measure, and analyse customer feedback across all sub-segments of the Retail Banking business (Mass Retail, SOLO, MSME) monthly via telephone surveys. The surveys include NPS questions as well as in-depth questions to analyse different processes, end-to-end product journey experiences, and satisfaction with the Bank's main channels. The key findings and actionable insights from monthly surveys are regularly shared with businesses and improvement initiatives are discussed, prioritised, developed and executed.

Operational data and reporting

We monitor and report operational data and SLAs monthly. We analyse customer experience at different touch points across multiple channels, including our digital channels, call centre, branches, and ATMs. If performance drops or is not in line with our expectations, we investigate the root causes together with relevant business and operational teams and design solutions to improve customer experience.

External survey

We measure the Bank-wide NPS using an external independent service provider. External NPS is measured through a random sampling of the Georgian population that uses our products and services. Based on detailed parameter scores ranging from NPS to satisfaction with key channels (branches, call centre, ATMs, digital channels), the company conducts a comparative analysis of the Bank and our main competitor on the market. The results of quarterly external surveys are shared with all internal stakeholders and are used to determine the Bank-wide NPS target that is included in the Management Team's KPIs.

Medallia

In 2019 we partnered with Medallia, the world's leading customer experience management platform, and we have since integrated it into all key channels, including all digital channels, retail branches, and call centre. Medallia enables us to engage daily with our customers, collect and analyse their feedback, identify the root causes of problems and prioritise improvement projects.

- We collect feedback in real-time across digital channels (mBank, iBank, Business iBank and Business mBank, website) via pop-up questionnaires and use SMS surveys to connect with customers who have used our call centre or a retail branch.
- We monitor the feedback received and customer satisfaction with different channels, and analyse data by segments, using Medallia dashboards.
- We use 'alerts' for the customers who were not fully satisfied with our channels or services to "close the loop" efficiently: we provide immediate help and support – we get in touch with them, answer questions and resolve their issues. We also use the "close the loop" process to identify actionable insights and then work closely with businesses to implement systemic improvements across the Bank that will improve customer experiences and increase customer satisfaction.

Net Promoter Score (NPS) is a key metric for the whole organisation.

We have delivered a substantial shift in our approach to customer experience, leading to a major increase in customer satisfaction. External Bank-wide NPS reached 55%, our highest result, by the end of 2021, from 27% four years ago.

Customer satisfaction scores (CSAT) for the Bank's channels:

- mBank: from 85% in December 2020 to 86% in December 2021
- iBank: from 75% in December 2020 to 80% in December 2021
- Business iBank increased from 59% in December 2020 to 73% in December 2021
- Call centre increased from 83% in December 2020 to 90% in December 2021

Products and services tailored to specific sub-segments

As we mentioned in our Segment discussion, we focus on two sub-segments in Mass Retail – youth and Georgian emigrants – to tap opportunities for future growth of our business and to enable greater financial inclusion in Georgia. Youth and Georgian emigrants are the sub-segments that need a tailored approach to bring them into the formal financial system and help them benefit from it. Georgian emigrants have a variety of daily financial needs that they often cannot fulfil where they reside. Young people (ages 0-25) have diverse financial and non-financial needs that we look at holistically to serve this segment.

Youth:

Through our sCool Card and Student Cards, we offer a variety of daily benefits to school and university students:

- Discounts in public transport in Tbilisi, Batumi, Zugdidi, and Rustavi.
- Weekly offers in daily categories preferred by students as well as discounts on educational platforms.
- Enrolment in our loyalty programme to accumulate PLUS points.
- Recommendations on how to save better, personalised offers to promote cashless payments (push notifications and SMS).

Georgian emigrants

Georgian emigrants are a critical sub-segment, not only for Bank of Georgia, but for Georgia as well, given the value of remittances they send to Georgia – $2.3 bln in 2021, up 24.6%, accounting for 11.9% of GDP in 2021. Many Georgian emigrants do not have quality access to the usual Georgian banking services on the back of lower levels of digital inclusion in this segment. As a result, they face difficulties when managing their personal finances and do not fully benefit from existing financial products and services in Georgia.

Pain points	Our solutions
Lack of dedicated information source • No special space for products based on migrants' interests	**Special web page for migrants – migrants.ge** • Dedicated products, services, promotions, special information
Complex process for remote consultation • The only available channel was a call centre with redirection processes	**Consultation request from web – call-back booking** • Requests are transferred to dedicated bankers who provide a comprehensive consultation
No digital identification	**Digital onboarding is launched**
No solution for account top-up	**Cash2Account solution via remittance systems** • The solution is already available with the top three remittance systems
No remote process for mortgage application	**Migrants' mortgage leads management process** • A Georgian migrant can access pre-approved mortgage limits

We expect to gain 35-40% of the potential market in the medium term. Going forward, we will continue to upgrade our digital channels, add new features specifically for Georgian emigrants, and develop solutions to create a superior experience for Georgians living abroad.

For more information on these sub-segments, please see pages 39 to 41 of this report.

Empowering local businesses

As a leading financial institution in Georgia, we support local businesses with a wide range of financial and non-financial solutions. MSMEs are the engine of the Georgian economy. We provide financing and value-added services to our MSME clients, which constitute 23.9% of the Group's total gross loan portfolio.

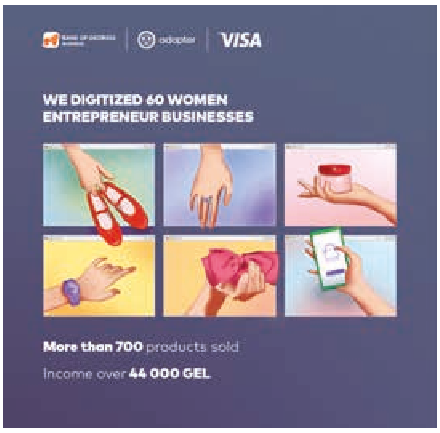
How we empower MSMEs

In addition to providing financing, we offer our client MSMEs a range of value-added services, including tailored advice and support programs, to address their varied needs and help enhance and accelerate their productivity.

In 2020, we developed an MSME educational portal – www.businesscourse.ge – to provide local MSMEs with access to relevant and timely information as well as quality business-related educational content in Georgian. Through this portal we help MSME customers find the right solutions at the right time. We cover a variety of topics, including accounting, legal documents, tax, business development, sales, and marketing, among others. In 2021 we added 14 courses to the platform (now we have 17 courses in total), and had 15K+ registrations.

We continue to organise webinars for our clients and local businesses to discuss recent developments and trends, including Georgian economy and economic scenarios, as well as other key issues, such as taxes, accounting standards, operational excellence, human capital, marketing and sales, and digitalisation, among others. **We held 24 thematic webinars in 2021, with more than 4,000 MSME customers attending these events**.

In addition to providing our MSME clients with relevant and quality content to support their operations and development, we also develop a network of local quality advisory and business service providers and connect our MSME customers with experts in a variety of fields, including finance and accounting, tax, legal, marketing, sales, and operations. At the end of 2021, 70 advisory service providers were part of our network.



These companies provide consulting services to our customers either free of charge or at a significant discount. We are now focusing on expanding this network across the country to enable more of our customers to benefit from professional advice and other services so that they can better manage their businesses.

Business support programmes

In partnership with local and global organisations, we develop business support programmes to address the needs of specific business segments. In 2021, we designed and implemented three programmes:

- **Export and sales programme** – Together with USAID and the Georgian Export Association, we helped businesses in the light industry develop a plan to export their products and then supported them to execute the plans.
- **Digitalisation programme for women-owned businesses** – Together with Visa and Adapter (one of the directions of the Group's Digital Ecosystem), we helped 60 women-owned MSMEs undergo a digital transformation – digitising their inventories with Optimo, optimising logistics, and selling online on Georgia's largest online B2C marketplace – extra.ge.
- **Agro accounting programme** – Together with the European Fund for South-east Europe ("EFSE"), we supported smaller agricultural businesses in organising and digitising their accounting processes. Disorganised accounting is one of the major obstacles in accessing credit, and this programme enables more local companies to implement appropriate accounting practices that will facilitate the access to financing in the future.

Sector-specific approach

Throughout 2021 we continued to develop sector-specific approaches:

- We offered a special packaged product for acquiring solar energy panels when the fees on energy increased. In addition to providing credit, the package included information on relevant companies that could help businesses with the process of purchase and installation.
- We developed value chain projects for the agricultural sector to provide expertise and financing to the whole value chains of meat, nut, olive, and blueberry production.
- We introduced unique financial limits for developers and developed an innovative product – Guaranteed Purchase – to enable smaller-scale developers to increase sales, while providing a guarantee to home-buyers.

Employee empowerment

Objective

To be the employer of choice for top talent, providing equal opportunities for development and ensuring best employee experience based on our values and business principles

Our material topics

Human capital development | **Diversity, inclusion, and equality** | **Human rights**

Our employees are one of the key enablers of the success and sustainability of our organisation. Through digital enablement and challenging and motivating work experiences, we empower individuals, teams and our entire organisation. This contributes to our ability to learn quickly and deliver innovative solutions and excellent customer experience to our clients. We believe that by creating opportunities for our employees, we create opportunities for our entire communities because our people are the main drivers of the value we deliver to our stakeholders.

Our Human Capital Management team (HCM) plays a critical role in delivering on our key objective. As a strategic partner for all business and operational lines, the HCM combines HR expertise with business knowledge and connects customer experience with employee experience. The HCM designs and implements policies and practices in line with the Bank's mission, values, business principles, and strategic objectives. The HCM team reports to the Head of Human Capital and Customer Experience Management, member of the Bank's Management Team, who reports directly to the CEO. The Supervisory Board of the Bank and its Committees – Nomination, Remuneration, Audit, and Risk – oversee all matters related to the Bank's employees.

Our policies

Our policies reflect our non-negotiable commitment to respecting human rights and taking necessary steps to prevent, and, where appropriate, eliminate any adverse human rights impacts. We are committed to walking the talk on our values and business principles. The HCM policies are based on the Labour Code of Georgia, principles of professional ethics, the Code of Ethics and Standards of Professional Conduct for Commercial Banks of Georgia, effective legislation of Georgia and relevant international regulations. Our policies include, but are not limited to:

- Code of Conduct and Ethics https://bankofgeorgiagroup.com/governance/documents;
- Human Rights and Grievance Policy, including equal opportunities and non-discrimination, and work environment free from harassment policies;
- Anti-Bribery and Anti-Corruption Policy https://bankofgeorgiagroup.com/governance/documents;
- Whistleblowing Policy https://bankofgeorgiagroup.com/governance/documents;
- Diversity Policy https://bankofgeorgiagroup.com/governance/documents;
- Anti-Nepotism Policy;
- Remuneration Policies;
- Retrenchment Policy; and
- Employee Corporate Handbook, including Employee Code of Conduct.

Through our policies and practices we aim to cultivate an environment free from harassment, where employees and all other stakeholders are treated with dignity and respect. The Bank provides all employees with the same conditions of employment specified in the Code of Conduct – Employee Corporate Handbook, subject to applicable conditions of employment prescribed by law. We are committed to respecting human rights when doing business. We ensure that we comply with fundamental conventions regarding the effective abolition of child and forced labour, freedom of association and the effective recognition of the right to collective bargaining, and the elimination of discrimination. All these conventions are ratified by Georgia, and Bank of Georgia acts in accordance with the Labour Code of Georgia.

We regularly review our policies and procedures to ensure that they reflect best practices, organisational developments and regulatory and legal requirements.

Culture: living our values and business principles

As an organisation we are committed to the highest ethical standards in everything we do. The sustainability of the opportunities and of the value we create for our stakeholders depends on each of us considering the potential impacts of our activities, transactions, products and services and acting in accordance with the values and business principles that we determined as our compass. We expect each of our employees to apply our values and business principles every day in their job and comply with all applicable laws, regulations and internal policies and procedures. We communicate our expectations of employee conduct through multiple channels, including Employee Corporate Handbook (the Handbook). The Handbook is available to all employees on the Bank's intranet, in Georgian and English.

The Code of Conduct, an integral part of an employment agreement between the Bank and employees, is fundamental to fostering the culture based on our values and business principles. It clearly sets the expectation that all employees act legally, ethically, and transparently in all their dealings. Employees joining the Bank commit to following the Code of Conduct in all their activities. Failure to do so may lead to disciplinary action up to and including the termination of employment.

We empower our employees to act ethically and in line with our values and business principles by giving them the tools and clear information about the resources available to escalate concerns. We encourage employees to speak up and promptly escalate concerns about actual or potential misconduct. The Bank has a whistleblowing tool in place that allows employees to report any concerns anonymously or confidentially. The Bank uses an external vendor, WhistleB, an advanced independent whistleblowing reporting channel and case management tool. We prohibit any form of retaliation against an employee who raises a concern or question regarding ethics as well as against anyone who participates in an investigation.

Through our grievance mechanism, which is part of our Human Rights and Grievance Policy, employees are encouraged and able to communicate legitimate concerns about illegal, unethical or questionable practices, confidentially, if necessary, and without the risk of retaliation. The Bank provides several options for submitting a grievance: via email, anonymous hotline call or electronic form. In 2021 we had one case reported under the Grievance Policy, which was resolved based on respective policies and regulations.

For more information on ethical business, please see pages 125 to 126 of this report.

As an organisation that is fully committed to the prevention of bribery and corruption, Bank of Georgia ensures that appropriate internal controls are in place and operate effectively. We have Know Your Employee (KYE) procedures in place, including different screening procedures at recruitment, employment and departure stages of employment. In 2021, there was no bribery and corruption incident registered in the Bank, nor did the Bank incur any bribery or corruption fines.

For more information on financial crime, please see pages 126 to 127 of this report.

Diversity, inclusion and equality

We are committed to creating equal opportunities in the workplace

We are committed to ensuring inclusion and equal opportunities in our organisation. Non-discrimination, welcoming and celebrating diversity are one of our priorities. We are committed to ensuring that no individual or group is directly or indirectly discriminated against for any reason, be it gender, marital status, sexual orientation, race, ethnic origin, nationality, age, disability, political or religious beliefs. The universal human rights are incorporated into the Handbook and the Human Rights Policy. Our Anti-Nepotism Policy ensures fair and transparent decision-making in all employee-related matters.

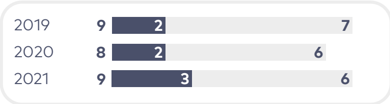
In 2020, our efforts to address barriers to the employment of women were recognised by 2X Challenge, an initiative that seeks to empower women and enhance their economic participation. The nomination was awarded based on the following criteria:

1) Over 40% of the Bank's employees are women,
2) The Bank commits to and implements policies or programmes beyond those required for compliance, thus addressing barriers to women's quality employment and
3) Across the organisation women represent at least 40% of senior management and at least 33% in three Board-level committees out of five.

We monitor the criteria of the 2X Challenge nomination as main indicators of gender diversity and inclusion and provide an annual update on diversity matters to the Nomination and Remuneration Committees.

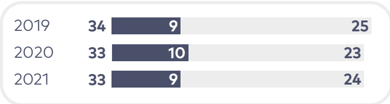
Directors
Group headcount

9



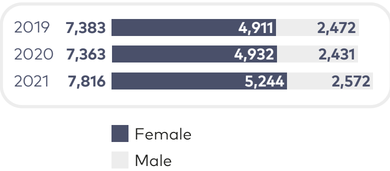
Senior managers
Group headcount

33



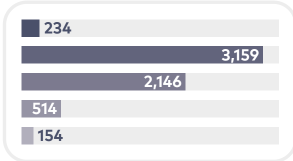
All employees
Group headcount

7,816



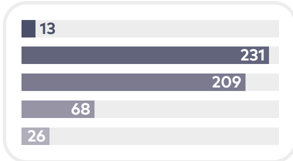
Employee headcount by age
Bank of Georgia

6,207



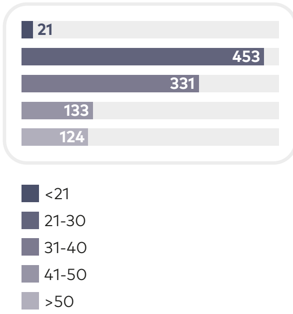
Employee headcount by age
BNB

547



Employee headcount by age
Others

1,062



Contract type – 2021

	Permanent	Temporary
Female	4,251	39
Male	1,916	1
Tbilisi	4,288	33
Regions	1,879	7
<21 years	232	2
21-30 years	3,142	17
31-40 years	2,130	16
41-50 years	509	5
>50 years	154	–
Total	6,167	40
Total rate	**99.4%**	**0.6%**

Turnover – 2021

	Number of employees	Rate
Female	669	16.1%
Male	444	23.6%
Tbilisi	769	18.4%
Regions	344	18.6%
<21 years	112	53.8%
21-30 years	703	22.5%
31-40 years	256	12.5%
41-50 years	37	7.5%
>50 years	5	3.5%
Total in 2021		**18.5%**
Total in 2020		**19.5%**

Fair rewards

Remuneration

The main principles of the Bank's Remuneration Policy are:

- Competitiveness: Compensation paid by the Bank should be in line with market practices and competitive when compared with respective positions in other banks and in the Georgian labour market.
- Flexibility and fairness: To ensure fair remuneration of employees in similar positions in line with their responsibilities, qualifications, and skills. Our approach and remuneration practices are gender neutral. We are committed to eliminating any bias and discrimination in our remuneration practices. The flexibility principle ensures that our remuneration practices are in line with the objectives of the Bank and can be adapted as business needs change and the competitive environment evolves locally and globally.

The Workforce Remuneration Policy is approved by the Supervisory Board of the Bank based on the recommendations of the Remuneration Committee. The Workforce Remuneration Policy complies with applicable regulatory and legal requirements and is aligned with the Bank's corporate culture, business activities and risk appetite. The updates related to the remuneration of Material Risk Takers and other new requirements of the National Bank of Georgia introduced in 2021 were considered, and we expect changes to the Remuneration Policy to be approved and implemented in 2022.

Our remuneration system consists of fixed and variable remuneration, and the Policy defines standards applied to the remuneration of the Management Board, Material Risk Takers, and the Workforce, including those employed in control functions (internal audit, risk management and compliance). Additionally, all employees are eligible to participate in the state pension scheme. The Bank makes pension payments according to the terms and conditions defined by the Georgian legislation. Our remuneration system is based on employee performance reviews. The frequency of review varies by position and can be conducted monthly, quarterly, semi-annually and annually, depending on job specifics.

We monitor employee pay trends via labour market compensation surveys. The results of the 2021 survey and the analysis of internal data confirmed that we remain a competitive employer. Also, according to the National Statistics Office of Georgia, the country's subsistence minimum* was GEL 223.5 in December 2021, and average monthly nominal earnings per employee stood at GEL 1463.8 in the fourth quarter of 2021, while average monthly nominal earnings at the Bank in 2021 amounted to GEL 2873.0**.

We also monitor the Equal Pay Gap (EPG) as one of the indicators of equal opportunities and report this information to the Remuneration Committee annually. The EPG is the difference between the compensation of male and female employees in the same position. In 2021 our EPG was 4.9%.

The reason for the increase from -1% in 2020 is related to a large number of women among new hires at entry level in non-managerial positions and at the lower range within the managerial level. The Bank has various talent development activities in place to support professional and career progression of employees. We are committed to ensuring equal opportunities by fine-tuning our job architecture and grading structure. In 2021 we further developed our approach to compensation planning called "levelling." This framework considers job specifics to ensure fairness and transparency across the Bank. The first stage of this process was introduced in May 2021 for all managerial positions. It included:

- assessing and ranking all managerial positions based on their relative contribution to the organisation;
- setting up job levels and assigning levels to each managerial position;
- defining compensation packages for each job level; and
- matching existing employees in managerial positions with a specific job level.

Levelling ensures:

- better management of employee mobility;
- baseline for aligning jobs and compensation packages;
- baseline for setting pay grades and salary ranges that are comparable with similar jobs inside and outside the organisation, to attract top talent; and
- additional guidance in the selection of employees.

Currently, we are reviewing non-managerial positions, and respective levelling will be introduced in the second half of 2022.

* National Statistics Office of Georgia
** Excluding Management Board

Our benefits

The Bank offers competitive remuneration and benefits packages and supports work-life balance. We provide:

- a corporate health insurance package, including pregnancy and childbirth coverage. A standard package is fully paid by the Bank. If employees select a non-standard package, they cover the price difference between standard and non-standard packages*;
- maternity leave, child adoption leave and childcare leave for employees as defined by the Labour Code. From 2021, maternity leave (that was available only to an employee who was a mother of a child) was replaced with parental leave comprising maternity/childbirth and maternity/paternity/childcare parts available to an employee who is either a mother or a father of a child). The leave is available to all employees;

372 women were on parental leave during 2021 (289 women in 2020). Male employees have not used parental leave yet.

91% is the return to work rate for employees who took parental leave – 306 employees returned to work in the reporting period after parental leave ended.

87% is the retention rate for those whose maternity leave ended in 2020 and returned to work, staying for at least 12 months after returning – 241 employees (77% in 2020).

- parental leave compensation for six months provided by the Bank, subject to specific conditions*;
- support in back-to-work adaptation – training programmes for employees returning to work from parental leave*;
- special working conditions for pregnant and breastfeeding women and for employees who care for people with disabilities, in accordance with Georgian regulations;
- additional paid days-off and sick leave – on top of those required by the Labour Code – available to all employees*;
- special terms for banking services (no fee for services related to a salary account, discounted rates on payment cards issued by the Bank, available to all employees)*;
- financial aid in case of childbirth, marriage or a grave illness of a family member*;
- financial aid in case of employee death, provided to the family*;
- coverage of an employee's uninsured debt at the Bank in case of employee death*; and
- in 2021, the Bank updated its process of overtime compensation – employees can bank overtime hours as TOIL (time off in lieu) and now are eligible to use them cumulatively as paid vacation within 12 months from the date of earning. If due to some unexpected circumstances employees will not be able to take earned hour/s in the predefined time period, upon 12 months they will be compensated in cash (in compliance with the Labour Code of Georgia) instead of respective overtime hours/ TOIL*.

Talent strategy

The ability to attract, develop, and retain top talent is key to the delivery of our strategic objectives and the success of our organisation over the longer run. Our Talent Acquisition and Talent Management teams ensure the alignment of the Bank's talent strategy with changing needs by analysing, forecasting, and planning future business demands, and considering whether internal or outside talent can meet those requirements. Talent teams actively collaborate with executives from across the Bank, performing strategic talent planning that ensures having the right person in the right position at any given time. The planning is tied to our overarching objectives, includes relevant factors that can impact hiring and employee management processes, and ensures the design and delivery of the best candidate and employee experiences.

During 2021, we further developed the talent management strategy to ensure that we can attract, develop, and retain top talent.

Bank of Georgia is an equal opportunity workplace, where people with different backgrounds and experiences come together, empower each other and create value for our stakeholders. Our recruitment policy, with panel interviews, relevant control procedures and online applicant tracking system (ATS), ensures a fair hiring process, in line with our business principles, strategic objectives and new job requirements. We do not ask for date of birth, gender or a photo, we also do not collect information regarding candidates' and employees' race, religion and sexual orientation, ensuring that no candidate and/or employee is discriminated against on any grounds.

The HCM team actively supports the Bank in its digital transformation in all employee-related processes, including talent attraction, onboarding, and development. During the pandemic, we have moved the hiring process online, including a testing platform, interviews, and onboarding.

Given our strategic focus on digitalisation, IT, data and digital platforms-related hiring remained one of the priorities in 2021. The number of employees in these areas increased by 15.4% year-on-year.

Our Talent Acquisition team actively monitors the labour market and engages with prospective candidates in Georgia and abroad. At the same time, we aim to develop talent internally. Internal candidates have a priority when filling vacancies, especially for middle and senior management positions.

* Indicates benefits beyond compliance.

30% internal mobility rate* in 2021 (23% in 2020 and 22% in 2019)

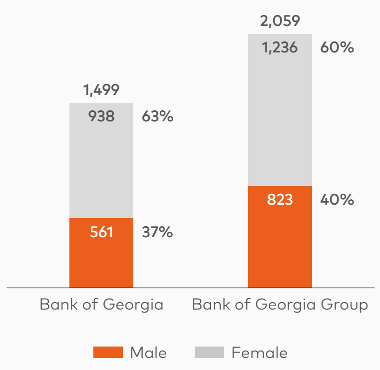
208 (138 women and 70 men) Group's employees were promoted to managerial positions in 2021 (237 – 130 women and 107 men – in 2020)

85% employee retention rate** in 2021 in line with market benchmark (83% in 2020)

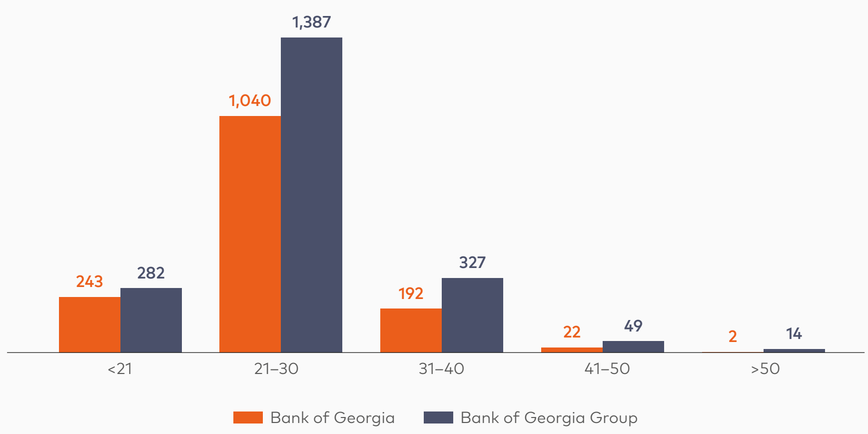
New positions filled in 2021 with **54%** internal candidates (54% in 2020, 44% in 2019)

Total number of new hires in 2021 by gender and age group

Total number of new hires in 2021 by gender



Total number of new hires in 2021 by age groups



Young talent

Bank of Georgia partners with leading Georgian business schools and universities. To promote diversity of backgrounds and experiences, we have broadened the range of degree disciplines that we consider for the talent pipeline. We regularly participate in job fairs and run internships and student development programmes.

Since 2017, we have run Leaderator, a highly recognised student development programme on the local market. We enrol talented students in this programme and involve them in ongoing projects. Leaderators are mentored by our leading professionals – middle and senior management of the Bank. We offer flexible schedules and provide financial reward to support our Leaderators throughout the programme.

Leaderator has grown substantially over the past three years, as we have added new programmes. In 2021 we offered three new programs in marketing, HR and digital products management. Top students from 11 universities were selected (compared with six universities in 2020), from a variety of fields, including business, economics, IT, natural sciences, social sciences, and law.

48% of 2021 programme participants were female. The participation of women in tech-related programmes increased by 8% compared with the prior year

94 undergraduates were selected and involved in the programme in 2021 (72 undergraduates in 2020)

47 candidates from the 2021 cohort already became full-time employees of the Bank. 41 candidates resumed the programme and will complete it in 2022 (68 Leaderators in total were hired during 2020-2021 from the 2020 cohort)

Leaderator in IT, data, and digital: According to the feedback received from programme candidates, Bank of Georgia is the employer of choice among IT and tech students as the experience with Leaderator helps talented young people jumpstart their professional career and enables them to grow professionally with one of the best tech teams in Georgia.

Most programme participants are promoted to different positions within our IT team, and some of them have already been promoted to managerial positions.

* Internal mobility rate: total number of promotions and lateral moves during the entire measurement period divided by average monthly number of employees for the period.
** Retention rate: percentage of employees who remained employed during the entire measurement period, calculated on an annual basis.

Talent management: creating opportunities for lifelong learning

In 2021 we implemented the following key talent management activities throughout the Bank:

- Completed the second Bank-wide employee performance and development review.
- Ran the first development programme for high-potential employees (HiPos).
- Introduced a new format of one-on-one coaching for professional development.

Employee performance and development reviews: The review is based on an evaluation of employee performance and core competencies, skills and contributions to organisational objectives. At the end of the process, employees receive performance and development reviews from their managers. The outcome of this process is an individual development plan. Since 2020, the review process is managed through our internal human resources information system (HRIS).

In 2021 we held a live webinar with a management coach and discussed effective feedback strategies with the Bank's managers. We also developed a tailored evaluation model for employees working in agile teams in line with agile methodology and values.

- **78%** of the Bank's employees participated in the review process in 2021. **70% of them received feedback on their performance and development opportunities,** out of whom 15% were managers, including senior managers, (female 60%, male 40%) and 85% - all other employees (female 74%, male 26%).

Talent development programme: A new development programme was designed and launched for a pool of employees identified as HiPos based on the outcomes of the 2020 performance and development review. HiPos are employees with the potential, abilities and aspirations to undertake more responsibilities and fill in the positions that require greater contribution in the future. The purpose of the programme is to help HiPos develop a set of transferable skills that will enable them to succeed in different roles. The 2021 programme focused on cognitive, self-leadership, and interpersonal skills.

- **46 employees** completed the programme.
- **90% of participants** mentioned that their attitudes towards their professional life improved after the programme.
- **80% of managers of participants** noticed improvements in their direct reports' skills, motivation, and effectiveness after the programme.
- **20% of participants** (ten employees) were promoted to a managerial level and 16% (eight employees) moved laterally within the Bank.

In 2022 we will follow up with the programme participants to ensure their continuous personal and professional development. We will refine the programme based on the recommendations from the participants and their managers. In 2022 we also plan to renew the IT talent programme, aiming to better structure the tech talent identification process and ensure rapid promotion opportunities for IT HiPos.

Individual and team coaching programmes: We introduced a new format for individual coaching programme and offered it to all employees, starting with senior managers and including those in non-managerial positions. The programme focused on team development, leadership and motivation, communication, and change management skills.

94 employees in managerial positions benefited from this programme. The programme is ongoing with 68 employees enrolled, including around 50% of participants in non-managerial positions. We plan to continue the programme in 2022.

The Talent Management team also initiated team coaching sessions for several departments to help teams increase effectiveness.

Bank of Georgia's continuous professional development:

Career entry programmes

Talent attraction:

- Leaderator
- Internship by field

Professional programmes

for front- and back-office employees:

- Onboarding
- Risks and compliance programmes
- Banking products and services
- Software-related programmes
- Communication skills programmes
- HiPos programmes

Management programmes

- Management skills
- Feedback skills programme
- Leadership development: executive coaching programme (individual and team coaching)
- Financing MBA and other professional certifications

Executive programmes

- Leadership development: executive coaching programme (individual and team coaching, mentoring sessions)
- Individual business coaching programme
- Financing MBA and other professional certifications

The Bank's learning system comprises a broad range of internal and external training sessions designed to meet the needs of front- and back-office employees. Middle and senior managers are also given the opportunity to receive external training in well-known institutions in Georgia and abroad. Existing and future training topics, together with a training development plan, are aligned with business objectives and the outcomes of employee performance and development reviews. We continuously update our training plans based on the outcomes of development reviews, the feedback from employees on existing programmes, as well as the business needs and specific objectives and KPIs of the business. The Employee Experience Management and the Customer Experience Management teams often work together to refine their approaches and implement joint initiatives. The Customer Experience Management team tracks and regularly analyses customer feedback from Medallia (see details on pages 108) and shares insights with the Employee Experience Management team. The latter converts this information into specific initiatives for relevant business and operational functions to enable our employees to improve overall performance. This approach encourages employees to be more engaged with their work, leading to better customer experiences. We also use customer feedback from Medallia to update and design training programmes to help employees better respond to evolving customer needs.

- **Onboarding programme for all new employees**: The Bank runs an online onboarding programme where we share information about our culture, values and business principles, policies and practices with new hires. New hires are also informed about employee benefits, career opportunities, and personal and professional development programmes. Since 2020, this content is available on the LMS platform to ensure that all new employees have access to relevant information during onboarding.
- **Onboarding for front-office employees**: Additionally, the Bank has extensive training packages for front-office employees to provide them with relevant knowledge and skills for specific positions. The Bank's mentoring programme is also part of front-office training. Appointed mentors provide on-job training and practical guidance to new hires.
- **Development of hard and soft skills of current employees**: Based on periodic assessments, specific training sessions are held for front- and back-office employees.
- **Risks and compliance awareness programme**: To ensure compliance with legal and regulatory requirements and the resilience of our organisation, we run a comprehensive risks and compliance awareness programme. The programme includes mandatory training for all new hires and mandatory periodic training for all employees. The training is provided through online self-paced courses or live meetings, whether face-to-face or online. The topics covered in the programme include: operational risks, business continuity, information security and data protection, health and safety, corporate security, business ethics, ABC/AML risks, among others.

  As at 31 December 2021, 85% of employees completed compliance training (excluding employees in their first month of employment or long-term parental leave). The team's completion rate was included in managers' KPIs in 2021.
- **Communication skills programme**: We help our employees develop communication skills. We run in-house training and hire external coaches as well. In house training packages include: (1) basic communication etiquette course for all front-office new hires; (2) a more comprehensive persuasive communication skills training; (3) customer-centric sales training for front-office sales teams. Additionally, based on the needs of specific business lines, we organise thematic training programmes.
- **Development of management skills**: To cultivate the culture based on our values and business principles, we help our employees develop their leadership skills. Since 2014, Bank of Georgia has run a leadership development executive coaching programme. In 2020, an in-house management training programme was developed, covering topics, including leadership and management and team development (delegation, motivation, assessment and feedback, among others). The training of all line- and middle-level managers started in 2020, and throughout 2021, Front office line managers were retrained. From 2022, all newly appointed managers' orientation packages will include management skills training
- **Data awareness programme** – What enables us to deliver outstanding performance today and what will enable us to create value sustainably is data-driven decision-making and our capabilities to successfully deploy advanced data analytics and machine learning in our activities. That is why data literacy is a must-have skill for employees across different functions. In 2021 one of the priorities was to raise awareness of how we use data to be more customer-centric. We launched a data awareness programme. It consisted of an introductory course "AI for Everyone" and live meetings with mentors from the Bank's data team who discussed course materials in greater detail and shared real cases from their work at the Bank. We ran an internal training on Power BI after the programme for employees interested in data analysis and visualisation. We will develop this programme in 2022 based on the feedback received from the 2021 cohort.
- **HiPos programme:** See details on page 117.
- We operate an online platform that enables flexible learning modes. We update and develop educational content to meet employee and business needs. Due to the pandemic, all face-to-face training sessions and onboarding events have been suspended. The training centre delivers training events remotely, with training programmes adapted accordingly. In 2021, 20 new training programmes were developed and 12 programmes were adapted to a remote learning format. On average, 3,000 employees accessed our online platform monthly in 2021. We also began measuring employee satisfaction with their learning experience at the Bank – using the eNPS method. **Our learning eNPS was 91% in 2021.**

Our 2021 training statistics

6,472

Unique employees participated in training sessions in 2021 (5,481 employees in 2020 and 5,723 in 2019)

30

Average training hours per employee in 2021 (23 average training hours in 2020 and 28 in 2019)

47

Average training hours per new hire in 2021 (36 average training hours in 2020 and 37 in 2019)

5

Average training hours per Management Team

18

Average training hours per senior manager

20

Average training hours per male employee

34

Average training hours per female employee

Meaningful and motivating employee experiences

Since 2019 Bank of Georgia has redesigned its employee experience management, putting employees first and putting in place a systematic approach for identifying employee needs, delivering solutions and interventions to create more positive experiences in each part of the employee journey across the Bank.

The Employee Experience Management (EXM) team was formed under the Human Capital Management direction and is responsible for enabling the entire organisation to create more positive and motivating employee experiences.

We have forums and communication channels to ensure that we hear employee voices from across the organisation. The EXM team has ongoing deep interviews with individual employees, conducts team reviews, as well as entry and exit interviews. The EXM team encourages idea sharing during the engagement process. This process enables us to proactively support our people, close the loop for individual employees and identify systemic issues that need our attention and interventions. We follow up on all identified issues.

The EXM team gets in touch with all new hires from the beginning of their journey with the Bank to ensure that onboarding runs smoothly and all concerns are heard and addressed.

We believe the culture of gratitude and recognition is key to creating a collaborative workplace and living one of our business principles – Teamwork. We promote this culture and expect our managers to role model this behaviour. We choose Best Employee and Best Team of the Year annually to highlight our people's contribution to the organisation. According to the Korn Ferry Engaged Performance™ survey, the number of employees saying they feel recognised at work increased by 6% in 2021 (+3% in 2020). To promote idea-sharing and make sure that employees are aware of each other's work, we run agile quarterly business reviews (QBRs) where we discuss new products and future plans with our agile teams and middle and senior management and the Management Board.

We provide regular updates to all employees on the Bank's strategy and performance, risks and opportunities and new policies and procedures through multiple channels, including managers, special presentations, employee onboarding, corporate intranet and social network – Workplace, emails and regular meetings. In accordance with the Labour Code of Georgia, the Bank updates employees on plans regarding significant operational changes that could substantially affect them at a minimum of 30 days prior to implementation.

We ensure that our employees can directly and openly communicate with the senior leadership and the Supervisory Board of the Bank. To this end, we have:

- town hall meetings with the CEO and the Management Board;
- CEO vlog on Workplace – regular live sessions with employees on current developments, the Bank's performance, key objectives, plans and any topics that matter to our employees. We foster an open dialogue through live Q&A; and
- Employee Voice meetings with the Supervisory Board, held since 2018. The meetings have promoted feedback culture, transparency, equal opportunities, recognition, trust and respect. Other members of the Board have also participated in the discussions. In 2021, we held two online meetings and 21 employees participated in these meetings.

We have implemented formal feedback systems, such as regular employee satisfaction surveys. This ensures that employee views and suggestions are considered when making decisions, especially in cases that may have an impact on them.

One of the challenges for the Bank in 2021 was related to attracting and retaining talented tech professionals due to increased international competition for tech talent and fast-growing IT team at Bank of Georgia. The EXM team closely cooperates with respective managers, teams and individual employees in our tech talent pool to identify solutions to any concerns identified. The team covers IT onboarding throughout the first year of employment, with in-depth interviews at all stages, and continues to analyse positions across all directions. Tech talent is primarily interested in exciting work, teamwork and learning opportunities. We are elaborating an updated IT talent strategy that will be implemented in 2022.

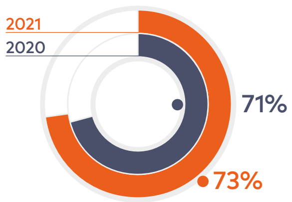
Measuring employee empowerment and culture

Our values and business principles that are foundational to our practices are based on the results of a Barrett Organisational Culture and Values Assessment that the Bank received and adopted in 2019. To measure the effectiveness of employee empowerment initiatives and monitor their sustainability, we closely track employee engagement and corporate culture using internal and external surveys. Specifically we use the:

- Employee Engagement survey (Korn Ferry Engaged Performance™); and
- the Employee Net Promoter Score (eNPS) survey, which gives accurate and deep insights on the current state of employee engagement, inclusion, and other issues related to employee productivity. eNPS is a key performance indicator for the entire organisation.

We use surveys to identify what matters to our employees. We collaborate with each department to design and implement solutions in response to the identified issues. The results of the 2021 Korn Ferry survey confirmed the positive effects of our improvement initiatives: positive responses to the statement "**the Bank shows care and concern for its employees"** increased by 13% from 2019 to 2020, and increased by 8% in 2021. We received similar feedback on employee productivity: positive responses to the statement "**Conditions allow me to be as productive as possible"** increased by 5% in 2021 (a 7% increase in 2020). In general, according to the 2021 Korn Ferry, employees are currently more engaged, with an overall engagement score of 73%.

Korn Ferry Engaged Performance™



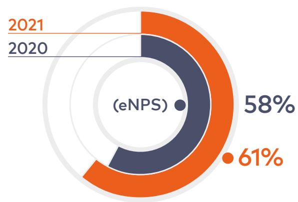
Here are some of the snapshots from the 2021 Korn Ferry survey:

+10%	I have opportunities to have my ideas adopted and put into use.
+7%	The company is open and honest in communications with employees.
+10%	The company provides training so that I can perform my present job well.
+8%	I receive clear and regular feedback on how well I do my work.
+7%	There is a clear link between my performance and my compensation.
+7%	There is good cooperation between departments in the company.
+7%	My work area is safe.

Employee Net Promoter Score (eNPS)

A key success metric for our human capital management practices is eNPS. We started tracking eNPS in 2019. The Bank's eNPS score increased from 58% in 2020 to 61% in December 2021 (46% in 2019). Our goal for 2022 is eNPS in the range of 54% - 62%.

Overall, every day we come together to build a high-trust and values-based organisation, where employees understand and commit to the Bank's strategic objectives and share feedback to support each other in creating innovative solutions and seamless customer experiences.



eNPS asks: on a scale of 0-10, how likely is it that you as an employee would recommend our Bank as an employer to a friend or a colleague?
The responses: 9 and 10 – are promoters; 7 and 8 – are neutral; 1 to 6 – are detractors. The final result, thus an eNPS, equals the percentage of promoters minus the percentage of detractors.

Health and safety

Providing a healthy and safe working environment is one of our priorities.

The Bank's Health and Safety team reports to the Deputy COO. The team covers fire and emergency, medical emergency, and occupational health and safety issues, and is responsible for developing and implementing health and safety practices across the Bank.

In September 2019, a new law on labour safety came into force in Georgia, requiring organisations with more than 100 employees to have at least two labour safety specialists in the company. In compliance with the law, the Bank created a dedicated unit and currently has two labour safety specialists. In 2022 our labour safety specialists will undergo the accreditation programme of the Institution of Occupational Health and Safety – a global organisation for health and safety professionals based in the UK.

Occupational Health and Safety (OHS) management system

In 2020, the Bank implemented the occupational health and safety management system, which covers all employees and third-parties in our workspaces. We developed the following policies and procedures:

- Occupational Health and Safety Policy;
- Occupational Health and Safety Risk Assessment Standard;
- Emergency Evacuation Standard;
- Fire Safety Standard;
- Occupational Accidents and Occupational Diseases Investigation and Reporting Standard; and
- Prevention of COVID-19 in the Workplace Standard.

The Occupational Health and Safety Risk Assessment Standard defines principles, rules, and responsibilities of occupational safety and health risk assessment. We continuously monitor our work spaces to identify, assess, and mitigate potential risks. The data and results of the risk assessment are reviewed and updated periodically, in line with existing legal requirements.

Bank of Georgia has preventive and control measures in place to ensure employee health and safety. We continue to raise awareness of employee health and safety-related matters. In 2018, the Bank launched "My Lawyer" – a project to protect the rights of employees and their family members in case a crime is committed against them or if they themselves are accused of wrongdoing.

We also have a 24-hour monitoring hotline, including a dedicated mail-group and an intranet-based platform where employees can report security issues and occupational safety matters. The Infrastructure Security and Control Department is responsible for monitoring the hotline and responding to the reported concerns.

OHS training

Induction, online training, and practical training events are held annually for all employees of the Bank. The Bank regularly carries out fire and emergency drills and relevant practical training. Selected employees in major branches of the Bank are periodically trained in First Aid.

- The two Labour Safety Specialists in the team completed 130 hours of training in the Labour Safety Specialist Accreditation Programme and received certificates, as required in Georgia. The programme covers fire and emergency, medical emergency, and occupational health and safety issues.
- In 2020, the Bank switched to online training sessions due to the pandemic, and mandatory online training on topics, such as emergency response, fire safety, and COVID-19 prevention measures, were designed for the Bank's employees during the year.

COVID-19-related safety measures

As part of the Bank's Business Continuity Plan in response to the global COVID-19 pandemic, one of the priorities of the Bank has been the health of our employees and customers.

We have implemented the Standard for Prevention and Mitigation of COVID-19 in the Workplace, focused on two aspects:

- measures to protect the health of employees and customers and prevent the spread of COVID-19 in the workplace; and
- infection control measures to manage tentative and confirmed infection cases.

Incidents in 2021

In 2021 we had three security incidents in the Bank's branches. All three incidents were resolved by the police without injuries or damages. We have expanded the presence of physical security personnel to additional branches throughout Georgia.

Communities

Objective

To give more school students in Georgia access to quality educational infrastructure and opportunities

Our material topics

Financial inclusion and empowerment

We focus on creating opportunities for the communities where we operate, to encourage more people in Georgia to pursue dreams, to contribute to Georgia that creates, acts, and succeeds. As a leading organisation and financial institution in Georgia, we have a huge impact on people and environment through our core business – the solutions that we develop to empower our customers and drive more financial inclusion in the country. We also undertake initiatives and projects for our communities that go beyond the core business, and that amplify our positive impacts and ultimately reflect on the success of our organisation. We focus on the areas where we see the biggest need and where we believe we can be a meaningful contributor. We are active in a number of areas and support a variety of projects. However, our primary focus area is education because we believe that education is key to the sustainable development of Georgia.

In 2022 we will primarily focus on school students. We aim to have multiple touch points with school students, including through the libraries that we finance and other educational projects.

OUR 2022 TARGET: REACHING 100,000 SCHOOL STUDENTS

Education

Improving educational infrastructure

Ideathecas – multifunctional libraries in schools

To provide access to books and modern technology to students living in Georgia's regions, Bank of Georgia, together with the Georgian Book Institute, has initiated a project to design multifunctional libraries in public schools. Our goal is to provide Georgian students with access to a learning space where they can find reading resources, work with information technology, and just spend time together or work on team projects. We launched the project in 2020.

In two years, we opened multifunctional libraries in nine public schools in regions across Georgia, reaching 4,548 students. The project is ongoing in 2022.

Scholarships

Fulbright scholarship programme

In 2014, the Bank signed a partnership agreement with one of the most prestigious scholarships offered by the US Government – Fulbright Graduate Student Programme – to co-sponsor the programme and finance two-year master's degrees for Georgian students.

In 2021, we provided a scholarship to one more student. Since 2014, seven students have received scholarships in the amount of US$ 600,000.

Chevening scholarship programme

In 2013, the Bank became the first Georgian company to cooperate with the Chevening Scholarship – the British Government's flagship scholarship scheme – to sponsor Georgian students studying in the UK. In 2021, we financed a master's degree programme for three students in the UK. 20 students have studied at UK universities since 2013, receiving a total support of GBP 605,000 from Bank of Georgia.

San Diego State University in Georgia

San Diego State University in Georgia offers students internationally accredited bachelor's degree programmes in engineering and technology. Since 2018, Bank of Georgia has sponsored a fully-funded bachelor's degree for 11 highly talented students from socially vulnerable families. Total scholarships amounted to US$ 240,000.

Miami Ad School EU – Nika Gujejiani scholarship

To honour a Miami Ad School Berlin alumnus and Bank of Georgia employee, Nika Gujejiani, who sadly died in 2019, Bank of Georgia and Miami Ad School Europe have established a scholarship in Nika's name. Miami Ad School is one of the well-known schools in creative arts and business innovation.

The Nika Gujejiani Scholarship will be awarded to one student from Georgia each year. In 2021, the second scholarship was awarded to a young woman pursuing the Art Direction master's degree. Total support provided since the launch of the programme was EUR 20,800.

Other educational opportunities

Business case competition

In 2021, in partnership with TBSC Consulting and the US Embassy, we organised a Harvard Business Case competition. We brought together 100 teams – around 500 students – from different Georgian universities and presented real Harvard business school cases to them. The purpose of the project is to help students develop critical thinking skills and connect them with each other in a fun and collaborative environment. Three teams won the case competition and were awarded cash prizes.

Education fair

In 2021, the 11th International Education Exhibition was held remotely with the support from Bank of Georgia. The purpose of the event was to share useful information on career development with high school seniors and university students. The exhibit hosted 130 participants and up to 25,000 visitors. During the two-day event, 400 live meetings and 18,000 sessions were held. The visitors had the opportunity to learn more about various scholarships and educational opportunities supported by Bank of Georgia.

Key sponsorships

Tbilisi World Book Capital

In April 2021, Tbilisi was named the World Book Capital for one year. The programme, comprising several large-scale activities, has focused on the use of modern technologies to promote reading among young people. The main objective is to popularise reading and increase accessibility to books. Tbilisi was the 21st city to become World Book Capital since the programme launched in 2001. Bank of Georgia has been the general sponsor of the programme. We have supported various activities and events for students, writers, publishers, illustrators, translators. More than ten book markets were held, attracting more than 50,000 people, a collection of Georgian book illustrations was published with 100+ illustrations from 35 local illustrators, literature competitions were held both for students and experienced writers, and school libraries were equipped with new books.

Georgian National Olympic and Paralympic Committee

Encouragement is one of our brand values. There is no better way to promote this value than by supporting Georgian athletes. Bank of Georgia has been a proud partner and the general sponsor of Georgian National Olympic and Paralympic Committees since 2016. We have helped develop sports infrastructure in Georgia to enable Georgian Olympic athletes to perfect their craft. We have also raised awareness of healthy lifestyle and motivated young people to follow their dreams through our campaigns. In 2021 more than 40 Georgian athletes participated in the 2021 Tokyo Olympic and Paralympic Games. Our athletes returned with 11 Olympic medals – the best outcome in the history of Georgia.

Supporting protected areas of Georgia

The natural environment in Georgia is unique and precious – a valued and shared resource for all. We have partnered with the Caucasus Nature Fund for the past eleven years to support Georgia's protected areas. Each year Bank of Georgia contributes up to US$ 100,000 to support 11 protected areas: Borjomi-Kharagauli, Lagodekhi, Tusheti, Vashlovani, Mtirala, Javakheti, Kazbegi, Algeti, Kintrishi, Machakhela and Pshav-Khevsureti. In 2021 four protected areas in Georgia – Mtirala and Kolkheti National Parks, Kintrishi and Kobuleti were included on the UNESCO World Heritage List. For the first time in the Caucasus region, this recognition supports the preservation of unique ecosystems in Georgia and ecotourism as well.

In 2021, we also launched educational campaigns to promote the unique biodiversity of Georgia's protected territories.
https://www.youtube.com/watch?v=wlEtoGW8N0U

Professions of the future

Besides providing employment opportunities ourselves and supporting job creation in the country by extending credit to businesses, Bank of Georgia also seeks to enable more employment opportunities by helping young people choose career paths and acquire the skills that will set them up for success in the future.

We have partnered with a local educational YouTube channel Fennec Tech Studio to support the development of content on professions of the future and career paths in tech fields. The purpose of the project is to motivate more young people in Georgia to pursue learning and work opportunities in tech-related areas. We aim to create an inclusive digital community where everyone has access to useful information from the country's leading professionals. Bank of Georgia employees, including the CEO, have also participated in the project. By promoting tech-related professions and encouraging more women to get involved in tech, we believe we can further support technological development and innovations in Georgia and at our organisation.

Fennec Tech Studio's videos had more than a million views on various social networks and have more than 7000 subscribers on YouTube.

Supporting MSMEs

In addition to supporting MSMEs through the Bank's core financial products and value-added offerings, the Bank leverages its resources to contribute to the sustainable development and to the success of local businesses through a variety of other initiatives and partnerships.

Support for social entrepreneurship

Bank of Georgia has been a long-time supporter of local businesses that have a social purpose at the core of their business models. We have supported different social entrepreneurship programmes. We were one of the first companies to support social entrepreneurship projects. Since 2017, we have provided grants of up to GEL 800,000 to 18 social enterprises in different regions in Georgia.

500 Global

To promote entrepreneurial culture in Georgia and enable local startups to launch and develop their business models and access best-in-class mentoring, we launched 500 Georgia Acceleration programme in 2020, in partnership with 500 Startups and Georgia's Innovation and Technology Agency. During 2020 and 2021, 28 companies completed the programme. Four companies – Payze, Cargon, Cardeal, and Agrolabs – successfully completed the final acceleration process in San Francisco in 2021. For more details on 500 Georgia, please see page 58 of this report.

Charity

Supergmiri.ge

Around 50,000 children in Georgia live in poverty. Bank of Georgia became the main partner of the charity platform – supergmiri.ge – launched in June 2020. The purpose of the platform is to promote charity in Georgia and help and encourage children from vulnerable families.

Supergmiri.ge finds children in vulnerable conditions and connects them with people who are ready to help and support them. Beneficiaries are children aged 3-16. The platform creates their profiles, publishes their stories, and matches them with their "superheroes". Children receive a monthly package from their superheroes, including products and service vouchers tailored to a child's development needs and interests. "Superheroes" can choose to mentor children as well.

Bank of Georgia supports supergmiri.ge in covering administrative costs and marketing communications to improve platform efficiency and increase awareness through social media and marketing campaigns.

The platform currently has 352 sponsored children and 385 "superheroes".

Robust governance and risk management

Objective

To do business in line with the highest standards of corporate governance and highest ethical principles and effectively manage risks, including climate-related and other environmental and social (E&S) risks in our loan portfolio.

Our material topics

Enterprise risk management	**Ethical business**	**Regulatory and legal compliance**
Financial crime	**Human rights**	**Information security and privacy**
Climate and environmental and social management of loan portfolio		**Board independence and diversity**

The Bank is the principal driver of the Group's revenue and operates in the financial services sector; therefore, its risk management and internal control frameworks are fundamental to that of the Group. The work undertaken by the Bank's risk management bodies feeds back directly to the Group.

Over the course of the year the Bank actively worked to amplify the Enterprise Risk Management (ERM) function. This function supports senior management in maintaining an effective risk management framework, provides a holistic view, as well as the routine for risk management process by providing visibility of the relationships among the various risk types, portfolio view of all significant risks, risk profile and guiding principles for the risk treatment. For more information on risk management, see pages 67 to 93. For more information on governance, see pages 169 to 243.

Ethical business

We are committed to the highest ethical standards in everything we do

We consider the potential impacts of our activities, transactions, products and services and act in accordance with the values and the business principles that we determined to be our compass. We expect each of our employees to apply our values and business principles every day in their job, while complying with all applicable laws, regulations as well as internal policies and procedures.

The Code of Conduct and Ethics and the Whistleblowing Policy are the primary documents governing culture and ethics at Bank of Georgia. The Code of Conduct and Ethics sets out core principles and defines general requirements for ethical and professional behaviour. The policies apply to all employees and temporary workers, including consultants or contractors across the Bank. Upon joining Bank of Georgia, employees must acknowledge that they have read and will comply with the Code. As explicitly stated in the Code, violations can result in disciplinary action up to and including the termination of employment or other relationship with the Bank. The policies have been approved by the Supervisory Board of the Bank.

The Bank also has a Conflict of Interest Policy and Related Party Transactions Policy in place. These policies define the requirements for managing both personal and organisational conflicts of interest as well as the processes to identify and manage conflicts of interest in a timely and effective manner. Controls are also defined in these governing documents. The implementation of those controls is the responsibility of the first line of defence and the second lines of defence – internal control, credit risk and compliance functions.

We empower our employees to act ethically, in line with our core values and business principles. We encourage employees to speak up and promptly escalate concerns about actual or potential misconduct. The Bank has a whistleblowing tool in place that allows employees to report any concerns in an anonymous or confidential manner. The Bank uses an external vendor, WhistleB, an advanced independent whistleblowing reporting channel and case management tool. We prohibit any form of retaliation against an employee who raises a concern or question regarding ethics as well as against anyone who participates in an investigation. Employees who engage in retaliation against a colleague because he or she raised a concern or question, asked for a reasonable accommodation, reported a violation or was involved in an investigation are subject to disciplinary action, up to and including the termination of employment or other relationship with the Bank.

A strong "tone from the top" starting with the Supervisory Board, supports the Bank in ensuring ethical business operations. Responsibility for the Whistleblowing Policy resides with the Board, and both the Board and Audit Committee receive quarterly and annual reports on the operation of the Policy. The Audit Committee receives quarterly reports on all complaints regarding Code of Ethics violations filed by internal and external stakeholders.

We have a Customer Complaints Management procedure enabling customers to inform the Bank on any actual or potential misconduct. The Bank's Compliance Committee is entrusted with the function to review any material complaints on Code of Ethics violation either from employees or from customers. In 2021 we received 53 ethics-related concerns from our stakeholders.

In addition to internal and public-facing websites facilitating the submission of concerns, a telephone line is available 24 hours a day, seven days a week. Any stakeholder can submit a concern via (+995 32) 2 444 444 or https://bankofgeorgia.ge/en/anonymous-contact.

Financial crime

The landscape of financial crime has evolved over the last few years. Risks for banks arise from diverse factors, including massive growth in transaction volumes, and the greater integration of financial systems worldwide. In addition, regulators continually revise rules and Governments increasingly use economic sanctions against public and private entities, and even individuals. We are committed to safeguarding the integrity of the Bank and of the financial system we are part of as well as protecting our brand and reputation and mitigating any negative impacts on the economy and people by operating robust programmes to prevent financial crime.

ML/FT and sanctions

We are committed to doing business only with clients who meet our strictest criteria and are within our risk appetite

We have a risk-based anti-money laundering (AML)/counter-terrorist financing (CFT) programme, operating based on the three lines of defence model. The programme is designed to ensure the Bank's compliance with regulatory and legal requirements, international standards, such as Financial Action Task Force (FATF) recommendations and international financial sanctions programmes.

To strengthen our ability to detect and prevent financial crime, we continue to enhance our ML/FT risk management function. We have invested significant resources to improve our ML/FT risk management capabilities, including implementing advanced analytics and transaction monitoring solutions to detect a suspicious activity. The reporting process for cash transactions report (CTR) and suspicious transactions report (STR) is automated.

We conduct an Anti-Financial Crime Enterprise-Wide Business Risk Assessment, which includes an assessment of inherent risk, the effectiveness of controls and residual risk. The assessment serves as a baseline for defining the Bank's risk appetite towards ML/FT risks. Based on the outcomes, the AML and Compliance Department further defines appropriate measures to address the issues that were identified.

Employees receive annual mandatory training on the risks related to money laundering and terrorism financing and on sanctions programmes.

Financial crime risks are on the regular agenda of the Audit Committee. The Committee receives information on existing controls and implemented measures.

KYC

Customer risk assessment is a fully automated process. We manage customer risks throughout the relationship life cycle. Information on a client's ownership structure, ultimate beneficial owners and source of funds/wealth is obtained during onboarding.

Our existing clients are subject to a regular due diligence process. The Bank has an online solution that enables a fully automated screening of all transactions against sanctions lists (OFAC, the EU, the UK, the UN and other similar bodies, including global news databases).

Anti-bribery/anti-corruption

The Bank has zero tolerance towards bribery and corruption. We have written policies, procedures and internal controls in place to comply with anti-bribery and anti-corruption laws. The Anti-Bribery/Anti-Corruption programme includes: risk management processes (oversight, governance and escalation); communication and training; review and pre-approval processes; due diligence of third party relationships; anonymous reporting; and independent testing processes from Internal Audit. The Code of Conduct and Ethics, the Conflict of Interest Policy, the Anti-Bribery and Corruption Policy and Know Your Employee Procedures safeguard the integrity of the Bank. The Anti-Bribery and Corruption Policy and the Gift Acceptance Policy provide employees with guidance on how to recognise and deal with bribery and corruption and outline steps employees are required to take when accepting or offering gifts, hospitality and inducement to/from external third parties. An enhancement programme to further improve our ABC risk assessment, controls and reporting is in progress. Internal Control and Compliance serve as a second line of defence in managing bribery and corruption risks.

We have developed online training modules on ABC risks, including Gift Acceptance Policy and the Whistleblowing platform. Annual training is mandatory for all employees. See page 85 for more information.

The Bank has in place the Know Your Employee procedure that includes:

- declaration process;
- background check process; and
- employee monitoring process.

The Bank's Compliance Committee reviews any complaint related to ABC incidents. The Audit Committee regularly receives information on any reported incidents.

In 2021, no bribery or corruption incidents were registered in the Bank, nor were any bribery or corruption fines imposed on the Bank.

Regulatory and legal compliance

We are committed to doing business in compliance with existing regulatory and legal requirements

The Group's core business is banking, through National Bank of Georgia (NBG)-licensed systemically important bank in Georgia (which as at 31 December 2021, accounted for 94.7% of the Group's total assets and 89.7% of the Group's operating income). The Bank operates in a highly regulated environment, which evolves annually. Apart from the developments in the legal system in Georgia, which affect the activities of commercial banks, the Bank's activities are subject to (1) banking and financial institution regulatory framework by the NBG; (2) health and safety regulations by Georgia's Employment Inspection; (3) personal data protection regulations by the Personal Data Protection Service (4) other state regulatory authorities, whose jurisdiction covers the review and regulation of activities of commercial entities in Georgia.

Under the Georgian Law on the Activities of Commercial Banks, banks operating in Georgia are regulated by the NBG, which has the power to issue decrees or resolutions on various issues within its competence, including, but not limited to, anti-money laundering and counter-terrorist financing, monetary regulation instruments, banking supervision regulations and payment system regulations. The NBG has guided itself by the Basel Committee best practice and Georgia's DCFTA-based harmonisation and implementation efforts of EU legislation and has promulgated regulations relating to:

- corporate governance of banks and "fit and proper criteria" for administrators;
- capital structure, prudential ratios and requirements for financial institutions;
- liquidity requirements for financial institutions;
- credit risk management, risk weighting and credit loss provisioning;
- operational risk management;
- treasury operations, derivatives, financial collateral and netting;
- cyber security framework;
- anti-money laundering and counter-terrorist financing;
- client onboarding, strong customer authentication and verification;
- payment services and payment systems;
- crediting of individuals;
- management of conflicts of interest;
- consumer protection;
- code of ethics in general bank activities and code of ethics in recoveries;
- competition within the financial sector;
- brokerage and trading;
- custodian and settlement operations;
- depositary and asset management operations;
- disclosure standards;
- environmental, social, and governance framework for financial institutions; and
- bank resolution framework, among others.

The NBG's regulatory promulgation process is continuous and evolving in nature, and it publishes its supervisory strategy for three-year periods (current strategy is available at https://nbg.gov.ge/en/page/supervisory-strategy). Some regulations can be translated into a set of clear operational requirements—this is "rules-based compliance". Other regulations, such as consumer protections, reflect regulatory intent for a desired outcome. This is called "principles-based compliance", which does not readily translate into specific operational and control requirements. The NBG's supervisory arm operates with a hands-on approach with its regulated entities, whereby specific long-planned inspections are rare, but the NBG engages in daily engagement process with the

Bank and has access to all of the Bank's employees and information upon request.

The Bank has a high degree of comfort that its operations are conducted in compliance with applicable regulations, due to the involvement of the regulator being an ordinary part of its daily operations. Therefore, the Bank has adopted, subject to the confidentiality constraints as described below, the following metrics with regard to regulatory non-compliances regarding customer protection and credit information requirements, which would considered material for its purposes and which the Group would disclose and describe in its upcoming annual reports:

- any fine over the threshold of 0.1% of the Bank's regulatory capital; or
- any incompliance which is due to a systemic failure of the Bank's controls.

The disclosure of such information by the Bank may be constrained if the information falls under the confidentiality categories as defined by the Resolution of the Council of the National Bank of Georgia #4 on the definition and treatment of confidential information, which establishes certain types of communications with a regulated entity as confidential and ascribes categories of confidentiality to them, which are necessary to be protected for the reasons of sound management of monetary policy and financial supervision in Georgia. As of today, the regulatory communication and measures (including fines) with regard to any consumer protection requirement breaches or credit information requirement breaches are not ascribed confidentiality category and therefore, could be considered as disclosable information by the Bank ("Disclosable non-compliance matters").

Apart from daily engagement with the primary regulator of the Bank, the regulatory compliance is managed on the basis of three lines of defence where the second line function is undertaken by compliance, legal and other risk functions, and the first line is considered to lie with all of the business directions of the Bank. In 2021, the Bank's Internal Audit further strengthened its third line function in regulatory compliance, creating a specific compliance audit unit.

The compliance operating model includes the following:

- identifying and prioritising areas of compliance risk;
- managing regulatory taxonomy and inventory of regulatory areas that impact the organisation;
- maintaining a proactive engagement approach with the regulators at an early, draft-stage of the adoption of regulations and providing feedback on the feasibility of due implementation.

This allows the Bank to be ready and plan its implementation processes ahead of the adoption of regulatory changes, which reduces the risk of non-compliance. We have adopted this approach for all legislative and regulatory changes that may impact the Bank, with the Legal department assisting the Bank in a timely identification of possible legislative changes and coordinating with the Compliance department to proactively manage the regulations promulgated by the NBG.

In 2021, the Bank further strengthened the compliance framework by standardising the regulatory change management process. The Bank's regulatory change management framework includes monitoring change, alerting the Bank on risks, and enabling accountability and cross-functional collaboration on the changes impacting the Bank. The process includes a system of record to monitor regulatory change, measure impact, and implement appropriate risk, policy, training, and control updates. We have developed a standardised impact analysis process to measure the impact of a change to determine if any action is needed and to prioritise action items and resources. In cooperation with the Legal department, the Compliance department translates its inventory and analysis of new and proposed compliance risk-related rules into internal compliance standards, procedures and guidelines to ensure that new regulatory requirements are duly incorporated into the procedures across the Bank. The regulatory change management process involves standardised workflow and task management with escalation capabilities when items are past due to ensure that corresponding procedures and controls are implemented in a timely manner to support the Bank in effectively managing compliance risks.

We recognise that legal risk is ubiquitous in our operations and can stem from legislative changes, incorrect interpretation of legislative or regulatory norms, or unfavourable interpretations of legislative or regulatory norms by relevant authorities in particular instances. The Legal department carries out the function of prevention and early mitigation of legal risk, its management as well as damage control through its different research, transactional and dispute teams. The Legal department operates as a second line risk function and is involved in oversight over all products, services, transactions and processes of the Bank, to proactively identify and manage any possible legal non-compliance.

We have implemented a process of developing and implementing risk mitigation measures, including the policies and procedures to prevent, mitigate or minimise compliance and legal risks and to detect, report and respond to compliance violations. We have developed an online training platform for all employees where we run relevant compliance training programmes. Mandatory training is reviewed and updated annually, and specific legal and compliance training sessions are also regularly conducted by legal and compliance teams for targeted colleagues from different functions.

In 2021, we had no disclosable non-compliance matters.

Information security

We are committed to ensuring the security of our customers' financial assets and personal data and ensuring the security, reliability, and sustainability of our products and services

Information security risks represent one of the major threats that organisations worldwide are facing. The external threat profile is dynamic, and these threats continue to increase. The Bank remains a subject of a growing number of attempts to compromise its information security. We understand that if these attempts are successful, they could have a negative impact on our customers and employees, as well as on subsidiaries, partners, and, given that the Bank is part of Georgia's critical infrastructure, the country as a whole. We have relationships with customers and partners from other countries as well, and thus, the negative consequences of a compromise of our information security could extend beyond Georgia. Such compromise could expose us to potential contractual and regulatory liability, lead to a loss of current and future customers and partners, damage our brand and reputation, and result in financial losses.

Information security is a priority area for the Bank. As we develop new digital products and services, we implement complementary measures to ensure the robustness of our information security systems.

To successfully deliver on our commitments, we undertake a number of initiatives. We devote significant human and financial resources and engage globally renowned technology companies to respond to information security threats accordingly. We recognise the importance of establishing and maintaining a rigorous information security management system that is compliant with current business and regulatory requirements and commensurate with existing and emerging threat landscape.

The Bank has a dedicated Information Security department, responsible for developing and maintaining the Bank's information security management system, including policies and procedures that are reviewed regularly and amended to reflect any lessons learned. The Information Security department is headed by Chief Information Security Officer (CISO) who directly reports to the Deputy CEO-Chief Risk Officer. The CISO presents quarterly updates to Risk and Audit Committees. As a result, the Bank's Management Team and the Supervisory Board remain up-to-date on information security risks.

We employ highly qualified security professionals across multiple lines of business. Additionally, we run regular trainings to ensure that they are aware of and clearly understand current security trends and issues.

Cross-functional team of 26 employees

27 active professional certifications

16 professional courses completed by employees

We also run a Bank-wide information security awareness programme to ensure that our employees understand information security matters and their applicability to the Bank's daily operations. We view each employee as a "human firewall", and therefore we continuously refine our approach to employee training and testing. General information security training is mandatory for all employees during onboarding or internal rotation and afterwards – annually. The purpose of the general training is to raise awareness on key attack vectors and proper responses to different types of information security incidents (e.g. ransomware). The Information Security department monitors the completion of mandatory information security training. Quarterly, the Information Security Department runs a phishing campaign to test if our employees can detect phishing and respond duly. The Information Security department monitors performance and requires additional training for employees who were unable to detect and duly respond to a phishing email.

88% completion rate of the information security training

87% completion rate of the cybersecurity training

4 phishing campaigns conducted

62.3% decrease in the number of employees who did not respond to phishing campaign emails accordingly

We also engage with our customers on information security-related matters through multiple channels, including our website, digital platforms and text messages. We regularly create and share content, including articles, interactive games and questionnaires, through various media.

As our organisation becomes more digital and further relies on cloud computing and third-party providers, we are increasingly exposed to and a target of cyber attacks, such as a supply chain attack, distributed denial of service (DDoS), among others. We are taking measures to mitigate the risks of a supply chain attack (for more information, please see page 86 of this report). Although DDoS attacks targeting the Bank are rising, we had a 99.97% uptime in 2021.

Although the Bank was not involved in any significant negative impact in 2021, we maintain a thorough Information Security Incident Response Policy to prevent an information security incident, and if it does occur, to limit its impact on our stakeholders. This policy defines roles and responsibilities throughout each phase of an information security incident response and enables effective cross-functional collaboration and the management of public and internal relations. Controls and monitoring continue to be embedded across the Bank as part of the overall internal control framework and are continuously re-assessed. Each year the Bank is subject to at least 11 types of security assessments to evaluate the effectiveness of our actions and to manage actual and potential impacts. These assessments include penetration testing, breach and attack simulation, NIST self-assessment, internal and external audits.

11 types of security assessments conducted	**4 breach and attack simulations**	**1 third-party penetration testing**	**4 independent internal audit engagements**

These assessments give us insight into how effectively the policies and processes have been implemented. As a result, the Bank sets goals and targets that may be mandatory (based on legislation) or voluntary, for example, for automation or optimisation purposes. The results are satisfactory, and we have been recognised by the Global Finance Magazine for having the Best Information Security and Fraud Management in Central and Eastern Europe.

0 GEL loss due to a cyber security incident or a regulatory fine	**0 security breaches (external intrusion into the Bank's network or systems)**	**0 data breaches (personal or financial data leaked to the public)**
0 customer-targeted phishing attacks (through websites and emails)	**Best Information Security and Fraud Management in Central and Eastern Europe (Global Finance Magazine 2021)**	

We support and contribute to the development of information security in Georgia. We regularly participate in collaborative efforts with our financial industry peers, law enforcement authorities, regulatory bodies and the Government to share knowledge and prevent negative impacts. Our goal is to enable more efficient and effective information security supervisory oversight, streamline and align the fragmented information security regulatory framework with international standards, and help increase the overall security and resilience in Georgia. The Bank has a dedicated team to coordinate threat intelligence sharing and develop external relationships. We are a member of the Financial Services Information Sharing and Analysis Centre (FS-ISAC) through which the Bank has access to a threat intelligence platform, resilience resources and a trusted peer-to-peer network of experts to anticipate, mitigate, and respond to information security threats specifically targeting financial institutions.

Cyber security awareness month together with the NBG, the Banking Association of Georgia, and commercial banks

Privacy

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

In a data-driven world, security threats continue to evolve and, if materialised, may have a significant negative impact on our customers and on their human rights, especially the right to privacy. Any breach, attack or compromise may result in financial loss, damage to our brand and reputation, and regulatory censure. We are committed to protecting our customers' privacy, ensuring that personal data is handled in accordance with the requirements of the applicable privacy legislation and best practice.

Information is one of our most valuable assets and data privacy is a priority. We have embedded good privacy standards and practices within the corporate operations and structure.

We fully comply with applicable data protection legislation and adhere to the highest legal and information security standards. We have established a rigorous privacy programme, which is aligned with current business and regulatory requirements, and we continuously enhance the programme to effectively respond to an emerging threat landscape.

Effective implementation of privacy strategy requires a strong organisational structure. To this end, we have appointed the industry's first ever Data Protection Officer (DPO), whose responsibilities include, but are not limited to: providing recommendations to the Bank's employees to ensure compliance with the requirements of the applicable legislation; researching data processing procedures within the Bank and evaluating their compliance with the applicable legislation; advising and assisting business units on privacy matters, particularly when implementing a new process or a product; liaising with the supervisory authority – the Personal Data Protection Service, regarding privacy matters; drafting and maintaining internal policies and procedures as well as awareness programmes on privacy matters. The DPO reports to the Audit Committee semi-annually on the status of the Bank's privacy strategy implementation. As a result, the Bank's Management Team and the Supervisory Board remain up-to-date on privacy matters at all times.

Awareness raising is one of the key aspects of our privacy framework. As part of the privacy programme, we conduct awareness campaigns to help our employees recognise privacy concerns and respond accordingly. We provide continuous and role-based privacy training that keeps employees abreast of privacy risks and clarifies their role in mitigating them.

86% completion rate of data protection training

Policies

We maintain a comprehensive set of information security and privacy policies and standards to ensure that we operate in compliance with applicable privacy regulations and in line with best practice. These policies and procedures outline privacy principles and standards we observe while processing personal data and are:

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

Vendor security

We understand that vendors can pose significant risks to our operations and our customers' privacy. To this end, we perform comprehensive due diligence of a vendor's organisational and technical measures during the selection process and make sure that necessary contractual and technical controls are implemented.

Transparency

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

Embedded into operations

Privacy matters are considered in all new processes and projects. We undertake data privacy impact assessments to ensure that our processes and products comply with data protection legislation once they go live.

Breach of customer privacy

One of the major threats that financial services companies face are cyber incidents. Over the past few years, we have witnessed a number of major organisations falling victim to cyber attacks. Fortunately, neither have our operations been materially affected, nor have we suffered a breach to date. In 2021, we received six complaints regarding breaches of customer privacy and losses of customer data from our regulatory body – the Personal Data Protection Service. Only one has been identified as a substantiated complaint. The Personal Data Protection Service has not fined the Bank on any data protection-related complaints.

1

Substantiated complaints concerning breaches of customer privacy and losses of customer data

0

Total number of identified leaks, thefts, or losses of customer data

Operational environmental footprint

As a service business, our direct environmental impact is less significant than the impact we have on the environment through the financing we provide to our customers. Nevertheless, it is imperative for us to be a more resource-efficient company, to mitigate the negative impacts we may have on the environment, and to contribute to climate change mitigation. We undertake measures to identify and monitor environmental aspects relevant to our direct operations, for instance, how much business travel we undertake and how much electricity we use. We strive to adopt a "reduce, re-use, and recycle" approach wherever possible.

The direct environmental impact of our business activities arises from electricity, natural gas, and fuel consumption, water use, paper use, as well as through other types of waste produced. We regularly monitor and strive to reduce the use of these resources.

Energy consumption

Types of energy used by the Bank include electricity, natural gas, and fuel oil, the principal type being electricity provided by the national grid.

To be more energy-efficient, our branches are equipped with LED lighting. Remote control lighting systems are installed in new branches.

Since 2018, the majority of our newly opened branches have operated remote heating and air conditioning systems that ensure efficient electricity consumption during non-working hours. Remote control lighting, heating, and air conditioning systems have been installed in 47 Retail branches – covering almost half of all Retail branches (excluding Express branches).

For information on greenhouse gas emissions, please see pages 145 to 146.

Energy consumption data*

	2019	2020	2021
Electricity (kWh)	17,151,989	17,104,700	17,489,358
Gas (m3)	455,126	432,312	448,718
Gas (kWh, assuming that 1 m³ gas = 9.7 kWh)	4,414,722	4,193,426	4,352,565
Total energy consumption (kWh)	21,565,711	21,298,127	21,841,923

Water consumption

Water consumption by the Bank is limited to "domestic-type use" and cleaning purposes.

Water consumption in 2021 amounted to 59,316m³ (55,052m³ in 2020 and 70,064m³ in 2019).

Paper consumption

In addition to digital records, the Bank retains paper records of some transactions in line with regulatory requirements. In all other cases, we reduce the paper consumption by using digital media and more efficient printing.

Some of the Bank's departments, such as branches and cash centres, are paper-intensive. In these locations, we have encouraged the use of two computer monitors at work stations and this has also led to a reduction in paper waste.

Since 2018, paper consumption per full time employee (FTE) has reduced significantly.

In addition:

- Back-office paper from the Bank's headquarters and several large back-office locations is collected and shredded by a secure paper recycling firm. In 2021, c.1.6 tonnes of paper was collected for recycling in this way.
- Documentation from the Bank's archive, when the retention period expires, is recycled annually. The Bank uses a specialised third-party contractor for this service based on the appropriate service agreement. Approximately 52 tonnes of paper was recycled in 2021.

Paper usage (kg) per FTE**

2019	54
2020	34
2021	35

* Figures on electricity consumption in MWh and gas use in m³ of gas were obtained from BoG's operational department. To arrive at total energy consumption in KWh, m³ of gas were converted into MWh of gas (1m³ of gas = 0,0097 MWh according to Georgia's Fourth National Communication to the UNFCCC) and figures were multiplied by 1000. For more information, please see page 147.

** Consumption data from previous years has been updated and paper usage has been recalculated accordingly.

Waste management

In 2019, a new project, Development of a Company Waste Management Plan, was launched by the Bank with the support of Green for Growth Fund (GGF) as part of the Green for Growth Fund Technical Assistance Facility (GGF TAF). The aim of this project was to assist Bank of Georgia in developing a company-wide Waste Management Plan aligned with relevant Georgian legislation. A Waste Management Plan, covering all main locations of the Bank, has been prepared for a three-year period – 2020-2022. Highlights of the Waste Management Plan include:

- training for the Bank's Operations Support department who are responsible for the Bank's waste management process;
- the Bank replaced plastic bags with biodegradable ones, widely used in the cash collection process; and
- the Bank's old branded inventory was disposed of alongside the waste in line with the environmental regulations through a licensed third-party company at the municipal recycling and sanitation landfill.

Working with suppliers

Bank of Georgia is one of the largest purchasers in the country, with a variety of suppliers in its supply chain. We are committed to dealing fairly with our suppliers, acting with integrity, and ensuring a responsible supply chain. We are also committed to involving local suppliers in our supply chain and contributing to local business development.

In 2021, local suppliers accounted for 94% of the Bank's total spend on suppliers and represented 93% of all suppliers.

Largest categories of suppliers by spend in 2021:

16%	IT
10%	Professional services
5%	Rent
3%	Marketing
3%	Security and banking equipment
2%	Maintenance and repair

We work with suppliers that share our values and our commitment to having a positive impact in the communities. To this end we incorporate social and environmental risk management practices in our procurement processes.

Suppliers are selected based on merit and in line with business needs. The Bank has a Purchasing Policy and Tender (RFP) Procedures, which define the requirements for supplier selection and appointment:

- We have transparent and objective selection criteria and procedures that ensure fair competition.
- As part of the Bank's third-party screening process to identify the level of risk which third parties might pose, the Bank carries out the following due diligence processes: indirect investigations, including general research of the activities undertaken by the proposed business partners, such as agents, non-resident vendors, joint venture partners, contractors, suppliers and other third parties, and their reputation.

The Purchasing Policy defines requirements with respect to process transparency to mitigate anti-bribery and corruption (ABC) risks associated with procurement processes.

In 2020, we integrated environmental and social risk management topics into the supplier selection/ procurement process. Environmental and social topics are part of the request for proposal (RFP) form, which is communicated to potential suppliers during the selection process.

To decrease environmental and social risks in our supply chain, we require all suppliers to sign environmental and labour safety clauses, which constitute a key part of the contract and are mandatory for implementation.

Strong and responsible relationships with suppliers are key for the Bank's operations. Our relationships with suppliers are based on a clear understanding of the Bank's expectations and requirements. We have developed Information Security Policy for Supplier Relationships to ensure the protection of confidentiality, integrity, availability and accountability of the Bank's information assets which may be accessible to or affected by suppliers.

To refine our procurement processes and align them with international best practice, in 2021 SAP ARIBA procurement modules were implemented: Suppliers Lifecycle and Performance Management Module (SAP SLP) as part of supplier registration and qualification process and sourcing module (SAP sourcing) as a part of a transparent selection process.

SAP SLP enables us to enhance several aspects of the supplier qualification process, including:

- background check (security screening) and checking conflicts of interest;
- information security due diligence questionnaires for those suppliers who have access to the Bank's information assets;
- personal data protection (Privacy Due Diligence Questionnaire) questionnaires, when relevant; and
- general questions to all suppliers regarding: child labour, illegal immigrants, discrimination, minimum salary, modern slavery statement.

Suppliers' evaluation and qualification on environmental and social issues is done on an annual basis.

SAP sourcing enables us to improve supplier selection process, including the possibility to open RFPs or auctions in one space. Since December 2021, all selection processes have run through the new system, thus ensuring greater transparency and comprehensive reporting in the procurement process, which will enable us to manage supply chain processes and related risks more effectively going forward.

Environmental and social management of our loan book

The Group recognises that its operations have both an indirect and a direct impact on people and the environment, and therefore has established management and mitigation approaches. Indirect environmental and social impacts are mainly associated with the projects that Bank of Georgia finances whereas direct environmental impacts are mainly related to the Bank's own operations. This section presents the management approach towards indirect environmental and social aspects related to the Bank's lending activities.

Bank of Georgia effectively manages the potential risks for the natural environment and the communities where it operates associated with the financed projects.

Indirect environmental and social impact

Bank of Georgia is committed to providing responsible finance. The environmental and social management of the Bank's loan portfolio encompasses a systematic identification, assessment, management and mitigation of environmental and social risks associated with the projects that are financed by the Bank's Corporate Banking (CB) and MSME business segments. All such projects and companies are evaluated based on Bank of Georgia's Environmental and Social (E&S) Risk Management Policy, which was introduced in 2012 and was updated in 2020. The E&S Risk Management Policy is based on international best practice, ensuring responsible lending and monitoring processes to avoid adverse environmental or social impacts.

The E&S Risk Management Policy seeks to facilitate cooperation on environmental and social matters with our partner International Financial Institutions, who have guided us through creation and enhancements of this Policy.

Environmental and social management system

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

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

The ESMS and the associated E&S procedures are periodically updated and approved by the Supervisory Board of the Bank to ensure that the Bank's E&S Policy remains fit for purpose and reflects changes in the legal and regulatory environment as well as any changes in the Bank's operations or strategic priorities.

We continue to evolve our approach in response to emerging risks. In 2021, as we started to develop the Bank's climate action strategy and roadmap, with support from the European Investment Bank (EIB), we have started to develop a draft of enhanced procedures to integrate the identification, assessment, and proper management of climate-related risks and opportunities. We aim to integrate new climate-related procedures throughout 2022 and continue to refine our disclosures in line with the Task Force on Climate-Related Financial Disclosure (TCFD) recommendations. For more information on the Bank's climate-related action, see pages 138 to 148.

Environmental and social risk management system

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

- Bank of Georgia's Environmental and Social Management Policy.
- Georgia's environmental, social, health and safety and labour laws and regulations.
- International Labour Organisation Core Labour Standards.
- Applicable international environmental, social, and health and safety conventions that Georgia has ratified.
- IFC Performance Standards (PSs) and EBRD Performance Requirements (PRs).
- Relevant environmental and social requirements of Bank of Georgia's funders, as reviewed from time to time.

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

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

Transaction qualification	Categorisation	Evaluation	Control	Monitoring
• IFIs exclusion list • EBRD referral lists	IFIs categorisation guide (Low, Medium, High, Category A)	• Subsectoral guides • IFC PS/EBRD PR guides	• Action plan • Loan covenants	• Monitoring memos • Annual reports to IFIs

- All commercial transaction requests received by the Bank are assessed against the Bank's lending policies, Environmental and Social Policy, and the Exclusion List. We do not finance activities that do not comply with these policies or that are included in the Exclusion List. The list of excluded activities can be found in Annex 1 of Environmental and Social Risk Management Policy https://bankofgeorgia.ge/en/about/management#docs.
- We do not finance environmentally or socially sensitive business activities outlined in the exclusion lists of Development Finance Institutions, including EBRD, IFC, DEG, FMO and ADB.
- The Bank reviews and monitors the E&S performance of clients with credit exposure of more than US$ 2 million in accordance with the requirements of the IFC Performance Standards.
- We aim to assess the relative level of environmental and social risk associated with clients' businesses. We require some customers to implement specific environmental or social action plans to avoid or mitigate the environmental and social impacts and adhere to specific monitoring and reporting requirements that are set to minimise specific E&S risks. These requirements are included as covenants in agreements between our customers and the Bank.
- We aim to regularly monitor environmental and social risks associated with the Bank's activities and assess clients' compliance with the terms of respective agreements. The frequency and type of monitoring is determined based on the type of activity being financed and the level of E&S risk.

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

Category A projects (developments on greenfield land, or major extension or transformation-conversion projects, which may lead to significant or long-term environmental and social risks and impacts) constituted **5.8% of total MSME and CIB loan portfolio, and 3.4% of the Bank's total gross loan portfolio as at 31 December 2021**.

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

In 2021, we initiated a new project – "Training on environmental issues for customers of Bank of Georgia" – to provide training to our business clients on local environmental regulations and requirements, as well as on mechanisms for ensuring compliance with these requirements, on legal sanctions, on state control mechanisms, and on the requirements and implementation mechanisms of the international environmental management system standard ISO 14001:2015.

An information leaflet on Bank of Georgia's approach to managing environmental and social risks is available on the Bank's website at https://bankofgeorgia.ge/en/about/management#docs.

Environmental and social risk assessment

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

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

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

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

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

In 2021, based on environmental and social due diligence, Environmental and Social Action Plans were developed for 340 customers, who as at 31 December 2021 had an exposure of GEL 727 million (4.6% of the Bank's total gross loan portfolio).

Environmental and social risk assessment and monitoring process involves a review of periodic E&S performance reports submitted by our customers as well as site visits that we undertake. We pay attention to:

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

During 2021, no projects were rejected due to non-compliance with the Bank's Environmental and Social Policy or due to being included in the Exclusion List.

Environmental and social monitoring

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

When faced with complex E&S issues or those beyond the in-house team's competencies, a qualified external consultant(s) is hired to undertake the E&S assessment, especially for Category A projects. We ensure that all activities are environmentally and socially prudent and compliant with applicable legal and regulatory environmental and social standards. All high-risk clients are required to provide the Bank with an annual report on their environmental and social performance, and on the implementation of applicable ESAPs. Any Category A client is required to provide the Bank with an annual E&S performance report. For Category A and high-risk projects, we have our E&S staff visit the sites of operations until major E&S issues are resolved and satisfactorily monitored by our client.

In 2021, we carried out an E&S monitoring and developed ESAPs for 43 customers, with a total exposure of GEL 778 million as at 31 December 2021. The Bank has not received any reports from its customers on any significant accidents or incidents. In addition, during 2021, customers, who were provided with the action plans to identify, avoid or mitigate environmental and social risks, have started to implement our recommendations and consider introducing environmental and social management systems aligned with international standards.

The Bank's Environmental and Climate Risk Management department

Furthermore, to address the challenges of climate change and to ensure the screening of proposed projects to identify potential climate-related risks and impacts in addition to other E&S risks and impacts, the Bank expanded the responsibilities of the Environmental and Social Risk Unit in 2021 and established an Environmental and Climate Risk Management department. A dedicated E&S expert team has been in place since 2013, under the Risk function. The head of this department reports directly to the Deputy CEO-Chief Risk Officer.

The team undertakes preliminary environmental and social due diligence of customer operations and projects funded by the Bank and recommends appropriate covenants to be included in credit documents that are monitored throughout the credit cycle.

The team ensures the implementation of Bank of Georgia's environmental and social risk management policies, monitors the Bank's environmental, social, and climate risk profile and performance, ensures data consolidation with respect to environmental, social, and climate-related risks within the Bank, and handles environmental, social, and climate-related communications. Going forward, the team will report the progress and the performance achieved in the area of environmental, social, and climate-related risk management to the Environmental and Social Impact Committee, comprising members of the Management Team, which will be reporting to the Supervisory Board of the Bank semi-annually.

Reporting to our international stakeholders

In 2021, Bank of Georgia reported on its environmental and social performance as part of its commitment to provide annual environmental and social performance reports to multiple international development finance organisations. These reports take into consideration Bank of Georgia's E&S performance when granting loans as well as internal operations and policies. The reports include portfolio information broken down by industry and transaction type, as well as a progress report on the implementation of Bank of Georgia's ESMS. We value keeping an open dialogue on our ESMS with our partner international financial institutions to get their feedback on our management system and best practices.

External communications – grievance mechanism

Procedures for addressing external queries and concerns, developed within the framework of ESMS, enable any stakeholder to submit queries or concerns related to the Bank's E&S Policy or any other aspects related to the Bank's operations. We are committed to responding to those queries in a timely and effective manner. The grievance mechanism is available on the Bank's website and anyone can send an email with questions or concerns to customerservice@bog.ge (as listed on the website), or can submit their questions or concerns in a written form to the Bank's Chancellery department.

In 2021, no major E&S complaints were received by the Bank. We will continue to engage with our stakeholders and address any issues or concerns raised.

Training

Training activities play a critical role in the effective management of E&S and climate-related risks in our lending portfolio. In 2021, to enhance our understanding of environmental and climate-related issues and build internal capacity, we held training sessions for the E&S team and relevant employees of the Bank involved in environmental, social and climate risk management processes.

The training included webinars and covered a variety of topics, including climate and sustainable finance, ESG standards and SDGs, sustainability reporting, green taxonomy, IFC Performance Standards, renewable energy investments and energy efficiency, green and affordable housing.

To increase awareness of environmental and social risk assessment and management across the Bank, we, together with an international sustainability consultant, developed an online E&S training module, now accessible to all employees via our corporate learning system. A mandatory training course on E&S risk assessment, reflecting key E&S Policy requirements and international standards, is undertaken by relevant employees and new hires.

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Training hours spent on environmental and social topics in 2021

Climate-related disclosures

Background on climate change

Climate change is one of the most pressing global challenges as it impacts lives and whole socioeconomic systems across the world

The release of greenhouse gas (GHG) emissions into the atmosphere has led to rising global temperatures and more unpredictable weather patterns, posing major threats to current and future generations. In 2015, 197 nations, including Georgia, committed to the goals of the Paris Agreement to limit global warming to 2 degrees Celsius (°C) above preindustrial levels, while pursuing the means to limit the increase to 1.5°C.

Climate change issues in Georgia: With its rich biodiversity and economic dependence on climate-sensitive sectors, such as agriculture and tourism, Georgia is vulnerable to the effects of climate change. As described in Georgia's Fourth National Communication to the UNFCCC (2021), the impacts of climate change have already been observed in Georgia:

- In 1986-2015, compared to 1956-1985, mean annual ground air temperature increased in the range of 0.25–0.58°C.
- During the same period, precipitation in western Georgia mainly increased, although it decreased in some eastern regions.
- The trend to intensive and frequent natural hydrometeorological events (floods/flash floods, snow avalanches, strong winds, droughts, etc.) has increased.
- The level of the Black Sea rose by 0.7 metres on the Georgian coast between 1956 and 2007, and the frequency of storms increased by more than 50% over the same period.

Expected impacts of climate change: The adverse impacts of climate change are projected to increase in the future. Without mitigation and adaptation measures, climate-sensitive sectors will become more vulnerable. The following projections have been made for Georgia:

- Under a high emissions pathway, average temperature may increase by up to 4.9°C above the 1986–2005 baseline by the 2090s; the frequency of heat waves is projected to rise significantly.
- Rapid retreat of glaciers is expected. By the end of the 21st century, rivers that are fed by glaciers and snow might see reduced flow levels of 30% to 55%.
- More intense rainfall will increase the likelihood of landslides, floods, avalanches, and mudflows.
- The probability of severe droughts is projected to rise, especially for the eastern and central areas of Georgia.
- Global sea level could rise by 0.74 metres or more by the end of the 21st century.

These changes may have negative effects on biodiversity, agricultural output, human health, energy supply and other parts of Georgia's nature, economy, and society.

Policies to address climate change: In 1990, Georgia's GHG emissions amounted to 45,813 gigagrams CO_2 equivalent (Gg CO_2eq). When the Soviet Union collapsed, emissions fell sharply and reached a low in 2001 (9,592 Gg CO_2eq). Following a subsequent rebound in economic activity, GHG emissions have continued to rise and amounted to 17,766 Gg CO_2eq in 2017 or about 0.03% of total global GHG emissions. Emissions are projected to increase in the coming years if no concrete action is taken, particularly in the largest emitting sectors, such as transport and industry. To address the impacts of climate change and meet the objectives of the Paris Agreement, Georgia has developed several climate action strategies and policies. The following are its key goals:

- By 2030, to reduce total GHG emissions by 35% compared with the 1990 level and to limit emissions in sectors such as energy and transportation.
- To support renewable energy generation and transmission.
- To support the development of low-carbon approaches in the building, industry, waste, and agriculture sectors.
- To set national energy-saving targets in private and public sectors, particularly focusing on energy efficiency in buildings.

Changing climate presents both risks and opportunities for Georgia, its people and companies and thus for the financial services sector. The Group recognises its role in addressing this global challenge. The Group initiated its climate journey in 2021 and with this year's report starts reporting in line with the four pillars defined by the TCFD: Governance, Strategy, Risk Management, and Metrics & Targets, each with focus on the Group's main operating entity, the Bank, which constituted 94.7% of the Group's total assets as at 31 December 2021.

Georgia's Fourth National Communication to the UNFCCC (2021),
https://unfccc.int/sites/default/files/resource/4%20Final%20Report%20-%20English%202020%2030.03_0.pdf;
Georgia's Updated 2021 Nationally Determined Contribution (NDC),
https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Georgia%20First/NDC%20Georgia_ENG%20WEB-approved.pdf
The World Bank Group and the Asian Development Bank (2021): Climate Risk Country Profile: Georgia,
https://openknowledge.worldbank.org/bitstream/handle/10986/36382/Georgia-Climate-Risk-Country-Profile.pdf?sequence=1&isAllowed=y
WBG Climate Change Knowledge Portal (CCKP 2020): Georgia. Climate Data. Projections,
https://climateknowledgeportal.worldbank.org/country/georgia/climate-data-historical
OurWorldInData.org: Georgia: CO_2 country profile.
https://ourworldindata.org/co2/country/georgia

Governance

Board and Committees

The Board of Directors oversee the Group's operations and ensure that it is being managed in accordance with its strategies and targets. In 2021, the Board was informed of the Bank's climate action and reviewed its progress during two quarterly Board meetings (09/21, 12/21). The Board will continue to be actively involved in ensuring the quality and efficacy of Bank of Georgia's approach to managing climate-related matters:

- The Board is responsible for reviewing the Group's strategies, policies and budgets. The Board, focusing on the Bank as the main operating entity in 2021, decided that starting with the launch of a climate action strategy in 2022 (forthcoming), climate-related issues will be integrated incrementally into the Bank's guidance documents.
- The Board regularly examines opportunities and risks as well as the measures taken as a result. Climate-related risks and opportunities are now on the Board's regular agenda.
- The Board also considers performance against the objectives defined in the Bank's strategies. Bank of Georgia's climate action strategy defines relevant objectives for climate change mitigation and adaptation.
- The Supervisory Board of the Bank, as exemplified in its statute, adopted in accordance with the requirements of the NBG, bears the overall responsibility for the Bank's E&S strategy and its implementation, as well as direct responsibility to duly oversee the Bank's E&S risk management framework and build the E&S governance structures that will ensure proper attention to E&S issues and fulfilment of the Bank's strategic goals in this regard.

In December 2021, the Supervisory Board of the Bank decided to maintain primary decision-making and reporting on E&S and climate impacts associated with the Bank's lending activities at the full board level. To ensure this, the Supervisory Board has instructed the Bank's management to create the Environmental and Social Impact Committee on management level, which shall be the primary responsible body to report to the Board semi-annually on the progress of the Bank's implementation of its environmental, social and climate strategies and policies, as well on the due functioning and enhancement of the Bank's ESMS.

The Bank's performance is regularly monitored by the four committees that report to the full Board. Starting in 2022, they will take the following responsibilities for climate-related issues:

- Risk Committee: Primary responsibility for risk management at Board level, including climate change as an emerging risk within the Bank's portfolio.
- Audit Committee: Assesses the quality of reporting, including climate-related sections.
- Nomination Committee: Will take climate-related expertise into consideration when approving Board and management positions.
- Remuneration Committee: Will consider how management performs against climate-related targets (integrated into KPIs/ KBOs on environmental, social and governance (ESG) aspects).

Climate-related issues will be integrated into the regular process for reporting to the Board and Committees. Bank of Georgia's Environmental and Social Impact Committee will directly report to the Board semi-annually.

Management

To anchor climate change and other sustainability-related topics at the management level, at the instruction of the Supervisory Board, Bank of Georgia established a new committee – the Environmental and Social Impact Committee, comprising Management Team and senior managers, including the Bank's CEO, CRO, COO, CFO, CLO, Head of HR and Customer Experience, Chief Marketing Officer, Head of Investor Relations, Head of Funding. The Committee will be responsible for managing the Bank's climate, environmental and social impacts, focusing on those arising from the Bank's lending activities.

The Committee will be primarily responsible for designing, implementing, and enhancing the environmental, social and climate strategies and policies, and for setting and monitoring targets. The Committee intends to further embed E&S risk awareness and E&S risk management in the Bank's daily operations.

The Environmental and Social Impact Committee is supported by a cross-functional Climate Working Group (CWG), which was established in 2021 to develop Bank of Georgia's climate action strategy, design new processes and methodologies, and to contribute to preparing climate-related disclosures. Key people from the Bank's Corporate Banking (CB) and MSME Banking segments, Risk departments, Legal, ECRM, Investor Relations and Funding departments participated in regular meetings. The CWG met weekly in 4Q21 and continues its work in 2022.

Strategy

Risks and opportunities for Bank of Georgia under different scenarios

Climate-related risks may adversely impact the Bank in both direct and indirect ways.

- **Direct**: Climate-related risks that impact the Bank through damages to its physical assets, activities and operations.
- **Indirect**: Climate-related risks that impact the Bank primarily through its loan portfolio.

Climate-related risks arise due to physical or transitional effects of climate change and manifest through more common risk types, including credit risk, market risk, operational risk, reputational risk, among others.

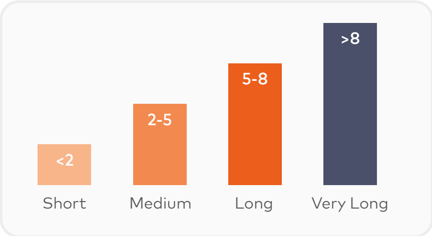
Physical risks result from climate and weather-related events (e.g., floods, droughts), while **transition risks** arise from changes that result from moving towards a low-carbon economy (e.g. new climate policies or changes in consumer preferences).

The transition to a low-carbon, climate-resilient economy also creates opportunities for the financial sector to channel funds to finance innovative green products and services that meet growing sustainable investment needs, such as investing in climate-smart agricultural technology or increasing energy efficiency in buildings.

Bank of Georgia has taken steps to integrate these risks and opportunities into its risk assessment and management framework and will continue to do so as part of an ongoing commitment to building more resilient and sustainable communities.

In 2021, we carried out exercises to analyse our resilience using a variety of timeframes...

Climate risk identification needs to inform Bank of Georgia's regular risk management processes and should therefore be done considering our standard time horizons. The short-, medium- and long-term time spans were defined to reflect internal procedures and indicators, such as financial planning, strategic planning and average loan maturity. Only a small share of our loans – around 12% of the corporate portfolio and 25% of our mortgages – have maturities that extend beyond 2030. Nevertheless, we have defined a fourth timeframe (very long) to ensure that climate risks that may manifest over the longer term are also adequately evaluated and considered by the Bank. The fact that climate change risks have to be mitigated before they arise makes it necessary to expand our horizons. We are committed to building our capabilities and processes to ensure that "very long-term" risks are adequately identified and managed.



... and scenarios describing different pathways into the future.

Scenario analysis assists in the identification, measurement, and ongoing assessment of climate risks over the longer term, and will enable us to better evaluate the potential threats to the Bank's strategic objectives and its ability to create value over the longer term.

We started to use scenario analysis in 2021, combining our research of climate change and climate policies in Georgia with selected terminology, assumptions and narratives from the scenarios developed by the Network for Greening the Financial System.

Our approach to scenario analysis is currently qualitative in nature. It will be refined in 2022 and beyond, e.g. by further specifying assumptions and developing case studies.

Transition risks, 2022-2030, "Nationally Determined Contribution" scenario:

Although the effects of climate change will only become more tangible over the next few decades, it is important for Bank of Georgia to understand the more immediate impacts. This period was assessed assuming that the Georgian Government will drive action to achieve the GHG reduction goals identified in its Updated Nationally Determined Contribution (2021).

Transition risks, 2030-2050, "Delayed Transition" scenario:

This period was assessed using the "delayed transition" scenario, which assumes that Georgia would initiate highly ambitious climate change mitigation and adaptation policies from 2030 onwards – building on and enhancing the climate policies described in the climate background information on page 138. After 2050, the transition will slow down because most relevant technologies and systems will be low or zero carbon. Transition risks would be highest under this scenario.

Physical risks, from 2040 onwards, "Current Policies" scenario:

Projections show that under the "current policies" scenario, temperatures and related physical risks will start to rise significantly in 2040 compared with the "delayed transition" scenario. The "current policies" scenario assumes that Governments do not increase the level of ambition of their climate policies beyond today's level. Physical risks would be highest under this scenario.

We have identified Bank-wide climate-related risks over the short, medium and (very) long term.

Type of risk	Definition of risk	Main impacts of climate change (physical and transition risks)	Impact severity <2030 Nationally Determined Contribution	Impact severity >2030 Delayed Transition	Impact severity >2040 Current Policies
Credit	Credit risk is the risk that the Bank will incur a loss because its customers fail to discharge their contractual obligations.	Both climate policy (transition risks) and climate change (physical risks) can negatively affect borrowers' repayment capacity and value of collateral.	Low	Low/medium for many sectors, but high for others (e.g. electricity production, agriculture – see heatmap on the next page); location-specific risks still to be determined	
Liquidity	Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances.	Affected borrowers cannot pay back loans or withdraw deposits, thus reducing Bank of Georgia's liquidity. If sovereign or bank credit ratings are downgraded, the availability of wholesale funding decreases and cost of funding increases.	Low	Low/medium	High
Capital	Capital risk is the risk that the Bank will fail to meet the minimum capital adequacy requirements set by the regulator.	Borrowers' repayment issues can negatively affect the credit quality of Bank of Georgia's portfolio, requiring increased loan loss provisions and adjusted risk-weighted assets.	Low	Medium	High
Market	Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange, and equity prices.	Bank of Georgia is mostly exposed to foreign exchange and interest rate risks. Physical and transition risks can cause global economic downturn and an increase in market volatility affecting interest rates and currencies.	Low	Medium	Medium
Operations	Operational risk is the risk of loss arising from systems failure, human error, fraud or external events.	Climate change can interrupt Bank of Georgia's regular operations and increase costs to maintain effective business resilience (especially Back-office processes and data centres). Affected borrowers could potentially conduct fraud.	Low	Low/medium	Medium
Reputation	Reputational risk is the damage that can occur when failing to meet stakeholders' expectations.	Lack of meaningful climate action could affect Bank of Georgia's reputation among investors and customers. Bank of Georgia's reputation could also suffer if it struggles with other climate-induced challenges that affect the continuity and quality of its services.	Medium	Medium/high	Medium/high

Notes on methodology: Bank of Georgia is currently working on aggregating existing risk management policies into a common risk management language across the Bank. In the absence of a common methodology, the impact of climate-related risks was assessed by answering the following questions:

(1) Identification of risk drivers and transmission channels: How climate change interrelates with and increases existing banking risks.

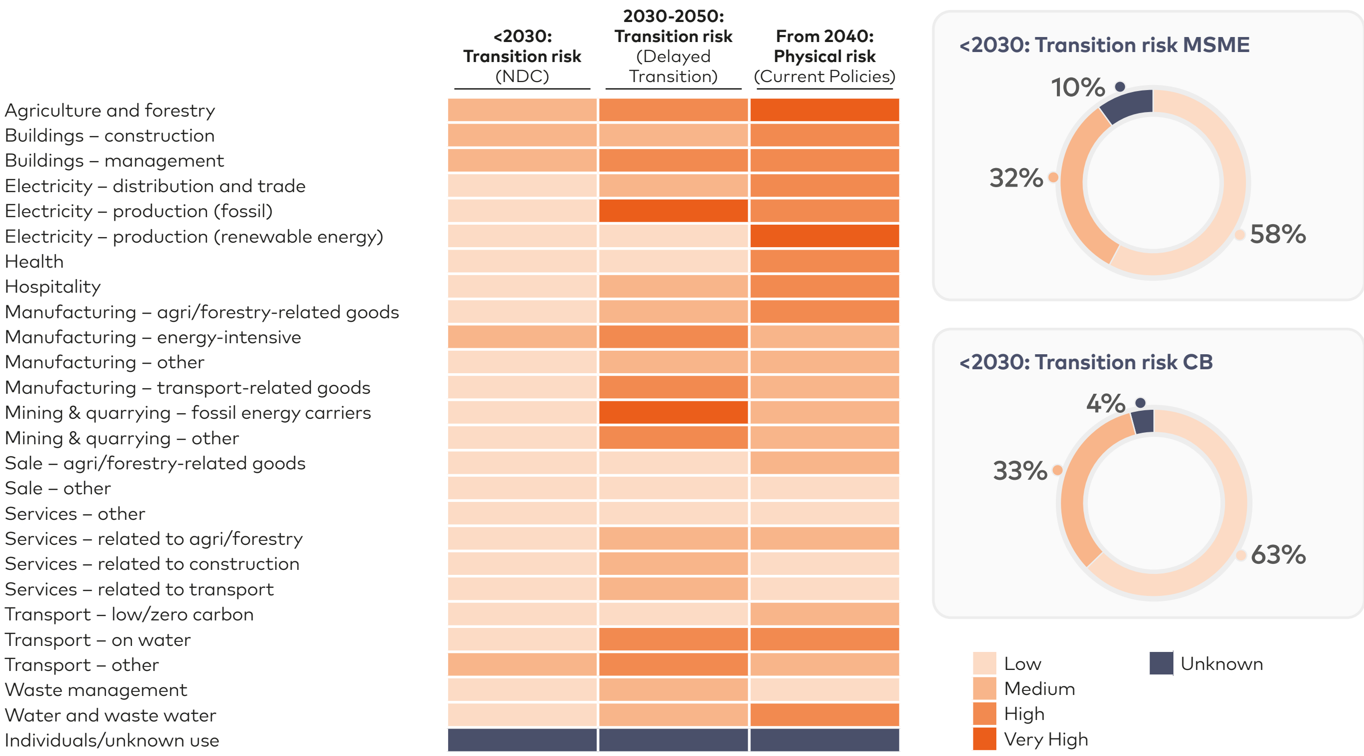
(2) Assessment of impact severity: How strongly Bank of Georgia will be affected by the magnified risks, considering different time horizons and scenarios. Impact can be low, medium or high. Assessment methodologies differ between risks.

Bank of Georgia typically calculates risk by multiplying impact magnitude by likelihood. For climate risk, the likelihood of each scenario and the corresponding impacts were not assessed in 2021 due to methodological challenges. We anticipate that this will be addressed in 2022.

We have found that risks will not differ significantly between the defined short-, medium- and long-term timeframes – that is within the next eight years – which is why the results are presented together in the column "<2030".

We will continue to work on refining our approach to Bank-wide climate-related risk assessment going forward.

Climate change can affect Bank of Georgia especially through its impact on the lending portfolio. A preliminary portfolio-level qualitative analysis of our corporate and MSME portfolios – making up 58.1% of the Bank's total gross loan portfolio at 31 December 2021 – has helped us understand hypothetical risks for different sectors.



Notes on methodology: Figures are as at 31 December 2021. "Delayed Transition" and "Current Policies" are extreme scenarios for transition and physical risks, respectively. We assumed that the structure of the balance sheet stays the same to assess long-term risks within our portfolio. The assessment was conducted at the level of over 400 individual activities and aggregated for the sectors presented above. For transition risks, estimated greenhouse gas emissions and potential contribution to an efficient reduction of such emissions were evaluated. For physical risks, basic parameters such as an activity's dependence on water, vulnerability against extreme weather events and the need for raw materials were considered. Location-specific risks as well as individual borrowers' characteristics, such as existing low carbon transformation plans or adaptive capacities, were not considered in 2021 due to lack of data. We will continue to enhance our analysis at activity- and sector-level and take the necessary steps to increase the availability of data and understanding of risks at location- and counterparty-level. Risks for our Mass Retail and Premium Banking portfolio (mostly mortgages) have also not been assessed in detail yet, as such risks depend to a high degree on individual borrowers' characteristics and on the location of the activity or asset financed. We aim to also understand climate-related risks for our mortgage portfolio, using location-specific data.

% exposure to carbon-related assets* in the Bank's gross loan portfolio

19.7%

* As at 31 December 2021 equals GEL 3,188 mln. We define "carbon-related assets" to be those assets tied to the four non-financial groups identified by the TCFD. The following industries are included: Oil and Gas – Coal – Electric Utilities – Air Freight – Passenger Air Transportation – Maritime Transportation – Trucking Services – Automobiles and Components – Metals and Mining – Chemicals – Construction Materials – Real Estate Management and Development – Beverages – Agriculture – Food, Paper and Forest Products.

% exposure to fossil fuel and coal-related assets** in the Bank's gross loan portfolio

3.2%

** As of 31 December 2021 equals GEL 507 mln. This number includes exposures to wholesale of solid, liquid and gaseous fuels and related products, retail sale of automotive fuel, electricity production from natural gas and cement production which uses coal as a fuel. We have no exposure to prospection, exploration and mining of fossil fuels or electric utilities using coal.

Bank of Georgia also sees opportunities in the transition to a low-carbon economy – it will be crucial to provide credit to existing and new customers

Bank of Georgia works with donors such as the Green for Growth Fund (GGF) and the European Bank for Reconstruction and Development (EBRD) to provide green financing to our clients. Through our "Energy Credit", we offer companies credit to buy their own solar power plants. Other green financing is directed mostly at large-scale renewable energy (hydropower plants) and construction projects.

There are additional opportunities in Bank of Georgia's portfolio, for example, related to the financing of energy efficiency measures in buildings and industry. The NBG is currently developing a taxonomy of green activities, and this which will help us identify green opportunities. We started to assess green opportunities in 2021, using the NBG's draft taxonomy as the basis and considering factors, such as market demand, public policies and support schemes. We will refine this opportunity analysis in 2022 and also work on reducing hurdles for green financing, particularly those related to the costs of data collection.

Total outstanding green finance*** (GEL mln)

462.9

*** As at 31 December 2021 equals 2.9% of the Bank's gross loan portfolio. This includes investments in hydropower plants, solar panels and measures that are in line with our donors' eligibility criteria.

How climate change affects our strategy

Bank of Georgia has committed to supporting Georgia's climate-related goals

Resulting from the analysis of risks and opportunities, Bank of Georgia has developed a climate action strategy (forthcoming). Through this, we intend to contribute to Georgia's transition to a low-carbon economy and to the country's climate-related goals and to effectively manage climate-related risks.

Monitoring and managing climate and environmental risks: Bank of Georgia will regularly assess climate-related physical and transition risks across our portfolio. In 2022, we will start collecting and processing relevant data from borrowers and engage with them to raise awareness of climate-related risks and opportunities. We will ensure to appropriately manage our portfolio's climate risk profile and new credit origination in line with our overall risk appetite.

Supporting the transition to a low-carbon, resilient economy: We strive to provide our clients with adequate climate finance options to ensure that they can implement credible, safe, innovative and high-quality climate solutions. We will actively explore the opportunities to extend climate-related financing to different sectors and clients.

Anchoring climate expertise firmly in our skill set: We are committed to enhancing climate-related capabilities across the Bank and to building a comprehensive toolkit for climate-related risk and opportunity management.

Our climate action strategy will be implemented over the next years, in line with a concrete action plan that is to be developed in 2022. Risk and opportunity analysis will be repeated regularly and will inform the updates of the strategy.

Risk management

Bank of Georgia is committed to addressing climate risks through risk identification and evaluation and risk management that is integrated into standard risk management procedures

Risk identification and evaluation

Bank of Georgia has an environmental and social management system in place, for which capacities have been built and processes defined. Climate is a complex topic that requires expertise from across the Bank and beyond. To further accelerate progress, we have engaged with third-party consultants to support the development of our climate risk management framework and high-priority sector analysis, thereby extending our assessment capabilities for quantifying climate risk.

In 2021, we conducted the following exercises to identify climate risks:

Qualitative analysis of the effect of climate change on enterprise-wide risks: We analysed how the transition and physical effects of climate change can drive credit, liquidity, market, capital, operational and reputational risk for the Bank over "short-term" (i.e. one to two years) to "very long-term" time horizons (i.e. over eight years) and for different scenarios (see previous pages). Several departments were involved in the analysis, including Enterprise-wide risk management (formed in 2021), Operational risk, Credit risk and ECRM Department. The methodology, described on page 142, will be updated in line with the development of our new Bank-wide risk management framework in 2022.

Preliminary qualitative analysis of climate-related risks in our portfolio: We determined transition and physical risks (on a scale from 0-no risk to 4-very high risk) for over 400 activities conducted by our clients and aggregated risks for 25 sectors. The analysis was conducted by the ECRM department together with business segments (CB and MSME) and Credit Risk departments. Bank of Georgia is currently working on an approach to assessing physical risks for locations in which our clients are active. Starting from 2022, we will start collecting data from clients in a standardised manner through an updated due diligence. This data will allow us to continuously improve our understanding of sectors, clients and asset classes that contribute to climate change through GHG emissions or that are vulnerable to the physical effects of climate change.

Estimating alignment of selected clients with the goals of the Paris Agreement: We used the Paris Agreement Capital Transition Assessment (PACTA) tool to assess the alignment of selected clients from the steel and cement sectors with low-carbon development pathways. The results will be refined and interpreted in 2022.

Developing an approach for measuring financed emissions: We explored different options for calculating GHG emissions in our loan book. As described by the Partnership for Carbon Accounting Financial's "Global GHG Accounting and Reporting Standard for the Financial Industry", GHG emissions should ideally be calculated on a borrower-by-borrower basis, using publicly reported and verified emissions data or country-specific emission factors. Yet, emissions reporting is not common practice in Georgia and country-specific emission factors have not been developed yet. Hence, we developed and piloted an approach that will allow us to estimate selected individual clients' GHG emissions using best available data. Moreover, we are testing a methodology to estimate emissions from our highly granular MSME portfolio, using a combination of borrower-specific and statistical data.

The methodologies used will be refined in 2022 and will be regularly updated to reflect internal and external developments. Each step will be repeated at regular intervals.

Integrated risk management

Beyond standardised risk identification and assessment, Bank of Georgia has undertaken the following steps to manage climate-related risks and opportunities:

Integration of climate-related risks in our enterprise-wide risk management framework: The enterprise-wide risk management framework is currently being updated, which provides a unique opportunity to build climate-related risk assessment into its design. As a first step, climate-related risks became an integral part of our risk inventory. In 2020, the Group identified climate change as an emerging risk for the first time. In 2021, the magnifying effects of climate change on traditional banking risks were assessed. This assessment will be refined in 2022. Further steps will be taken to integrate climate into overall risk assessment and monitoring. We are, for example, assessing whether and how to reflect climate risk in our Risk Appetite Statement and in our Credit Policies.

Integration of climate considerations in our due diligence process: Data is key to understanding climate risks and opportunities. We have decided to update our loan appraisal process and software to collect and automatically evaluate our clients' activities and locations and will start to implement these changes in 2022. Moreover, we have scrutinised our Environmental and Social Management System (ESMS).

In 2022, we will start developing an approach to engage our corporate clients with our climate risk insights to better understand their adaptation and mitigation plans and assess how to best serve their sustainable financing needs.

Building climate-related risk management capacities: Capacity building is crucial to ensuring that climate-related risks and opportunities are considered in every credit decision. In 2021, 31 employees from business segments, risk management, legal, strategy, investor relations, operational support, funding and ECRM departments participated in one or more of the following training programmes:

- Awareness raising on climate change, climate finance and climate risk management
- Workshop on the calculation of own GHG emissions, with a focus on Scope 3 emissions
- Workshop on Scope 3 emissions in the portfolio/financed emissions
- Workshop on climate-related risks
- Workshop on climate-related opportunities
- Workshop on TCFD reporting

Metrics & targets

Bank of Georgia uses metrics recommended by the TCFD to measure our impact on climate change and the effects of climate change on our business model and operations

Metric	Rationale and targets
GHG emissions: Absolute Scope 1, Scope 2, and Scope 3; emissions intensity	GHG emissions are an important indicator to help us understand our direct and indirect impact on the climate and exposure to potential transition risks. Bank of Georgia measures emissions generated through its operations. As shown in the overview of GHG emissions below, we have a clear picture of our Scope 1 and 2 emissions and are currently working on expanding our understanding of Scope 3 emissions.
Percentage of lending vulnerable to climate-related transition and physical risks, relative to total lending	Transition and/or physical risks for our borrowers can translate into credit risks for Bank of Georgia. It is important for us to measure our exposures and manage them in a way that limits risks to an acceptable level. We will ensure to appropriately manage our portfolio's climate risk profile and new credit origination in line with our overall risk appetite.
Percentage of carbon-related assets, relative to total assets	Carbon-related assets are widely understood as a proxy for the financial sector's exposures to climate-related transition risks.
Amount of lending aligned with climate-related opportunities, relative to total assets	Banks can provide significant support to enable the transition to a low-carbon, resilient economy by providing climate-related financing. Seizing climate-related opportunities can become a source of significant revenue as the Government's, economy's and society's climate ambitions continue to grow. We are actively exploring the opportunities to extend climate-related finance to different clients in different sectors.
Forward-looking metrics	According to TCFD, organisations should consider providing forward-looking metrics on climate risks. These could include metrics on the alignment of business activities with a temperature pathway well below 2°C ("portfolio alignment"). As described above, Bank of Georgia piloted an analysis of selected clients' alignment with low carbon pathways using the PACTA tool in 2021. The results will be analysed and used to refine portfolio alignment methods in 2022.

GHG emissions

The Bank has measured its GHG emissions annually since 2012. We report our GHG emissions and energy use consistent with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. In addition, we have reported on Scope 3 emissions.

The data is collected and reported for the Bank as the main operating unit and the core entity of the Group, including its offices and retail branches where the Bank has operational control. All reported sources fall within our Consolidated Financial Statements (see pages 256 to 368). We do not have responsibility for the emission sources that are not included in our Consolidated Financial Statements. In addition to our operations in Georgia, we use a small shared office space in the UK (total annual electricity consumption less than 5,000kWh). We do not consider emissions generated in the UK as material emission sources for the Group's main operations in Georgia (i.e. they are substantially less than 2% of total emissions*) and thus we did not include them in calculations. Bank of Georgia Group has other subsidiaries, as does the Bank. In 2022, we will determine how to proceed with the monitoring of GHG emissions from these subsidiaries.

In preparing our emissions data, we followed the guidelines of the World Resources Institute/World Business Council for Sustainable Development (WRI/WBCSD) Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (revised edition 2016) as a reference source. The control approach was used for all operations of Bank of Georgia.

* Page 47, HMRC Department for Environment and Rural Affairs (Defra), Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance. March 2019 (Updated Introduction and Chapters 1 and 2) https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/850130/Env-reporting-guidance_inc_SECR_31March.pdf

Scope 1 includes emissions from:

- Combustion of natural gas, diesel and petrol in stationary equipment at owned and controlled sites
- Combustion of petrol, diesel and aviation fuel in owned transportation devices

Scope 2 includes emissions from:

- Used electricity at owned and controlled sites; we have used the UNFCCC Harmonized Grid Emission Factor (GEF) data set for Georgia for our Scope 2 emissions

Scope 3 includes emissions from:

- Fuel- and energy-related activities; waste generated in operations; purchased goods
- Air business travel: short and long haul (information on the class of travel is unavailable, hence, we used an "average passenger" conversion factor); hotel accommodation; land transportation by outsourced vehicles

Bank of Georgia GHG emissions 2019 – 2021				**2019**	**2020**	**2021**
Category		**Emission source category**		**t CO_2e**	**t CO_2e**	**t CO_2e**
GHG Protocol Standards: Corporate Scope – 1 and 2, Value Chain – Scope 3	Scope 1	Direct emissions arising from owned or controlled stationary sources that use fossil fuels and/or emit fugitive emissions	Fuels	**920.57**	**874.42**	**907.60**
	Scope 1	Direct emissions from owned or controlled mobile sources	Passenger vehicles	**1,162.58**	**1,022.61**	**1,089.53**
	Scope 2	Location-based emissions from the generation of purchased electricity, heat, steam or cooling	Electricity	**1,629.44**	**1,624.95**	**1,661.49**
	Scope 3	Fuel- and energy-related activities	All other fuel- and energy-related activities	**547.20**	**488.54**	**545.58**
			Transmission and distribution losses	**343.90**	**342.95**	**350.66**
		Waste generated in operations	Waste water	**49.61**	**38.98**	**42.00**
			Waste	**0.06**	**0.06**	**0.09**
		Purchased goods	Water supplied	**24.10**	**18.94**	**20.40**
			Material use	**313.39**	**200.40**	**224.81**
		Business travel	All transportation by air	**145.84**	**9.82**	**19.90**
			Emissions arising from hotel accommodation associated with business travel	**9.30**	**-**	**2.07**
			Land transportation by outsourced vehicles	**545.47**	**471.34**	**614.96**
Scope 1				**2,083.15**	**1,897.03**	**1,997.13**
Scope 2				**1,629.44**	**1,624.95**	**1,661.49**
Scope 1+2				**3,712.60**	**3,521.98**	**3,658.62**
Scope 3				**1,978.87**	**1,571.03**	**1,820.48**
Total emissions				**5,691.47**	**5,093.01**	**5,479.10**
tCO_2E/employee				**0.97**	**0.87**	**0.88**
Full-time employees				**5,879**	**5,821**	**6,207**

Data is provided by on-site delegates, invoices and meter readings.

Notes on methodology: We have used the most recent Georgia electricity conversion factor provided by JRC*. GHG emissions from business flights were calculated using the ICAO online calculator. GHG emissions from overnight hotel stays were calculated on a "room per night" basis, with emission factors based on Cornell Hotel Sustainability Benchmarking Index (CHSB) Tool, version 2. Further conversion factors for the 2021 calculations were taken from the 2020 UK Government GHG reporting: conversion factors**.

To allow for better comparability over the last three years, GHG emissions for 2019 and 2020 have been remodelled using the stated methodological approach for 2021. Changes in GHG emissions for the years 2019 and 2020 are due to more accurate emission factors, updated activity data for gas, electricity and fuel used as well as an expansion of monitoring to additional Scope 3 emission sources.

One emission category with a potentially relevant impact on the overall GHG inventory is 'Employee Commuting' in Scope 3 emissions. For the years 2019 – 2021 no activity data is available for calculation or estimation of GHG emissions. Bank of Georgia will consider whether and how to monitor this emission category more closely in the coming years.

* JRC Guidebook – How to Develop a Sustainable Energy and Climate Action Plan in the Eastern Partnership Countries, European Commission, Ispra, 2018, JRC113659, http://com-east.eu/media/k2/attachments/Com_east_guidebook_2018.pdf
** Department for Business Energy and Industrial Strategy (BEIS), Greenhouse gas reporting: conversion factors 2020, https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2020

Scope 3: Financed emissions

In 2021, Bank of Georgia took the first steps towards assessing financed emissions. This included identification, evaluation and selection of assessment methods, prioritisation of asset classes, client segments and sectors/activities with high expected GHG emissions and a significant share in the portfolio, and application of selected methods to priority clients in order to test methods and derive first results.

It was determined that, where possible, the "Global GHG Accounting and Reporting Standard for the Financial Industry" developed by the Partnership for Carbon Accounting Financials (PCAF) will be used. Where not possible, estimation methods will be applied as an interim approach.

We have started collecting data to support the monitoring of high-carbon borrowers' emissions and will refine our approach in 2022. Many challenges still remain to ensure efficient and robust measurement of Scope 3 emissions. We will work on improving our ability to measure financed emissions. In 2022 we aim to assess emissions for energy-intensive clients in the CB portfolio (20%-30% of the CB portfolio) and to incrementally publish more detailed information on financed emissions in our annual reports in the future.

Looking forward

Bank of Georgia started disclosing its climate-related initiatives in 2021. We believe we have covered all TCFD Recommendations and Recommended Disclosures, providing information on relevant decisions and on how we have made them. Nevertheless, we acknowledge that we are still at the outset of our climate journey and plan to move from testing methodologies and preparing changes to fully integrating climate-related risks and opportunities into relevant processes across the Bank. Climate-related disclosures will incrementally become more detailed.

Recommended disclosures	Way forward for 2022
Governance	
Describe the board's oversight of climate-related risks and opportunities. Describe management's role in assessing and managing climate-related risks and opportunities.	We will clearly define and disclose climate-related tasks and responsibilities, from the Board to credit officers. We will work on integrating climate-related issues into the regular process for reporting to the Board and Committees. Training and upskilling colleagues across the Bank will be a key priority.
Strategy	
Describe climate-related risks and opportunities the organisation has identified over the short, medium, and long term. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	We will continue to conduct climate-related risk and opportunity analysis and disclose relevant results. We will publish and start to implement our climate action strategy and review it later in 2022, considering the results of our climate-related research and analysis. Improving our risk assessment capacities (see below) will also allow us to better understand the resilience of our strategy.
Risk management	
Describe the organisation's processes for identifying and assessing climate-related risks. Describe the organisation's processes for managing climate-related risks. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	We will refine and expand our risk assessment methodologies, including by further substantiating scenario analysis and developing methodologies for evaluating location-specific physical climate risks and risks for our mortgage portfolio. To enhance credit risk assessment and manage risks, we will start collecting data from our business clients in a standardised manner through an updated due diligence. We will deepen our analysis of climate finance opportunities and test approaches to making data collection more efficient. We will integrate climate into our new enterprise-wide risk management framework, e.g. by reviewing our risk appetite as well as policies for managing a number of principal risk types.
Metrics and targets	
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	We have started collecting relevant data to support the monitoring of borrowers' GHG emissions. We will improve our ability to measure our Scope 3 financed emissions across product classes and sectors and plan to publish first insights into financed emissions for 20%-30% of our CB portfolio in our 2022 annual report. As we start to implement our climate action strategy and gather lessons learned on its practicality and adequacy, we will consider how to specify our climate-related goals.

Our climate-related disclosures were prepared with technical assistance financed under the European Investment Bank's Eastern Partnership Technical Assistance Trust Fund (EPTATF). The opinions expressed do not necessarily reflect the view of the European Union, EPTATF or European Investment Bank.

Non-financial information statement

This section of the Strategic Report constitutes the Group's non-financial information statement, in accordance with sections 414CA and 414CB of the Companies Act 2006, which outlines requirements for non-financial information reporting. The table below is intended to provide our stakeholders with the content they need to understand our development, performance, position and the impact of the Group's activities with regards to specified non-financial matters.

Reporting requirement	Where to find the information in the Annual Report	Page(s)	Some of our relevant policies
Environmental matters	• Environment	132 to 137	• Environmental and Social Policy
Employees	• Employee empowerment • Directors' Governance Statement – shareholder and stakeholder engagement • Nomination Committee Report	111 to 121 178 to 181 192	• Code of Conduct and Ethics • Diversity Policy • Whistleblowing Policy • Human Rights Policy • Anti-Nepotism Policy • Employee Corporate Handbook
Social matters	• Communities	122 to 124	• Environmental and Social Policy • Sponsorship and Charity Policy
Human rights	• Employee empowerment • Sustainable financial inclusion • Environmental and social management of our loan book	111 to 121 101 to 110 134 to 137	• Human Rights Policy • Code of Conduct and Ethics • Remuneration Policy • Grievances and Personal Data Protection Policy
Anti-bribery and anti-corruption	• Code of ethics, anti-bribery and anti-corruption policies	127	• Code of Conduct and Ethics • Anti-Bribery and Anti-Corruption Policy • Whistleblowing Policy
Business model	• Business model and strategy • Delivering on our strategy	19 to 33 35 to 59	
Non-financial KPIs	• Key performance indicators	64 to 65	
Principal risks	• Risk Management • Principal risks and uncertainties	67 to 73 75 to 93	

Overview of Financial Results

Strong performance across key strategic areas

The Group delivered robust performance in 2021 on the back of a significant economic recovery. Our franchise has thrived, and in 2021 this translated into strong customer lending, growth of our payments business, and a big boost to our mobile and internet banking users, transactions, and overall offloading.

The quality of our loan portfolio improved, with cost of credit risk ratio and NPLs to gross loans down y-o-y.

The impact of cost optimisation measures that we initiated in 2020 was reflected in a lower cost to income ratio for 2021. All of this underpinned a profit of GEL 727.1 million for full year, up 146.5% y-o-y. We delivered a return on average equity of 25.8%, while maintaining strong liquidity and capital positions.

Net Promoter Score, a metric that we closely monitor and that reflects the underlying strength of our customer franchise, improved to 55% in December 2021, compared with 46% at the end of last year. Our Employee Net Promoter Score stood at an all-time high of 61% as of December 2021, highlighting the engagement and the commitment of our employees that feed into better customer experience and the overall success of our organisation.

Income statement highlights

GEL thousands	2021	2020	Change y-o-y
Net interest income	953,941	777,642	22.7%
Net fee and commission income	232,431	165,503	40.4%
Net foreign currency gain	109,099	99,040	10.2%
Net other income	70,206	48,474	44.8%
Operating income	**1,365,677**	**1,090,659**	**25.2%**
Operating expenses	**(507,952)**	**(432,635)**	**17.4%**
Profit/(loss) from associates	(3,781)	782	NMF
Operating income before cost of risk	**853,944**	**658,806**	**29.6%**
Cost of risk	(51,412)	(300,997)	–82.9%
Net operating income before non-recurring items	**802,532**	**357,809**	**124.3%**
Net non-recurring items	(590)	(41,311)	–98.6%
Profit before income tax expense	**801,942**	**316,498**	**153.4%**
Income tax expense	(74,824)	(21,555)	NMF
Profit	**727,118**	**294,943**	**146.5%**

Overview of Financial Results continued

Balance sheet highlights

GEL thousands	Dec-21	Dec-20	Change y-o-y
Liquid assets	6,047,616	6,531,357	–7.4%
Cash and cash equivalents	*1,520,562*	*1,970,955*	*–22.9%*
Amounts due from credit institutions	*1,931,390*	*2,016,005*	*–4.2%*
Investment securities	*2,595,664*	*2,544,397*	*2.0%*
Loans to customers and finance lease receivables[1]	16,168,973	14,192,078	13.9%
Property and equipment	378,808	387,851	–2.3%
Total assets	**23,430,076**	**22,035,920**	**6.3%**
Client deposits and notes	14,038,002	14,020,209	0.1%
Amounts owed to credit institutions	4,318,445	3,335,966	29.5%
Borrowings from DFIs	*2,135,301*	*1,848,473*	*15.5%*
Short-term loans from central banks	*1,413,333*	*590,293*	*139.4%*
Loans and deposits from commercial banks	*769,811*	*897,200*	*–14.2%*
Debt securities issued	1,518,685	1,585,545	–4.2%
Total liabilities	**20,337,168**	**19,486,005**	**4.4%**
Total equity	**3,092,908**	**2,549,915**	**21.3%**

Key ratios

	2021	2020
ROAA	3.2%	1.5%
ROAE	25.8%	13.0%
Net interest margin	4.9%	4.6%
Liquid assets yield	3.5%	3.4%
Loan yield	10.6%	10.5%
Cost of funds	4.6%	4.7%
Cost/income	37.2%	39.7%
NPLs to Gross loans to clients	2.4%	3.7%
NPL coverage ratio	95.5%	76.3%
NPL coverage ratio, adjusted for discounted value of collateral	147.7%	128.8%
Cost of credit risk ratio	0.0%	1.8%
NBG (Basel III) CET1 capital adequacy ratio	13.2%	10.4%
NBG (Basel III) Tier I capital adequacy ratio	15.0%	12.4%
NBG (Basel III) Total capital adequacy ratio	19.3%	17.6%

1 Throughout this announcement, gross loans to customers and respective allowance for impairment are presented net of expected credit loss (ECL) on contractually accrued interest income. These do not have an effect on the net loans to customers balance. Management believes that netted-off balances provide the best representation of the loan portfolio position.

Results highlights

- **Outstanding full year performance.** The Group generated a strong profit of GEL 727.1mln in 2021 (up 146.5% y-o-y), with ROAE of 25.8% in 2021
- **Net interest margin.** NIM, up 30bps y-o-y, was 4.9% in 2021. The increase in NIM was mainly driven by an increase in loan yields as well as the successful deployment of some excess liquidity during the second and third quarters on the back of improving levels of economic activity
- **Strong net fee and commission income generation.** Net fee and commission income was mainly boosted by strong fee and commission income generation in our settlement operations, reflecting the growth of our market-leading payments. Increased fees generated from guarantees and letters of credit issued by the Corporate and Investment Banking business and higher fees generated from currency conversion operations also contributed to the increase in net fee and commission income in 2021
- **Operating expenses.** The Group continued investing in IT-related resources, digitalisation and marketing, in line with its strategic priorities, while maintaining the focus on efficiency and cost control. Our cost to income ratio was down to 37.2% for full year 2021 from 39.7% in 2020
- **Loan book increased by 13.9% y-o-y at 31 December 2021.** Growth on a constant-currency basis was 19.8% y-o-y. The y-o-y loan book growth reflected continued strong loan origination levels in all segments of our business, but particularly in the consumer, micro and SME lending portfolios in the Retail Banking business
- **Client deposits and notes increased by 0.1% y-o-y at 31 December 2021.** On a constant-currency basis, client deposits and notes grew by 12.5% y-o-y. A consistent stability in deposit balances of our individual and business customers reflects the strength of our deposit franchise, notwithstanding a decline in interest rates offered to clients
- **Cost of credit risk.** The cost of credit risk ratio was 0.0% in 2021, compared to 1.8% in 2020. Having recorded a significant ECL provision in the first quarter of 2020, we experienced an increase in recoveries, both in our retail and corporate lending portfolios, resulting in a lower than normalised level of provisions. See details on page 156
- **Asset quality.** NPLs to gross loans improved to 2.4% at 31 December 2021, compared with 3.7% at 31 December 2020. The NPL coverage ratio increased to 95.5% at 31 December 2021, compared with 76.3% at 31 December 2020, and the NPL coverage ratio adjusted for the discounted value of collateral reached 147.7% at 31 December 2021, compared with 128.8% at 31 December 2020. The significant y-o-y decrease in NPLs to gross loans and the increase in NPL coverage ratios at 31 December 2021 were primarily driven by more customers, especially in the Retail Banking segment, returning to regular repayments amid increased economic activity, following the pandemic-related grace periods
- **Strong capital adequacy position.** The Bank's capital adequacy ratios continued to increase and are comfortably above the Bank's minimum regulatory requirements. The Bank's Basel III Common Equity Tier 1, Tier 1 and Total capital adequacy ratios stood at 13.2%, 15.0% and 19.3%, respectively, all well above the minimum required levels of 11.5%, 13.6% and 17.7%, respectively, at 31 December 2021
- **Strong liquidity and funding positions.** At 31 December 2021, after successfully deploying some excess liquidity during the second and third quarters of 2021, the Bank's liquidity coverage ratio stood at 124.0% and net stable funding ratio at 132.5%, comfortably above the 100% minimum required levels
- **mBank and iBank performance.** The Bank has continued to develop digital products and upgrade digital channels' functionalities to refine end-to-end digital journeys. As a result, we had 921,018 active digital users by year-end, up 21.2% y-o-y, with 44.2% of monthly active users engaging with these channels on a daily basis. The number and the volume of transactions via our mobile app and internet banking platform also expanded markedly. See details on pages 162 to 163

Overview of Financial Results continued

Discussion of results

The Group's business is composed of three segments. (1) **Retail Banking** operations in Georgia principally provide consumer loans, mortgage loans, overdrafts, credit cards and other credit facilities, funds transfers and settlement services, and the handling of customers' deposits for both individuals and legal entities. Retail Banking targets mass retail, mass affluent and high-net-worth clients segments, together with small and medium-sized enterprises and micro businesses. (2) **Corporate and Investment Banking** comprises Corporate Banking and Investment Management operations in Georgia. Corporate Banking principally provides loans and other credit facilities, funds transfers and settlement services, trade finance services, documentary operations support and the handling of saving and term deposits for corporate and institutional customers. The Investment Management business principally provides brokerage services through Galt & Taggart. (3) **BNB**, comprising JSC Belarusky Narodny Bank, principally provides retail and corporate banking services to clients in Belarus.

Operating income

GEL thousands, unless otherwise noted	2021	2020	Change y-o-y
Interest income	1,851,044	1,595,427	16.0%
Interest expense	(897,103)	(817,785)	9.7%
Net interest income	**953,941**	**777,642**	**22.7%**
Fee and commission income	390,829	274,458	42.4%
Fee and commission expense	(158,398)	(108,955)	45.4%
Net fee and commission income	**232,431**	**165,503**	**40.4%**
Net foreign currency gain	109,099	99,040	10.2%
Net other income	70,206	48,474	44.8%
Operating income	**1,365,677**	**1,090,659**	**25.2%**

Net interest margin	4.9%	4.6%	
Average interest earning assets	19,510,848	16,870,166	15.7%
Average interest bearing liabilities	19,409,266	17,292,171	12.2%
Average net loans and finance lease receivables	15,057,524	12,966,440	16.1%
Average net loans and finance lease receivables, GEL	6,493,966	5,193,750	25.0%
Average net loans and finance lease receivables, FC	8,563,558	7,772,690	10.2%
Average client deposits and notes	13,766,622	11,773,198	16.9%
Average client deposits and notes, GEL	5,290,089	4,104,920	28.9%
Average client deposits and notes, FC	8,476,533	7,668,278	10.5%
Average liquid assets	6,283,441	5,691,417	10.4%
Average liquid assets, GEL	2,651,356	2,401,482	10.4%
Average liquid assets, FC	3,632,085	3,289,935	10.4%
Liquid assets yield	*3.5%*	*3.4%*	
Liquid assets yield, GEL	*7.9%*	*7.6%*	
Liquid assets yield, FC	*0.1%*	*0.3%*	
Loan yield	*10.6%*	*10.5%*	
Loan yield, GEL	*15.1%*	*15.3%*	
Loan yield, FC	*7.1%*	*7.4%*	
Cost of funds	*4.6%*	*4.7%*	
Cost of funds, GEL	*8.2%*	*7.9%*	
Cost of funds, FC	*2.5%*	*3.0%*	
Cost/income	*37.2%*	*39.7%*	

Performance highlights

- **The Group generated excellent operating income of GEL 1,365.7mln, up 25.2% y-o-y.** The increase in operating income was primarily driven by strong net interest income and net fee and commission income generation, up 22.7% y-o-y and up 40.4% y-o-y, respectively, on the back of a strong economic rebound in 2021. The y-o-y increase in 2021 was also supported by strong net foreign currency gains – up 10.2% y-o-y
- **Our NIM was 4.9% in 2021, up 30bps y-o-y.** The increase in NIM for the full year was primarily driven by an increase in loan yields, up 10bps y-o-y, as a result of a portfolio mix effect on the back of stronger growth in the higher yielding consumer and micro lending portfolios, as well as the successful deployment of some excess liquidity during the second and third quarters of 2021. The impact of the GEL 500 million local currency bonds repayment in June 2020 also contributed to the y-o-y increase of NIM in 2021
- **Liquid assets yield.** Liquid assets yield was 3.5% in 2021, up 10bps y-o-y. The local currency denominated liquid assets yield movement, a 30bps y-o-y increase in 2021, directly reflected the NBG's monetary policy rate changes (the NBG decreased monetary policy rate by a cumulative of 100bps since April 2020, but increased the policy rate four times by a cumulative of 250bps during 2021). As for the foreign currency denominated liquid assets yield, a 20bps y-o-y decline in 2021 largely reflected the cut in the US Fed rate in March 2020 (the NBG accrues interest rate on banks' US Dollar obligatory reserves at the US Fed rate upper band minus 50bps)
- **Cost of funds** was 4.6% in 2021, down 10bps y-o-y. The 30bps y-o-y increase in local currency denominated cost of funds in 2021 reflected the NBG's monetary policy rate changes, partially offset by the impact of the repayment of the GEL 500mln local currency bonds at the beginning of June 2020. The cost of foreign currency denominated funds was down 50bps y-o-y in 2021, largely driven by the Libor rate decline, as well as the Bank's attracting some borrowings from credit institutions at lower rates in 2021
- **Net fee and commission income** amounted to GEL 232.4mln in 2021, up 40.4% y-o-y. The outstanding performance was mainly driven by a strong fee and commission income generation in our settlement operations. Furthermore, increased fees generated from guarantees and letters of credit issued by the Corporate and Investment Banking business and fees generated from currency conversion operations also contributed to a higher fee income on a y-o-y basis in 2021
- **Net foreign currency gain** was up 10.2% y-o-y in 2021. The movement in net foreign currency gain directly reflected the level of currency volatility and client-driven flows
- **Net other income** during 2021 mainly comprised net gains from the sale of real estate properties and investment securities, primarily generated during the first half of 2021

Overview of Financial Results continued

Net operating income before non-recurring items, cost of risk, and profit[2]

GEL thousands, unless otherwise noted	2021	2020	Change y-o-y
Salaries and other employee benefits	(281,087)	(239,607)	17.3%
Administrative expenses	(129,524)	(105,531)	22.7%
Depreciation, amortisation and impairment	(93,618)	(82,937)	12.9%
Other operating expenses	(3,723)	(4,560)	–18.4%
Operating expenses	**(507,952)**	**(432,635)**	**17.4%**
Profit/(loss) from associate	(3,781)	782	NMF
Operating income before cost of risk	**853,944**	**658,806**	**29.6%**
Expected credit loss on loans to customers	(1,452)	(236,983)	–99.4%
Expected credit loss on finance lease receivables	(4,950)	(8,025)	–38.3%
Other expected credit loss and impairment charge on other assets and provisions	(45,010)	(55,989)	–19.6%
Cost of risk	**(51,412)**	**(300,997)**	**–82.9%**
Net operating income before non-recurring items	**802,532**	**357,809**	**124.3%**
Net non-recurring items	(590)	(41,311)	–98.6%
Profit before income tax	**801,942**	**316,498**	**153.4%**
Income tax expense	(74,824)	(21,555)	NMF
Profit	**727,118**	**294,943**	**146.5%**

- **Operating expenses.** The Group continued investing in IT-related resources, digitalisation and marketing, in line with its strategic priorities, while maintaining the focus on efficiency and cost control. In the second quarter of 2020, we initiated cost optimisation measures, the impact of which has been reflected in subsequent quarters. As a result, our cost to income ratio improved to 37.2% in 2021, from 39.7% in 2020
- **Cost of risk** in 2021 reflected a combination of the following factors:
  - **Cost of credit risk ratio** was 0.0% in 2021, compared to 1.8% in 2020. The 1.8% cost of credit risk ratio in 2020 reflected the IFRS 9 ECL reserve builds, created for the full economic cycle in the first quarter of 2020, related to the deterioration of the macroeconomic environment and expected creditworthiness of borrowers on the back of the COVID-19 pandemic. The Group continuously revisits the assumptions to reflect better visibility and up-to-date macroeconomic forecasts, as well as in-depth analyses of the financial standing and the creditworthiness of borrowers. As a result, the Group recorded additional ECL provisions on loans to customers and finance lease receivables in the amount of GEL 66.6mln for the Retail Banking business, and a net ECL reversal of GEL 60.4mln for the Corporate and Investment Banking segment in 2021. Given the uncertainty regarding the duration and the ongoing impact of the COVID-19 pandemic, we continue to monitor new developments
  - **Expected credit loss and impairment charge on other assets and provisions** in 2021 mainly comprised expenses accrued for certain legal fees and impairment charges on other assets, partially offset by an ECL reversal on guarantees issued
- **Quality of the loan book.** The decline in the NPLs to gross loans ratio and the increase in NPL coverage ratios at 31 December 2021 were mainly driven by more customers, especially in the Retail Banking segment, returning to regular loan payments amid increased economic activity, following the pandemic-related grace periods:

2 In 2020, the Group allocated holding company operation results to the respective segments (Retail Banking, Corporate and Investment Banking, and BNB). The comparative periods were not restated as the change was not material and the information is deemed still comparable.

Non-performing loans

GEL thousands, unless otherwise noted	Dec-21	Dec-20	Change y-o-y
NPLs	394,720	545,837	–27.7%
NPLs to gross loans	2.4%	3.7%	
NPLs to gross loans, RB	1.8%	3.5%	
NPLs to gross loans, CIB	3.6%	4.0%	
NPL coverage ratio	95.5%	76.3%	
NPL coverage ratio adjusted for the discounted value of collateral	147.7%	128.8%	

- **BNB – the Group's banking subsidiary in Belarus – remains strongly capitalised,** with capital adequacy ratios well above the requirements of the National Bank of the Republic of Belarus ("**NBRB**"). At 31 December 2021, total capital adequacy ratio was 15.5%, well above the 12.5% minimum requirement, while Tier I capital adequacy ratio was 10.0%, again above the NBRB's 7.0% minimum requirement. ROAE was 10.6% in 2021 (8.4% in 2020)
- **Net non-recurring items** in 2020 primarily comprised GEL 39.7mln one-off net losses on the modification of financial assets recorded mostly in March 2020, related to the three-month payment holidays on principal and interest payments offered to our retail banking clients to reduce the need to physically visit the branches and thus reduce the spread of the virus. In addition, in 1Q20, the Bank incurred GEL 1.2mln one-off costs to donate 20,000 COVID-19 laboratory tests, 10 ventilators, 50,000 face masks and 60,000 gloves to the Ministry of Health of Georgia. These costs were classified as non-recurring items
- **Overall, the Group recorded a profit** of GEL 727.1mln in 2021, up 146.5% y-o-y. The Group's ROAE was 25.8% in 2021, compared to 13.0% in 2020 which reflected the COVID-19 pandemic impact

Balance sheet highlights

GEL thousands, unless otherwise noted	Dec-21	Dec-20	Change y-o-y
Liquid assets	6,047,616	6,531,357	–7.4%
Liquid assets, GEL	2,819,195	2,694,091	4.6%
Liquid assets, FC	3,228,421	3,837,266	–15.9%
Net loans and finance lease receivables	16,168,973	14,192,078	13.9%
Net loans and finance lease receivables, GEL	7,348,911	5,803,576	26.6%
Net loans and finance lease receivables, FC	8,820,062	8,388,502	5.1%
Client deposits and notes	14,038,002	14,020,209	0.1%
Amounts owed to credit institutions	4,318,445	3,335,966	29.5%
Borrowings from DFIs	2,135,301	1,848,473	15.5%
Short-term loans from central banks	1,413,333	590,293	139.4%
Loans and deposits from commercial banks	769,811	897,200	–14.2%
Debt securities issued	1,518,685	1,585,545	–4.2%

Liquidity and capital adequacy ratios

GEL thousands, unless otherwise noted	Dec-21	Dec-20
Net loans/client deposits and notes	115.2%	101.2%
Net loans/client deposits and notes + DFIs	100.0%	89.4%
Liquid assets/total assets	25.8%	29.6%
Liquid assets/total liabilities	29.7%	33.5%
NBG liquidity coverage ratio	124.0%	138.6%
NBG (Basel III) CET1 capital adequacy ratio	13.2%	10.4%
NBG (Basel III) Tier I capital adequacy ratio	15.0%	12.4%
NBG (Basel III) Total capital adequacy ratio	19.3%	17.6%

Overview of Financial Results continued

Our balance sheet remains highly liquid (NBG liquidity coverage ratio of 124.0%) **and strongly capitalised** (NBG Basel III CET1 capital adequacy ratio of 13.2%) **with a well-diversified funding base** (client deposits and notes to total liabilities of 69.0%) at 31 December 2021.

- **Liquidity.** Liquid assets stood at GEL 6,047.6mln at 31 December 2021, down 7.4% y-o-y. The notable decrease over the year was mainly due to the Bank's having deployed some excess liquidity in the second and third quarters of 2021, after maintaining excess liquidity throughout 2020 for risk mitigation purposes amid the COVID-19 crisis. As a result, the NBG liquidity coverage ratio was 124.0% at 31 December 2021, down from 138.6% at 31 December 2020, comfortably above the 100% minimum requirement level
- **Loan book.** Our net loan book and finance lease receivables reached GEL 16,169.0mln at 31 December 2021, up 13.9% y-o-y. Growth on a constant-currency basis was 19.8% y-o-y. At 31 December 2021, the Retail Banking loan book represented 67.0% of the total loan portfolio, compared to 65.4% at 31 December 2020. Local currency portfolio experienced strong y-o-y growth of 26.6%, respectively, partly driven by the NBG's de-dollarisation initiatives and our goal to increase the share of local currency loans in our portfolio
- **Net loans to customer funds and Development Finance Institutions (DFI) ratio.** Our net loans to customer funds and DFI ratio, which is closely monitored by the management, stood at 100.0% at 31 December 2021, compared with 89.4% at 31 December 2020
- **Strong capital position.** As a result of our robust operating performance and strong internal capital generation, the Bank's Basel III Common Equity Tier 1, Tier 1 and Total capital adequacy ratios stood at 13.2%, 15.0% and 19.3%, respectively, at 31 December 2021, all comfortably above the minimum required levels of 11.5%, 13.6% and 17.7%, respectively. The movement in capital adequacy ratios in 2021 and the potential impact of a 10% devaluation of the local currency on different levels of capital is as follows:

	31 December 2020	FY21 profit	Business growth	GEL appreciation	31 December 2021	Potential impact of a 10% GEL devaluation
CET1 capital adequacy ratio	10.4%	5.1%	–2.3%	0.5%	13.2%	–0.8%
Tier I capital adequacy ratio	12.4%	5.1%	–2.5%	0.5%	15.0%	–0.7%
Total capital adequacy ratio	17.6%	5.1%	–3.0%	0.4%	19.3%	–0.6%

The Bank's minimum capital requirements, reflecting the full loading of Basel III capital requirements, to be completed in 2023, which remain subject to ongoing annual regulatory reviews, are currently expected to be as follows:

Expected minimum capital requirements for 2022-2023

	Dec-22	Dec-23
CET1 capital requirement	11.9%	12.2%
Tier 1 capital requirement	14.2%	14.6%
Total capital requirement	17.8%	17.8%

Capital distribution. In August 2021, the Board of Directors declared an interim dividend of GEL 1.48 per share in respect of the period ended 30 June 2021 to ordinary shareholders of Bank of Georgia Group PLC. The interim dividend was paid on 5 November 2021. The Board also announced that, as a result of higher than expected levels of lending growth in the near term, it expected the dividend/share buyback payout ratio in respect of 2021 and 2022 to be approximately 35-40%. The Group's capital and funding position remains strong. Our capital ratios are comfortably above the minimum requirements, and we continue to generate high levels of internal capital as a result of the Bank's high return on average equity, combined with strong asset quality in our lending portfolios. At the 2022 Annual General Meeting, the Board intends to recommend a final dividend for 2021 of GEL 2.33 per share payable in British Pounds Sterling at the prevailing rate. This will make a total dividend paid in respect of the Group's 2021 earnings of GEL 3.81 per share.

Dividend and capital distribution policy. Bank of Georgia Group PLC's capital distribution policy incorporates a progressive ordinary cash dividend, supplemented by additional share repurchases as and when appropriate. It is the Board's overall capital distribution policy to target a dividend/share buyback payout ratio in the range of 30-50% of annual profits. The Board expects to ensure healthy capital ratios, above minimum regulatory requirements, and take into consideration expected future capital requirements, including the full loading of Basel III requirements on our minimum capital ratios, ongoing regulatory capital developments and the growth opportunities available to Bank of Georgia.

Dividends will be paid on a semi-annual basis, with the interim dividend expected to be paid in cash and represent, under normal circumstances, around 40% of the total dividend for the year.

Discussion of segment results

Retail banking (RB)[2]

Retail Banking provides consumer loans, mortgage loans, overdrafts, credit card facilities and other credit facilities as well as funds transfers and settlement services and the handling of customer deposits for both individuals and legal entities (SMEs and micro businesses only). RB is represented by the following sub-segments: (1) mass retail segment, (2) mass affluent segment (through our SOLO brand) and high-net-worth individuals (through our Wealth Management private banking services in Georgia and internationally through representative offices in London and Istanbul, and a subsidiary in Tel Aviv), and (3) SMEs and micro businesses – MSMEs.

Income statement highlights[3]

GEL thousands, unless otherwise noted	2021	2020	Change y-o-y
Net interest income	582,531	497,155	17.2%
Net fee and commission income	178,928	121,973	46.7%
Net foreign currency gain	58,139	59,677	-2.6%
Net other income	25,869	24,755	4.5%
Operating income	**845,467**	**703,560**	**20.2%**
Salaries and other employee benefits	(205,055)	(176,243)	16.3%
Administrative expenses	(102,138)	(81,749)	24.9%
Depreciation, amortisation and impairment	(80,127)	(70,151)	14.2%
Other operating expenses	(2,595)	(2,886)	-10.1%
Operating expenses	**(389,915)**	**(331,029)**	**17.8%**
Profit/(loss) from associate	(3,781)	782	NMF
Operating income before cost of risk	**451,771**	**373,313**	**21.0%**
Cost of risk	(72,351)	(183,160)	-60.5%
Net operating income before non-recurring items	**379,420**	**190,153**	**99.5%**
Net non-recurring items	20	(39,898)	NMF
Profit before income tax expense	**379,440**	**150,255**	**152.5%**
Income tax expense	(32,956)	(6,137)	NMF
Profit	**346,484**	**144,118**	**140.4%**

Balance sheet highlights[2]

GEL thousands, unless otherwise noted	2021	2020	Change y-o-y
Net loans	10,349,776	8,767,685	18.0%
Net loans, GEL	6,201,310	4,812,246	28.9%
Net loans, FC	4,148,466	3,955,439	4.9%
Client deposits	9,557,682	8,608,488	11.0%
Client deposits, GEL	2,904,521	2,314,180	25.5%
Client deposits, FC	6,653,161	6,294,308	5.7%
of which:			
Time deposits	5,462,952	5,098,692	7.1%
Time deposits, GEL	1,534,172	1,089,220	40.9%
Time deposits, FC	3,928,780	4,009,472	-2.0%
Current accounts and demand deposits	4,094,730	3,509,796	16.7%
Current accounts and demand deposits, GEL	1,370,349	1,224,960	11.9%
Current accounts and demand deposits, FC	2,724,381	2,284,836	19.2%
Assets under management	1,503,529	1,611,826	-6.7%

3 Following structural changes in senior management, starting from the third quarter of 2021, we reclassified Wealth Management business from Corporate and Investment Banking to Retail Banking segment, under SOLO – Premium Banking. The comparative periods have been restated accordingly.

Overview of Financial Results continued

Key ratios[2]

GEL thousands, unless otherwise noted	2021	2020
ROAE	21.4%	11.0%
Net interest margin	4.2%	4.1%
Cost of credit risk ratio	0.7%	2.1%
Cost of funds	5.6%	5.5%
Loan yield	11.3%	11.4%
Loan yield, GEL	15.3%	15.4%
Loan yield, FC	5.9%	6.5%
Cost of deposits	2.6%	2.9%
Cost of deposits, GEL	6.2%	6.2%
Cost of deposits, FC	1.2%	1.8%
Cost of time deposits	3.8%	4.2%
Cost of time deposits, GEL	9.9%	9.9%
Cost of time deposits, FC	1.9%	2.6%
Current accounts and demand deposits	0.8%	0.9%
Current accounts and demand deposits, GEL	2.3%	2.4%
Current accounts and demand deposits, FC	0.1%	0.3%
Cost/income ratio	46.1%	47.1%

Performance highlights

- **Retail Banking generated outstanding operating income of GEL 845.5mln in 2021, up 20.2% y-o-y.** Strong net interest income and net fee and commission income generation were the main contributors to the increase in operating income in all periods presented
- Retail Banking net interest income was up 17.2% y-o-y in 2021, reflecting the 18.0% y-o-y growth in customer lending. **RB NIM was 4.2% in 2021, up 10bps y-o-y.** The increase in NIM primarily reflected the successful deployment of excess liquidity during the second and third quarters of 2021 on the back of a rebound in economic activity. Retail Banking net interest income also benefited from the growth of the local currency denominated loan portfolio, which generated 9.4ppts higher yield than the foreign currency denominated loan portfolio in 2021, respectively
- **Retail Banking net loan book reached GEL 10,349.8mln at 31 December 2021, up 18.0% y-o-y. On a constant currency basis, Retail Banking loan book increased by 22.7% y-o-y and by 6.6% q-o-q in 4Q21.** The local currency denominated loan book increased by 28.9% y-o-y, while the foreign currency denominated loan book increased by 4.9% y-o-y 2021. As a result, the local currency denominated loan book accounted for 59.9% of the Retail Banking loan book at 31 December 2021, compared with 54.9% at 31 December 2020. The consumer loan portfolio, which is typically most sensitive to foreign currency risk, is now almost completely de-dollarised, while the share of retail mortgage loans in local currency was 50.5% at 31 December 2021, compared with 45.7% at 31 December 2020
- The y-o-y and q-o-q loan book growth reflected continued strong loan origination levels across all segments of the Retail Banking business, driven by a strong rebound in economic activity during 2021. A fully redesigned lending process in the consumer segment as well as a lending transformation in the MSME segment also significantly boosted loan portfolio growth:

2 In 2020, the Group allocated holding company operation results to the respective segments (Retail Banking, Corporate and Investment Banking, and BNB). The comparative periods were not restated as the change was not material and the information is deemed still comparable.

Retail Banking loan book by product

Loan originations

GEL thousands, unless otherwise noted	2021	2020	Change y-o-y
Consumer loans	2,737,779	1,473,388	85.8%
Mortgage loans	1,747,404	1,429,682	22.2%
Micro loans	1,736,510	1,045,992	66.0%
SME loans	1,564,334	1,118,559	39.9%

Outstanding balance

GEL thousands, unless otherwise noted	2021	2020	Change y-o-y
Consumer loans	2,567,361	1,763,017	45.6%
Mortgage loans	3,956,204	3,733,658	6.0%
Micro loans	1,980,691	1,701,501	16.4%
SME loans	1,608,857	1,424,330	13.0%

- **Retail Banking client deposits amounted to GEL 9,557.7mln at 31 December 2021, up 11.0% y-o-y.** The dollarisation level of deposits was down to 69.6% at 31 December 2021, from 73.1% at 31 December 2020. The cost of foreign currency denominated deposits was 1.2% in 2021, down 60bps y-o-y, while the cost of local currency denominated deposits was 6.2% in 2021, flat y-o-y. The spread between the cost of RB's client deposits in GEL and foreign currency was 5.0ppts in 2021 (GEL: 6.2%; FC: 1.2%) and 4.4ppts in 2020 (GEL: 6.2%; FC: 1.8%)
- **Retail Banking net fee and commission income.** Net fee and commission income generation was outstanding, up 46.7% y-o-y in 2021. The increase was mainly driven by strong performance in settlement operations and higher fees generated from currency conversion operations, reflecting improving economic activity during 2021
- **Retail Banking's cost of credit risk ratio** was 0.7% in 2021, compared with 2.1% in 2020. The 2.1% cost of credit risk ratio in 2020 reflected the IFRS 9 ECL reserve builds created for the full economic cycle in the first quarter of 2020, related to the deterioration of the macroeconomic environment and expected creditworthiness of borrowers as a result of the COVID-19 pandemic. The Group continuously revisits the assumptions used in the reserve builds to reflect better visibility of the creditworthiness of borrowers and up-to-date macroeconomic forecasts. Based on the ongoing analyses, the Group recorded additional ECL reserves on loans to customers in the Retail Banking segment in 2021, resulting in a 0.7% cost of credit risk ratio for full year
- **Our Retail Banking business continued to deliver strong results across our core strategic pillars**, as demonstrated by the following performance indicators:

Overview of Financial Results continued

Retail Banking performance indicators

Volume information in GEL thousands	2021	2020	Change y-o-y
Retail Banking active customers[4]			
Number of new active customers	181,678	153,133	18.6%
Number of active customers	1,635,689	1,485,559	10.1%
Cards			
Number of cards issued	1,052,067	714,272	47.3%
Number of cards outstanding	2,290,716	2,137,744	7.2%
Express Pay terminals			
Number of Express Pay terminals	3,134	3,020	3.8%
Number of transactions via Express Pay terminals	77,491,726	80,295,072	–3.5%
Volume of transactions via Express Pay terminals	11,767,105	8,559,210	37.5%
POS terminals			
Number of desks	27,286	21,331	27.9%
Number of contracted merchants	17,404	11,763	48.0%
Number of POS terminals	38,514	27,184	41.7%
Number of transactions via POS terminals	150,064,673	99,895,533	50.2%
Volume of transactions via POS terminals	4,371,275	2,670,672	63.7%
Mobile and internet banking			
Number of active digital users[5]	921,018	759,939	21.2%
Number of transactions via internet bank	4,024,705	4,218,690	–4.6%
Volume of transactions via internet bank	2,448,638	2,459,137	–0.4%
Number of transactions via mobile bank	110,032,781	62,525,478	76.0%
Volume of transactions via mobile bank	18,515,145	8,940,584	107.1%

- **The Bank had more than 1.6 million active retail customers** at 31 December 2021, up 10.1% y-o-y, reflecting the continuous improvements to our end-to-end customer journeys and the development of our digital channels, especially our mobile app. According to an independent research conducted in autumn 2021, Bank of Georgia repeatedly comes out as the most trusted and top-of-mind bank in Georgia
- **The number of outstanding cards** increased by 7.2% y-o-y at 31 December 2021. The increase was mainly driven by our new debit card product – PLUS card – that we launched at the end of 3Q21, together with American Express, their second debit card project worldwide and first in EMEA. This product will enable us to transfer more benefits to cardholders and merchants and, thus, to expand our loyalty programme and boost transactional activity. The number of Loyalty programme cards reached 1,481,992 at 31 December 2021, up 27.5% y-o-y
- **Digital channels.** We have continued to develop our digital channels and provide superior digital experiences to our customers. More than 96% of total transactions of individuals were executed through digital channels[6] in 2021
  - **mBank and iBank digital offloading.** The Bank has continued to develop digital products and refine end-to-end digital journeys to increase the usage of these channels and move most of the activity to mBank and iBank. The functionalities of these platforms are updated every two to three weeks. We have introduced a number of innovative products and features recently, including digital card, peer-to-peer payments, bill splitting and money request, fully digital consumer lending process, online instalment loans, digital onboarding, embedded online chat, fully redesigned iBank, retail brokerage in mobile app, among others. As a result, the number of active users, as well as the number and the volume of transactions through these channels, particularly, mBank, have grown rapidly. We are also seeing increased engagement among active users, as more than 44% of monthly active users were daily users of our mBank/iBank
  - **The use of Express Pay terminals.** The Bank has a large network of self-service terminals throughout Georgia. We view self-service terminals as the key transition channel from physical to digital, and the migration has been significant over the past few years. The number of transactions via self-service terminals declined overall in 2021, mainly due to an increase in the maximum amount that could be deposited through a self-service terminal in 2021. This also explains the increase in the volume of transactions via self-service terminals in 2021

- **Product offloading to digital channels.** Having achieved high transactions offloading rate, the next step and a big upside for us is to further boost product sales in digital channels. Our product offloading rate[7] increased substantially to around 30% by the end of December 2021, compared with around 19% in December 2020, boosted partly by the fully redesigned digital consumer lending flow in the mobile app. The new flow is tailored to customer profiles. For example, our customers can now skip some steps in the process if we already know them. By the end of 2021, we also improved the deposit activation process in digital channels, which will further boost our product offloading. As we continue to add innovative digital products and design better end-to-end digital journeys, we are on track to achieve our targeted product offloading rate of around 36% by June 2022
- Bank of Georgia was the first bank on the market to offer its customers the possibility to add other banks' accounts in mBank under the Open Banking standards
- **Business iBank and mBank.** Since the release of a new business internet banking platform for our MSME and corporate clients, we have focused on making the Business iBank even more useful for business transactions to incentivise the transfer of client activity to digital channels. In 2021, we introduced new online chat. Another big step forward was the launch of Business mBank application to offer full digital experience to our business customers. We also introduced bill payments and mobile POS ordering functionalities and improved onboarding and biometric authentication in our Business mBank during 2021. Our goal is to make the Business mBank useful for immediate business transactions, payments, accounting, money transfers, and administration, considering customer preferences and best practices. As a result, we saw a significant increase in the number of active Business iBank and mBank users, reaching 47,642 users at 31 December 2021, up 6.2% q-o-q. We also saw a robust y-o-y increase in the number of transactions, up 31.0% y-o-y in 2021, and the volume of transactions was up 36.7% in 2021 through Business iBank/mBank. Overall, more than 97% of transactions of legal entities were executed through Business iBank/mBank in 2021

- **Our premium banking segment** comprises two directions – SOLO and Wealth Management. Following structural changes in senior management, starting from 3Q21, we reclassified the Wealth Management business from Corporate and Investment Banking to the Retail Banking segment, under SOLO – Premium Banking. The comparative periods have been restated accordingly:
  - **SOLO continued to grow and invest in its lifestyle brand.** We have 11 SOLO lounges, of which nine are located in Tbilisi, the capital of Georgia, and two in major regional cities of Georgia. The number of active SOLO clients reached 70,151 at 31 December 2021, compared to 59,156 at 31 December 2020. While active SOLO clients represent 4.3% of our total active Retail Banking client base, they contributed 28.3% to our Retail Banking loan book, 32.7% to Retail Banking deposits, 25.0% and 21.9% to our Retail Banking net interest income and Retail Banking net fee and commission income, respectively, in 2021. The net fee and commission income from the SOLO segment was GEL 31.1mln in 2021, up 13.6% y-o-y
  - **Wealth Management continues to focus on profitable growth through diversifying its offerings.** Wealth Management has a strong international presence and diversified customer base across multiple geographies. We served 1,503 active wealth management customers from 78 countries as at 31 December 2021, compared with 1,422 active customers as at 31 December 2020
  - **Wealth Management's AUM was GEL 1,503.5mln at 31 December 2021, down 6.7% y-o-y**, primarily reflecting the local currency appreciation during 2021. AUM comprises deposits and global certificates of deposit held by Wealth Management clients. In addition, the Bank's Wealth Management customers' investments in assets which are held through Galt & Taggart, reached GEL 879.5mln at 31 December 2021, up 10.2% y-o-y. **Wealth Management deposits amounted to GEL 1,393.9mln at 31 December 2021, down 7.5% y-o-y, primarily reflecting the local currency appreciation during 2021. WM deposits grew at a compound annual growth rate (CAGR) of 4.8% over the last five-year period**. The cost of deposits was 2.6% in 2021, down 50bps y-o-y
- **MSME banking.** The number of MSME segment active clients reached 63,702 at 31 December 2021, up 17.1% y-o-y. MSME's gross loan portfolio reached GEL 3,955.3mln, up 20.0% y-o-y and client deposits and notes amounted to GEL 1,152.6mln, up 20.3% y-o-y at 31 December 2021. The MSME segment generated robust operating income of GEL 231.9mln in 2021, up 16.8% y-o-y, reflecting a strong rebound in economic activity during 2021
- **Our digital ecosystem** rests on four main business verticals: real estate, e-commerce, point of sale solutions, and logistics. In 2019-2021, we launched four platforms – a real estate platform – area.ge, an online marketplace – extra.ge, an inventory management and point-of-sale solution for MSMEs – Optimo, and a full logistics services solution – *IZiBox*

In 2021, the Group further developed these platforms, enlarged its network of partners, introduced new features and

4 Active individual customer – an individual who used the Bank's any channel at least once, or performed at least one debit transaction, or was a payroll customer, or had at least one active credit product, or had any type of deposit with a balance above a certain threshold during the last three months. Active business customer – a legal entity that had at least one active credit product, or performed at least one debit transaction, or had any type of deposit with a balance above a certain threshold (varying for micro, SME, or corporate clients) during the last three months.
5 Users that logged in to mobile or internet bank at least once during the last three months.
6 Digital channels comprise mBank and iBank, Express Pay terminals, ATMs, web platforms and call center.
7 Share of cards, loans and deposits activations via digital channels during the month.

Overview of Financial Results continued

products, and increased its customer base through active campaigns and initiatives.

Also, *Optimo* participated in *500 Startups Singapore* – one of the largest startup acceleration programmes, with more than 200 startup applicants. *Optimo* successfully completed the acceleration process and was chosen among the top 12 shortlisted startups. Within the acceleration programme, *Optimo* will have the opportunity to receive ongoing support to enhance the product.

500 Georgia Acceleration programme[8] (launched in 2020 in partnership with 500 Startups and Georgia's Innovation and Technology Agency to help accelerate the development of Georgian and international early stage startups operating in the region). During 2020 and 2021, 28 companies from eleven different business verticals (fintech, healthcare, lifestyle, accounting services, auto and transportation, HR services, travel and hospitality, Adtech, Agtech, natural language processing and communications) completed the programme and joined our Digital Area ecosystem. The winners successfully completed the final acceleration process in San Francisco. Since the launch, the participating startups have raised more than US$ 10.5 million from international investors and venture capital funds over the programme duration, created 200+ jobs, have 627,000+ users, 100+ new partnerships and generated more than GEL 8mln in revenue.

During 2018-2021, the Group has invested c.US$ 8.6 million in the development of the Digital Area Ecosystem. The Group plans an additional investment of US$ 3-8 million during 2022-2023

- **Retail Banking recorded a profit** of GEL 346.5mln in 2021, up 140.4% y-o-y. Retail Banking ROAE was 21.4% in 2021, compared with 11.0% in 2020, reflecting the COVID-19 pandemic impact

Corporate and investment banking (CIB)[8]

CIB provides (1) loans and other credit facilities to Georgia's large corporate clients and other legal entities, excluding SMEs and micro businesses; (2) services such as funds transfers and settlements services, currency conversion operations, trade finance services and documentary operations as well as the handling of savings and term deposits; (3) finance lease facilities through the Bank's leasing operations arm, the Georgian Leasing Company; and (4) corporate advisory, debt and equity capital markets research and brokerage services through Galt & Taggart.

Income statement highlights[9]

GEL thousands, unless otherwise noted	2021	2020	Change y-o-y
Net interest income	**331,706**	**244,224**	**35.8%**
Net fee and commission income	47,869	37,597	27.3%
Net foreign currency gain	37,619	33,161	13.4%
Net other income	43,979	22,567	94.9%
Operating income	**461,173**	**337,549**	**36.6%**
Salaries and other employee benefits	(52,836)	(43,805)	20.6%
Administrative expenses	(16,781)	(15,662)	7.1%
Depreciation, amortisation and impairment	(8,551)	(8,539)	0.1%
Other operating expenses	(892)	(1,041)	–14.3%
Operating expenses	**(79,060)**	**(69,047)**	**14.5%**
Operating income before cost of risk	**382,113**	**268,502**	**42.3%**
Cost of risk	22,662	(113,856)	NMF
Net operating income before non-recurring items	**404,775**	**154,646**	**161.7%**
Net non-recurring items	(78)	(1,288)	–93.9%
Profit before income tax expense	**404,697**	**153,358**	**163.9%**
Income tax expense	(38,473)	(12,684)	NMF
Profit	**366,224**	**140,674**	**160.3%**

Balance sheet highlights[8]

8 Previously reported preliminary results were estimates from 500 participant companies. The figures reported for 2021 are actual results.
9 Following structural changes in senior management, starting from the third quarter of 2021, we reclassified Wealth Management business from Corporate and Investment Banking to the Retail Banking segment. The comparative periods have been restated accordingly.

GEL thousands, unless otherwise noted	2021	2020	Change y-o-y
Net loans and finance lease receivables	5,100,938	4,629,294	10.2%
Net loans and finance lease receivables, GEL	1,113,914	944,173	18.0%
Net loans and finance lease receivables, FC	3,987,024	3,685,121	8.2%
Client deposits	4,015,449	4,887,989	–17.9%
Client deposits, GEL	2,559,463	3,256,015	–21.4%
Client deposits, FC	1,455,986	1,631,974	–10.8%
Time deposits	1,258,019	2,486,084	–49.4%
Time deposits, GEL	1,106,874	2,235,568	–50.5%
Time deposits, FC	151,145	250,516	–39.7%
Current accounts and demand deposits	2,757,430	2,401,905	14.8%
Current accounts and demand deposits, GEL	1,452,589	1,020,447	42.3%
Current accounts and demand deposits, FC	1,304,841	1,381,458	–5.5%
Letters of credit and guarantees, standalone (off-balance sheet item)	1,728,569	1,585,421	9.0%
Assets under management	1,469,315	1,157,366	27.0%

Ratios[8]

GEL thousands, unless otherwise noted	2021	2020
ROAE	34.6%	16.7%
Net interest margin	5.1%	4.2%
Cost of credit risk ratio	–1.2%	1.5%
Cost of funds	2.5%	3.1%
Loan yield	8.7%	8.6%
Loan yield, GEL	13.5%	12.8%
Loan yield, FC	7.5%	7.7%
Cost of deposits	5.5%	4.9%
Cost of deposits, GEL	8.0%	7.7%
Cost of deposits, FC	0.6%	0.7%
Cost of time deposits	8.2%	7.7%
Cost of time deposits, GEL	9.1%	8.9%
Cost of time deposits, FC	2.0%	1.9%
Current accounts and demand deposits	3.5%	3.0%
Current accounts and demand deposits, GEL	6.7%	6.2%
Current accounts and demand deposits, FC	0.3%	0.4%
Cost/income ratio	17.1%	20.5%
Concentration of top ten clients	8.3%	9.7%

Overview of Financial Results continued

Performance highlights

- **Corporate and Investment Banking delivered excellent full year results.** CIB generated strong net interest and non-interest income, coupled with continuous cost discipline. As a result, the operating income before cost of risk reached GEL 382.1mln in 2021, up 42.3% y-o-y
- CIB's net interest income increased by 35.8% in 2021, reflecting a 10.2% y-o-y lending growth. **CIB's NIM was 5.1% in 2021, up 90bps y-o-y**, driven by a decline in cost of funds, coupled with a 10bps increase in loan yield
- **CIB's net fee and commission income reached GEL 47.9mln in 2021, up 27.3% y-o-y.** The y-o-y growth in net fee and commission income was largely driven by strong income generation from settlement operations, from guarantees and letters of credit issued and advisory service fees in 2021
- **CIB's loan book and dollarisation.** CIB loan portfolio reached GEL 5,100.9mln at 31 December 2021, up 10.2% y-o-y. On a constant currency basis, CIB loan book was up 18.4% y-o-y. The concentration of the top 10 CIB clients was 8.3% at 31 December 2021, compared with 9.7% at 31 December 2020. Foreign currency denominated net loans represented 78.2% of CIB's loan portfolio at 31 December 2021, compared to 79.6% at 31 December 2020. At 31 December 2021, 36.4% of total gross CIB loans were issued in foreign currency with exposure to foreign currency risk, while 42.0% of total gross CIB loans were issued in foreign currency with no or minimal exposure to foreign currency risk
- **Dollarisation of CIB deposits** was 36.3% at 31 December 2021, compared with 33.4% a year. The y-o-y increase in the CIB deposit dollarisation level primarily reflected the decrease in the deposits of the Ministry of Finance of Georgia. The interest rates on local currency-denominated deposits increased, while the interest rates on foreign currency deposits declined in all periods presented, and the cost of deposits in local currency remained well above the cost of foreign currency deposits, coupled with the appreciation of the local currency
- **Net other income.** Net gains from the sale of real estate properties and investment securities were the main sources of net other income during 2021
- **CIB's cost of risk in 4Q21 and 2021 reflected a combination of the following factors:**
  - **Cost of credit risk.** CIB's cost of credit risk was a net gain of 1.2% in 2021, compared with cost of credit risk ratio of 1.5% in 2020. The 1.5% cost of credit risk ratio in 2020 reflected the IFRS 9 ECL reserve builds, created for the full economic cycle, related to the deterioration of the macroeconomic environment and expected creditworthiness of borrowers as a result of the COVID-19 pandemic. The Group continuously revisits the assumptions used in the reserve builds to reflect better visibility and up-to-date macroeconomic forecasts, as well as in-depth analyses of the financial standing and the creditworthiness of corporate borrowers. The Group recorded a GEL 60.4mln ECL reversal on loans to customers and finance lease receivables in 2021, respectively, primarily driven by the recovery of several corporate loans during these periods, partially offset by some individual write-downs
  - **Expected credit loss and impairment charge on other assets and provisions** in 2021 was mainly related to the expenses accrued for certain legal fees and the impairment charges on other assets, partially offset by an ECL reversal on guarantees issued
- As a result, **CIB recorded a profit** of GEL 366.2mln in 2021, compared with a profit of GEL 140.7mln in 2020. CIB's ROAE was 34.6% in 2021, compared with 16.7% in 2020, reflecting the COVID-19 pandemic impact

Performance highlights of Investment Management operations

- Our Investment Management franchise covers **the leading investment bank in Georgia, Galt & Taggart**. We focus on profitable growth by unlocking the retail brokerage potential and fully digitising our brokerage services
- **The Investment Management's AUM**, which comprises Galt & Taggart brokerage client assets, reached GEL 1,469.3mln as at 31 December 2021, up 27.0% y-o-y
- **Galt & Taggart, which brings under one brand corporate advisory, debt and equity capital markets research and brokerage services, continues to develop local capital markets in Georgia**
  - **Our brokerage business demonstrated solid performance in the fourth quarter of 2021.** Gross revenue of brokerage business was GEL 7.5mln in 2021, up 15.8% y-o-y. Our online brokerage offered in partnership with Saxo Bank under a white label offering and our mobile brokerage offered in partnership with a U.S. brokerage house DriveWealth, generated a gross revenue of GEL 5.2mln in 2021, up 3.9% y-o-y
    - We see significant upside in the brokerage business in Georgia. Historically, we have focused on providing brokerage services to our wealth management customers, whereas the retail investor participation in the securities market has been limited. **We are now extending our offerings to the wider retail and mass affluent segments**

- In line with the Group's overall digital strategy, we have focused on digitalising our brokerage offerings. Over the past few years we have enhanced our back- and front-end processes to improve overall customer experience and engagement. **Our single-view client dashboard**, a product combining investment banking products into a single channel, continues to improve overall customer experience and reporting tools. By the end of 2021, in partnership with Drive Wealth, we launched a new retail brokerage service – **Investments** – directly through Bank of Georgia's mobile app, mBank. We aim to provide retail investors with access to the U.S. markets and provide wider options for the saving and investing of their funds

- Important transactions completed during 2021:
  - In March 2021, Galt & Taggart, through a competitive bidding process, was awarded a contract to provide financial and legal consultancy services to Georgian State Electrosystem (GSE) and advise on accessing capital markets and raising commercial financing
  - In April 2021, Galt & Taggart acted as a Co-manager and facilitated a successful pricing of Georgia's US$ 500 million 2.750% 5-year sovereign Eurobond. Goldman Sachs International and J.P. Morgan Securities plc acted as Joint Global Coordinators and Joint Bookrunners on the transaction along with ICBC Standard Bank plc, while two local investment banks acted as Co-managers. The Eurobond was met with strong investor demand, with orders reaching US$ 2.0 billion. This marks a historic transaction for Georgia as it secured financing at the lowest coupon and yield in the history of the country
  - In May 2021, Galt & Taggart, through a competitive bidding process, was awarded a contract to design and implement support mechanism for capital markets development in Georgia. The overall objective of this project is to increase access to finance for companies through debt and equity capital markets. The project is funded by the Delegation of the European Union in Georgia and implemented by the Capital Markets Development team of European Bank for Reconstruction and Development
  - In June 2021, Galt & Taggart acted as a Co-manager and facilitated a successful pricing of Georgian Railway's US$ 500 million 4.0% 7-year Eurobond. Citigroup and J.P. Morgan acted as Joint Lead Managers and Joint Bookrunners on the transaction. The strong investor demand led to an 8.4x oversubscription as orders reached US$ 4.2 billion. This marks a historic transaction for the issuer as it secured financing at the lowest coupon and yield in its history
  - In August 2021, Galt & Taggart acted as a sell-side advisor on a US$ 30 million transaction in the real estate sector
  - In September, October and November 2021, Galt & Taggart acted as a Lead manager for the European Bank for Reconstruction and Development, facilitating three private bond placements in the total amount of GEL 313 million with up to 5 years maturity
  - In December 2021, Galt & Taggart together with a local investment bank successfully facilitated the placement of local public bonds in the amount of US$ 12 million with up to 3 years maturity
- **Galt and Taggart is a leading research house in Georgia, supporting our brokerage business and CIB activities with an in-depth quality macro and sector research coverage.** Galt & Taggart publishes research reports on Georgia's and regional economies, key economic sectors in Georgia, regional fixed income securities, and global macro trends, among others. Currently, we have more than 6,500 unique subscribers, and our research is available on all major international platforms (Bloomberg, Capital IQ, Refinitiv, etc.)

Governance

Directors' Governance Statement

Mel Carvill
Chairman of the Board

Chairman's introduction

Dear Shareholders,

I am pleased to present the fourth Governance Statement of Bank of Georgia Group PLC.

I am delighted to have become your new Chairman. I look forward to working with the Board.

Your Board is responsible for ensuring sound management and long-term success of the Group, which can only be achieved with an appropriate governance framework. During the year we have continued to operate in accordance with the Code. The Group is also committed to complying with applicable sanctions requirements.

The Board is entirely committed to the principles of good corporate governance and is of the view that good governance delivers a series of strategic and organisational benefits. Good governance gives the Board confidence that we are making the right decisions, keeping in mind what is truly in the Group's long-term interest. It allows us to consider the opinions of our stakeholders, including our shareholders, our customers, our employees and our communities. It enables us to be a driver for the banking sector and for the sustainable development of Georgia.

During the year we continued to deliver on our key corporate governance commitments. The Supervisory Board of JSC Bank of Georgia complies with the governance standards set by the NBG. During the year further amendments to the NBG Corporate Governance Code (NBG Code) came into force which affected the composition of the Bank's Supervisory Board and its committees. As a result, the Board appointed Véronique McCarroll as Chair of the Risk Committee with effect from 1 January 2022. My appointment as Chairman was made with effect from 10 March 2022.

During the year the Board ensured that the ongoing strategic focus on digitalisation was maintained, including through the expansion of technological and data analytics capabilities. The Board reviewed the investments which were being made in information technology and was particularly pleased with the progress which was achieved in the number of active digital users and the number of transactions made through the Bank's mobile application and internet banking platform.

The Board understands that the Group's operations may have both positive and negative impacts on the economy, people and the environment and recognises its role in ensuring that the Group properly manages its impacts, limiting and mitigating the negative ones, while being a driving force for good for its stakeholders. To ensure strong ESG practices across the organisation, a formal materiality assessment was carried out in 2021. The Board considered the feedback from stakeholders and the analysis of the results of the engagement and approved the Group's material topics. Considering the global challenge of climate change and the increasing role of businesses in addressing this challenge, the Board also reviewed the progress on the Group's response to climate change and on the implementation of the TCFD recommendations. The Board also took a keen interest in the steps that were being taken to enhance ESG disclosures based on global sustainability reporting best practice.

Along with the rest of the world, the Board has been watching the unfolding situation between Russia and Ukraine. In March 2022, the Board received an update on the potential economic impact of the situation and ongoing sanctions imposed on Belarus and Russia. Processes have been put in place to evaluate and mitigate the risks and impacts on the business in both the short and medium term.

We remain committed to working with our management to ensure that our high standards extend beyond the boardroom and are implemented throughout the business in the successful delivery of the Group's strategic priorities.

Mel Carvill
Chairman of the Board
27 April 2022

Directors' Governance Statement continued

Statement of compliance with the UK Corporate Governance Code

The Company is committed to maintaining standards of corporate governance which enhance performance, reduce risks and promote the protection of our shareholders' interests. The Board recognises that good corporate governance is essential in building a successful business for the longer term and for ensuring positive relationships with our key stakeholders.

The Board has overall responsibility for governance and is accountable to its shareholders. This Governance Report describes how during 2021 the Board has applied the main principles and complied with the relevant provisions to the Code. The Code is publicly available at the website of the Financial Reporting Council at www.frc.org.uk.

The Board is committed to the principles of good corporate governance. We have continued to evolve our governance framework and underlying governance structures to meet the needs of the business. During the year we have undertaken steps to ensure ongoing compliance with the Code, including receiving an analysis from the Company Secretary on the Company's application of the provisions and principles throughout the year. Throughout the year ended 31 December 2021, the Company has applied all the Main Principles and complied with all the provisions of the Code. This statement, and the reports from the Board Committees, set out how we applied the Main Principles of the Code as required by LR 9.8.6. The Directors' Report also contains information required to be disclosed under the UK Listing Authority's Rules and Disclosure Guidance and Transparency Rules. To the extent necessary, certain information is incorporated into this Report by reference.

Bank of Georgia Group's governance structure

The Board is composed of nine Directors, eight of whom are independent Non-Executive Directors. The Board is assisted in fulfilling its responsibilities by four principal committees: Audit, Nomination, Remuneration and Risk. Their terms of reference are reviewed annually to ensure they are aligned with the most recent version of the Code and the Committees function effectively. The relevant Committee recommends any amendments to the Board. The current terms of reference are available at: https://www.bankofgeorgiagroup.com/governance/documents. For further information see the Nomination Committee Report on page 192, Audit Committee Report on page 199, Risk Committee Report on page 206 and Remuneration Committee Report on page 210.

BOARD

Risk Committee

Key responsibilities:

- Assists the Board in relation to risk oversight.
- Reviews Group risk appetite in line with strategy.
- Identifies and monitors risk exposure and the risk management infrastructure.
- Assesses the strength and effectiveness of the risk management and internal control framework.

See pages 206 to 209 for the Risk Committee Report.

Audit Committee

Key responsibilities:

- Reviews and monitors the integrity of the Group's financial and reporting processes.
- Responsible for the governance of both the internal audit function and external auditor.
- Works with the Risk Committee in assessing the effectiveness of the risk management and internal control framework.

See pages 199 to 205 for the Audit Committee Report.

Nomination Committee

Key responsibilities:

- Ensures the Board has the right balance of skills, experience, independence and Group knowledge.
- Responsible for both Director and management succession planning.

See pages 192 to 198 for the Nomination Committee Report.

Remuneration Committee

Key responsibilities:

- Makes recommendations to the Board on the Directors' Remuneration Policy.
- Determines the remuneration package of the Chief Executive Officer and Executive Management.
- Assesses the performance of Directors and Executive Management Team against KPIs.
- Responsible for design and oversight of the Group employee share schemes.

See pages 210 to 238 for the Remuneration Committee Report.

Chief Executive Officer

Management Team

The role of the Board

The Board is responsible to shareholders for creating and delivering sustainable shareholder value through the management of the Group's business. Among our responsibilities are developing and overseeing the execution of the Company's strategy within a framework of effective risk management and internal controls, demonstrating ethical leadership and upholding corporate governance best practice. The Board recognises its duties under the UK Companies Act 2006 (Companies Act 2006) to promote the long-term success of the Company, taking into account not only the views and interests of our shareholders but also our various stakeholders, such as our employees, our customers, and the environment and our community as a whole.

Each Director recognises that they have a statutory duty to take into account and represent the Company's various stakeholders in deliberations and decision-making.

More details can be found about how the directors have fulfilled their duties under Section 172 of the Companies Act 2006 later in this report.

The Board monitors the execution of strategy and financial performance by management. As a Board, we recognise the need to ensure that management strikes the right balance between delivering on short-term objectives and ensuring sustainable long-term growth.

To ensure that the Board meet their responsibilities, certain key decisions can only be approved by the Board. These decisions can be found in the Schedule of Matters Reserved for the Board on our website at: https://www.bankofgeorgiagroup.com/governance/documents.

The Board delegates authority for the day-to-day management of the business to the CEO. The CEO, in turn, delegates aspects of his own authority, as permitted under the corporate governance framework, to the Management Board of the Bank.

Operation of the Board

The Board usually meets four times a year in Georgia, although due to the global COVID-19 pandemic and ensuing travel restrictions, this has not been possible in 2021. In September the Board met in person for the first time since the COVID-19 pandemic, in Berlin, Germany. In December, the Board was able to meet face-to-face in Georgia. Other meetings held during the year were made by video conference.

The Board's responsibilities include:

- oversight of the Group;
- strategy and assessment of the risks and uncertainties and risk appetite;
- the governance structure;
- the Directors' and Executive Management's succession planning
- managing environmental, social and governance (ESG) and sustainability (TCFD) reporting;
- setting the overall purpose, values and culture of the Bank; and
- accountability to shareholders for the Group's long-term success.

The Senior Independent Non-Executive Director supports the Chairman in his role, acts as an intermediary for other Non-Executive Directors where necessary and liaises with the Non-Executive Directors outside of the Board and Committee meetings.

In 2021, the Chairman met with the Non-Executive Directors without the CEO present and the Senior Independent Non-Executive Director held a meeting with the Non-Executives without the Chairman.

Directors' Governance Statement continued

What was on the Board's agenda during 2021

The Board adhered to an annual schedule of rolling agenda items, designed to ensure that all matters are given due consideration and are reviewed at the appropriate point in the financial and regulatory cycle. The Board had an extensive agenda during 2021:

Financial and corporate reporting	• Reviewed and approved quarterly, half-year and full-year results • Received quarterly Group financial performance updates • Updated dividend and capital distribution policy • Revised the Group's medium- to long-term guidance for customer lending growth from c.15% to c.10% and removed the c.200 basis points additional internal buffer target on CET1 and Tier 1 capital requirements. • Declared an interim dividend in respect of the period ended 30 June 2021 • Annual Report discussion and updates and recommendations (from the Audit Committee and Risk Committee) • Reviewed and approved the Group's Annual report and Accounts • Reviewed and approved the notice of AGM
Strategy	• Reviewed the Company's , business principles, mission and strategy • Reviewed performance against strategy • Received regular updates from key areas of the Group's operations • Reviewed information technology and cyber risks • Regularly reviewed the Georgian macroeconomic environment • Monitored COVID-19 ongoing support • Received updates on key projects • Received updates on ESG practices and approved the ESG materiality matrix
Governance and policies	• Assessed the culture and worked to reinforce the desired culture of the Group • Considered external legislative and governance developments and received regulatory updates • Considered Board succession planning with a focus on the appointment of a new Chairman • Reviewed policies • Considered Board and Committees' effectiveness • Reviewed Committee's terms of reference
Stakeholder engagement	• Received reports about engagement with shareholders and our other stakeholders • Received the results of employee and customer surveys • Received reports on engagement with the NBG • Received reports from the designated Non-Executive Director for engagement with the workforce • Received ESG materiality report after engagement with stakeholders
Standing agenda items	• Received reports from Chief Executive Officer • Received feedback from Board Committees • Reviewed and approved the minutes of previous meeting • Received status update on any matters outstanding from previous meetings

The Chairman and CEO receive regular input from the Non-Executive Directors ahead of each Board meeting to ensure that any matters raised by the Non-Executive Directors are on the agenda to be discussed at the meeting.

Culture

By setting the tone at the top, promoting an open and agile culture, establishing the of the Group and demonstrating our leadership, management is able to create and implement policies and procedures in a manner that clearly sets an expectation that every employee acts ethically and transparently in all their dealings.

This fosters an environment where business and compliance are interlinked.

The Group's mission is: helping people achieve more of their potential. Maintaining a culture based on and six key business principles and ensuring equal opportunities for personal and professional development internally are one of the key enablers of the realisation of this mission.

Our CEO has made culture one of his leadership priorities and is actively promoting diversity as one of the cornerstones of culture. The percentage of women in the Executive Committee equivalent and Direct Reports for the Group increased to 54.1% as at February 2022 (date of FTSE Women Leaders Review report). According to the statistics in this 2022 report, if the Group were in the FTSE 250, it would be ranked second in the banking sector.

To encourage all employees to participate in the development of culture, our CEO takes the following steps to promote engagement: he writes a blog for employees, records video messages, updates the Group with examples of employees going the extra mile to inspire and highlights where employees have shown potential; holds live discussions during which employees can ask the CEO questions and talk directly with him. In addition, he has encouraged employees to engage in the new talent development process introduced in 2020.

More information on our employee engagement initiatives can be found on pages 119 to 121, and later in this report.

Following employee feedback and outputs from eNPS surveys and Barrett Organisational Culture and Values Assessment, and the Board's ongoing emphasis on culture, the Board has identified the following core values, aligned with our mission and key strategic and operational objectives:

- motivation;
- support;
- creation and action; and
- courage.

The Board, with management input, further identified key business principles designed to support the organisational values and to reinforce the message of sustainable value creation within the Group. Our business principles are:

- teamwork;
- development;
- fairness;
- customer-centricity;
- operational excellence; and
- innovation.

The Board considered these and business principles again in early 2021, took into account employee feedback, including as raised in the Employee Voice (see below for details on this forum), considered how values and principles were being embedded to date and confirmed that they continue to be appropriate.

The Board's ongoing focus on culture and systematic focus on employee empowerment and engagement during 2021 were reflected in the increased eNPS and Employee Engagement scores (the details of which can be found on page 120 in our Sustainable Business Report).

Every employee is encouraged to participate in the development of our culture, and the Board has received updates on the processes by which the culture is being shaped.

Foundations of our culture are embedded across various activities related to employee engagement and empowerment: for example, an updated Talent Assessment system was launched in 2020 and is based on our business principles, and employees were involved in developing this system. Other examples of providing employees with opportunities to provide feedback and direct communication are outlined in the Sustainable Business section of this annual report.

In line with the recommendations of the Code, Hanna Loikkanen has been appointed as the designated Non-Executive Director to engage with the workforce.

In 2018, the Board introduced a new initiative, Employee Voice – a quarterly informal discussion forum for the Board to engage with the workforce. These meetings are facilitated by Hanna Loikkanen as the designated Non-Executive for workforce engagement, and all Board members are invited to participate in these meetings, which aim to facilitate the exchange of opinions, ideas and views between the Board and employees. In 2021, Employee Voice meetings were held with three groups to discuss the current employee experience, challenges and opportunities, and what the future after COVID-19 might look like. The meetings were held virtually due to the ongoing restrictions.

In addition, several Board members provide regular mentoring to members of the Management Board and to senior management on leadership, employee engagement and culture creation.

In 2021, the Board continued to monitor and assess our culture. An Employee Engagement Survey was undertaken by Korn Ferry. An internal eNPS survey was also undertaken. We were pleased to see increasing levels of engagement with the survey. Also, the Board continued to further improve the employee experience through a number of initiatives, including: Employee Experience Management team meeting with every employee to consider their specific experiences; enhancing the onboarding process;

Directors' Governance Statement continued

developing the exit interview process to better capture feedback from employees; and encouraging talent development, specifically for young talent and those with high potential. We also received regular reports on whistleblowing to help inform the Board's assessment of the development of the Group's culture.

The Board believes that there is significant value in these actions, both in allowing Directors to gain further insight into the Group's culture and employee issues, and in providing employees with further opportunities to engage with the Board. These disclosures reflect how our employees are taken into account in the Board's decision-making.

Looking ahead to 2022, the Board will continue to monitor culture, further improve employee experiences and enhance the talent development platform and monitor metrics and output from the eNPS survey; and we will receive reports from Hanna Loikkanen on employee matters.

We will report in our 2022 Annual Report on the ways in which we have developed these initiatives over the forthcoming year.

Board and Committee meeting attendance

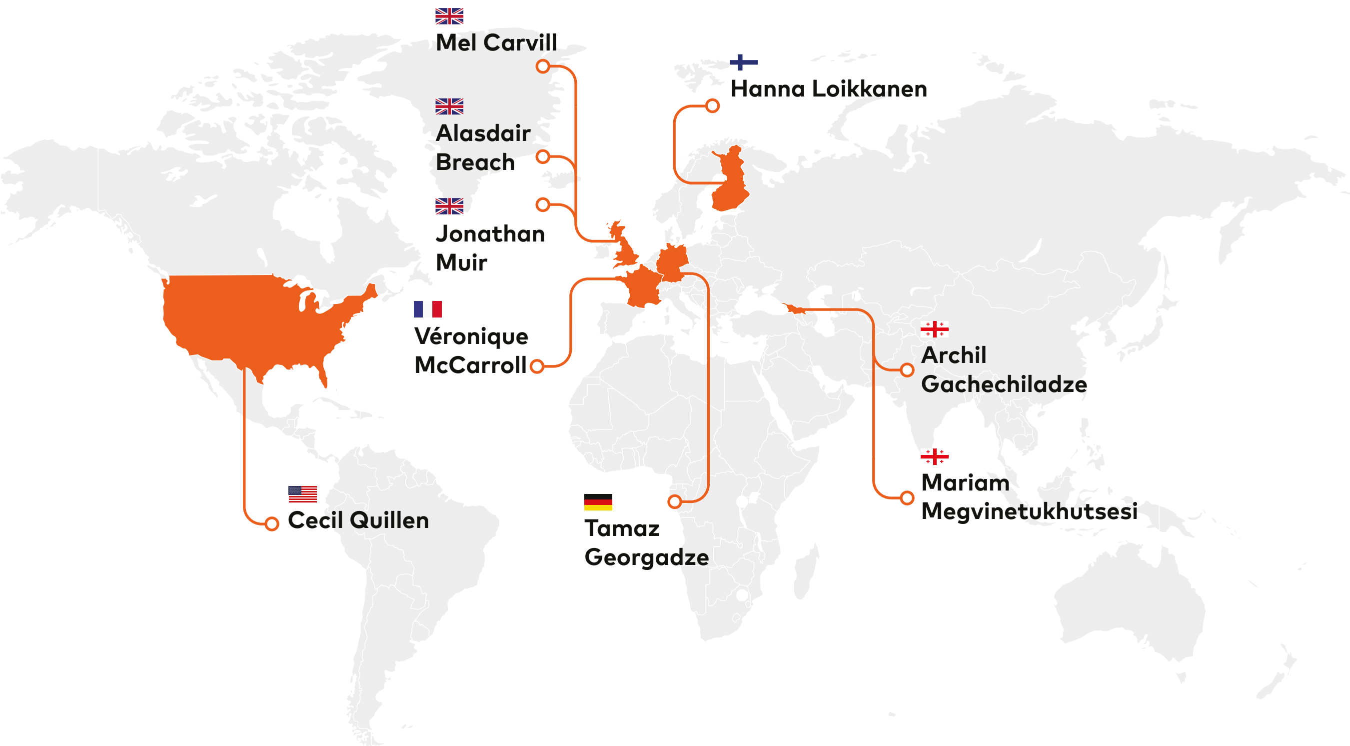
Details of Board and Committee meeting attendance in 2021 are as follows:

Members	Board	Audit Committee	Nomination Committee	Remuneration Committee	Risk Committee
Neil Janin*	4/4 scheduled 5/5 ad hoc	N/A	4/4	6/6	N/A
Alasdair Breach*	4/4 scheduled 5/5 ad hoc	N/A	4/4	6/6	4/4
Tamaz Georgadze*	4/4 scheduled 5/5 ad hoc	N/A	4/4	6/6	4/4
Archil Gachechiladze	4/4 scheduled 5/5 ad hoc	N/A	N/A	N/A	N/A
Hanna Loikkanen*	4/4 scheduled 5/5 ad hoc	4/4	4/4	6/6	N/A
Mariam Megvinetukhutsesi*[2]	3/3 scheduled 4/4 ad hoc	N/A	3/3	N/A	3/3
Véronique McCarroll*[1]	4/4 scheduled 4/5 ad hoc	N/A	4/4	N/A	4/4
Jonathan Muir*	4/4 scheduled 5/5 ad hoc	4/4	4/4	N/A	N/A
Cecil Quillen*[1]	4/4 scheduled 4/5 ad hoc	4/4	4/4	6/6	N/A

* Denotes Independent Director.
1 Ms McCarroll and Mr Quillen were unable to attend one ad hoc Board meeting due to a prior commitment; however, they provided full comments on the materials discussed to the Board ahead of the meeting.
2 Mariam Megvinetukhutsesi joined the Board on 12 March 2021. She attended the Board and Committee meetings which were held immediately prior to her appointment.

Board size, composition and independence

We consider that a diversity of skills, backgrounds, knowledge, experience, geographic location, nationalities and gender is important to effectively govern the business. The Board and its Nomination Committee will work to ensure that the Board continues to have the right balance of skills, experience, knowledge and independence necessary to discharge its responsibilities in accordance with the highest standards of governance.



The Board is mindful of developing diversity both at Board level and at other levels in the Group. According to the statistics in the 2022 FTSE Women Leaders Review report, if we were in the FTSE 250, we would place in the number two spot for the banking sector in terms of percentage of women in the Executive Committee equivalent and Direct Reports.

Female representation on the Board is at 33%. More information, regarding our targeted improvement of this representation, can be found on page 194 of this report. Although we are not currently a FTSE 350 company, the Board is also mindful of the aims of the Parker Review, for companies to have at least one director from an ethnic minority background by 2024. As part of the ongoing succession cycle, the Board will take into consideration the need to improve the ethnic diversity of the Board during the process for recruiting new Non-Executive Directors. It is anticipated that this process will satisfy the Parker Review requirements. Our approach to diversity is balanced with the need to appoint directors who can best serve the interests of the Company and shareholders as well as having relevant experience for a banking business substantially based in Georgia.

Following the appointment of Mariam Megvinetukhutsesi in March 2021 the Board consider that the overall size and composition is appropriate, considering the independence of character and integrity of all the Directors. Each of our Non-Executive Directors occupies, and/or has previously occupied, senior positions in a broad range of relevant associated sectors, bringing valuable insights to the Board's deliberations and contributing significantly to decision-making. No individual, or group of individuals, can dominate the decision-making process and no undue reliance is placed on any individual.

The Board has assessed the independence of the Chairman and each of the seven Non-Executive Directors in line with principle G and provision 9 of the Code. The Board considers that the Chairman and each Non-Executive Director act in an independent and objective manner. We consider that our Non-Executive Directors are independent and free from any business interest or relationship that could materially interfere with the exercise of their judgement in accordance with the criteria outlined in the Code. In addition, the Board is satisfied that each Non-Executive Director dedicates the necessary amount of time to the Company's affairs and their role.

Considering the matters above, the Board considers that the Non-Executive Directors have retained their independence and that it is appropriate to put them forward for election or re-election at the AGM.

During the year the Board and the Nomination Committee have focused on the appointment of a new Chairman. The Nomination Committee, led by Hanna Loikkanen

Directors' Governance Statement continued

and Jonathan Muir on this matter, undertook a thorough and rigorous process which concluded by recommending Mel Carvill. The Board appointed Mel Carvill to the Board with effect from 10 March 2022. Further information on our work on succession planning can be found on page 195 in the Nomination Committee report.

Division of responsibilities

The Board has adopted written statements setting out the respective responsibilities of the Chairman, CEO, Senior Independent Director and Non-Executive Directors. Biographies for the Board members are set out on pages 184 to 187. A summary of the responsibilities of the Directors is set out below.

Chairman

- Guardian of the Board's decision-making process
- Ensures the Board as a whole plays a full and constructive part in strategic decision-making
- Sets the Board agenda
- Ensures the Board receives accurate, timely and clear information
- Shapes the boardroom culture and sets clear expectations
- Ensures a formal and rigorous evaluation of the Board take place each year

CEO

- Responsible for running the Group's business
- Operational and strategic management of the Group
- Develops the Group's strategy and commercial objectives
- Leads communication with stakeholders

Senior Independent Director

- Provides a sounding board for the Chairman and serve as a trusted intermediary for the other Directors
- Responsibility for an orderly succession process for the Chairman
- Available to Non-Executive Directors and shareholders if they have concerns which normal channels fail to resolve
- Meets with other Non-Executive Directors for an annual appraisal of the Chairman's performance

Non-Executive Directors

- Provides constructive challenge and specialist advice
- Provides strategic guidance
- Takes into account the views of shareholders and other stakeholders
- Scrutinises the performance of management

Board induction, ongoing training, professional development and independent advice

On appointment, each Director participates in an induction programme, during which they meet members of senior management and receive information about the role of the Board and individual Directors, and each Board Committee and their respective delegated powers. They are also advised by the UK General Counsel and Company Secretary of the legal and regulatory obligations of a Director of a company listed on the London Stock Exchange. Induction sessions are designed to be interactive and are tailored to each individual based on his or her previous experience and knowledge.

We are committed to ensuring the continuing development of our Directors so that they build on their expertise and develop an ever more detailed understanding of the business and the markets in which Group companies operate. All of our Directors participated in ongoing training and professional development throughout 2021, which included briefings and presentations by the UK General Counsel, our Company Secretary, members of management and our professional advisors. During the year, our UK General Counsel and Company Secretary provided updates on regulatory and legislative changes, including: changes to disclosure requirements of the UK Listing Rules; refresher training on the dealing disclosure provisions of the Market Abuse Regulations; refresher training on appointment processes and renewal of the Board and independence criteria; and an update on the Task Force on Climate-Related Financial Disclosures (TCFD). Audit Committee members also received training on developments in audit and accounting.

All Directors have access to the advice of the UK General Counsel and Company Secretary as well as independent professional advice, at the Company's expense, on any matter relating to their responsibilities.

Evaluation of Board performance

Following the external evaluation undertaken by Farman & Partners in 2020 the Board focused on continuous improvement. The Board recognises that the annual evaluation process is an important tool in reaching that goal. The Board undertook an internal effectiveness review, supported by the Company Secretary in 2021. This process was administered via a questionnaire, enabling Directors to provide anonymous feedback, which was collated by the Company Secretary.

The conclusions of the 2021 effectiveness review were positive and confirmed that the Board, its Committees, and the Chairman operate effectively and that each Director contributes to the overall effectiveness and success of the Company. The results confirmed that the Board has a good balance of skills, experience and diversity of backgrounds and personality that encourages open, transparent discussions and change.

The Board recognised the difficulties which COVID-19 had presented in respect of Board effectiveness and efficiency, particularly due to the travel restrictions. There was widespread consensus that this has been managed and improvements can be seen in the functioning of the Board. The Board concluded that the key areas for 2022 included board succession planning and the induction of the new Chairman; continued improvement of the digital transformation programme;

monitoring the implementation of the various ESG and sustainability initiatives; and maintaining and extending diversity in all its forms at Board and management level.

Further information about the evaluation process for individual Committees is provided in the Committee reports.

In September 2021, the Non-Executive Directors led by the Senior Independent Non-Executive Director, met to evaluate the performance of the Chairman. They concluded that the Chairman continued to show effectiveness in leadership. The Chairman also met with the Non-Executive Directors without the CEO present in December 2021.

Internal controls and risk management

The Group has a comprehensive system of risk management and internal controls in place, designed to ensure that risks are identified, assessed and mitigated and that the Group's objectives are attained. The Board recognises its responsibility to present a fair, balanced and understandable assessment of the Group's position and prospects. It is accountable for reviewing and approving the effectiveness of the internal controls operated by the Group, including financial, operational and compliance controls, and risk management. The Board recognises its responsibility in respect of the Group's risk management process and system of internal controls and oversees the activities of the Group's external auditor and the Group's risk management function (supported by the Audit and Risk Committees).

The Group's risk management approach is further discussed in the Strategic Report on pages 67 to 73. For details on the management of principal risks and uncertainties please refer to pages 75 to 93. Please refer to pages 199 to 205 for further details on the role of the Audit Committee, and pages 206 to 209 for further details on the role of the Risk Committee.

The Group's governance structure for risk management is illustrated on page 70.

Diversity Policy

More information on the Company's Diversity Policy, its objectives, implementation and results can be found on pages 194 and 195.

Directors' Governance Statement continued

Statement by the Directors in performance of their statutory duties in accordance with Section 172(1) of the Companies Act 2006

The Board of Directors consider that they, both as a whole and individually, have acted in a way that they consider, in good faith, would be most likely to promote the long-term success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in Section 172 (1) (a-f) of the Act).

The Board has identified the Company's key stakeholders to be: Customers, Employees, Communities and Shareholders. Directors take a long-term view on the consequences of decisions they make and aim to maintain the Company's reputation for high standards of business conduct and to ensure fair treatment between different stakeholders.

The Board is committed to effective engagement with all of its stakeholders. Stakeholder feedback is invaluable in helping formulate the longer term strategy of Bank of Georgia Group PLC. The Board works hard to ensure that the expectations, needs, concerns and thoughts of our stakeholders are taken into consideration. Depending on the issue in question, the relevance of each stakeholder group may differ and, as such, as part of its engagement with stakeholders, the Board seeks to understand the relative interests and priorities of each group and to take account of these, as appropriate, in its decision-making. However, the Board acknowledges that decisions must be made based on competing priorities of different stakeholders.

Key stakeholders:

During 2021, the Board continued to engage with stakeholders and were kept informed both directly and indirectly about relevant stakeholder matters through management reports. Some of the ways in which the Board engaged with, or received views, from its key stakeholders during the year are provided below. Further details on our stakeholders are provided in Sustainable Business section page 98.

Stakeholder	Link to strategy	Engagement and targets
Customers	We believe that the success and sustainability of our organisation depend on how happy our customers are with what they experience as they interact with Bank of Georgia. Digitalisation is core to our strategy and brand. We continue to develop new digital products and accelerate sales in digital channels. By continuously focusing on digitalisation and expanding technological and advanced data analytics capabilities across the organisation, the Group aims to anticipate customer needs and offer more personalised solutions and seamless experiences to its customers. For further details see Business Model and Strategy on pages 20 to 25.	The Bank regularly tracks customer satisfaction with both internal and external surveys. Bank-wide NPS is a key metric that is monitored by an independent external service provider at least twice a year. By the year-end the Bank's NPS had improved significantly, reaching a new historic high of 55%. Our achievements have been recognised by external stakeholders. Amongst the awards received during the year Global Finance Magazine named Bank of Georgia Best Consumer Digital Bank in Georgia 2021 and Best Online Product Offerings and Best Bill Payments & Presentment in Central and Eastern Europe 2021.
Employees	The ability to attract, develop and retain top talent is key to the delivery of our strategic objectives and the success of our organisation over the longer run. We believe that customer experience starts with employee experience. Our objective is to be the employer of choice for top talent, providing equal opportunities for development and ensuring best employee experience based on our values and business principles. For more details see Business Model and Strategy on page 31 and Sustainable Business section on page 111.	We provide details in our Sustainable Business section and earlier in this report on our engagement with employees, which includes: • half-year and annual performance reviews; • employee satisfaction and engagement surveys; • CEO vlog sessions; • town hall sessions with senior management; • Employee Voice meetings with the designated workforce engagement Non-Executive Director and the Chairman. Our Chief Executive Officer has encouraged employees to proactively engage with the talent management initiatives and processes, and to consider their professional development paths. We have reshaped the employee end-to-end journey to create a positive employee experience, with diverse opportunities for development, to ensure ongoing high levels of engagement. By encouraging employees to participate in and provide feedback on our talent management initiatives and processes, we aim to help our employees achieve more of their potential. A key success metric and a key performance indicator Bank-wide is eNPS, which we started to measure in 2019 and monitor regularly. In two years, the Bank's eNPS improved from 46% to 61%, reaching an all-time high level by the end of 2021.

Directors' Governance Statement continued

Stakeholder	Link to strategy	Engagement and targets
Communities	The Board recognises that Bank of Georgia, as a leading organisation and financial institution in Georgia, has a significant role to play in helping the country overcome some of its biggest environmental and social challenges, contributing in this way to Georgia's sustainable development. Financial inclusion is integral to individual wellbeing and the prosperity of our communities. We have defined this area as one of the core pillars of our ESG strategy, which is interlinked with our business strategy. Our goal is to make our tools, products, and services more accessible and to increase their usage, and do so sustainably. We work with and encourage the communities where we operate in different ways. We have focused on increasing access to quality educational infrastructure and educational opportunities. Our aim is to reach more school students in Georgia with these initiatives. For further details see Sustainable Business section on page 122.	Our core activity is developing new tools and innovative products that enable greater financial inclusion in Georgia. We have focused on increasing the use of digital tools (mobile app, payments) as a way to create opportunities for more people. We have developed a range of educational campaigns to increase financial literacy. As we launched Investments in the mobile app, we have developed comprehensive content to raise awareness of the risks and benefits of investing, including educational videos and e-learning modules. For further details see Sustainable Business section on page 101. We have continued to invest in multifunctional libraries in Georgia's regions, provided scholarships and got involved in other educational projects throughout 2021.
Shareholders	Providing sustainable and attractive returns to shareholders while maintaining a strong capital and liquidity position is necessary to ensure the flow of capital is maintained. For more details see Delivering on Our Strategy on page 35.	The Board monitors the capital and liquidity positions of the Group. These are linked to the Capital and Liquidity KPIs detailed in the Key Performance Indicators section on page 63. The Company has a comprehensive shareholder engagement and communication programme and encourages an open and transparent dialogue with existing and potential shareholders. The programme covers all results, performance and strategy issues, as well as discussions relating to ongoing corporate governance and other ESG topics. The Group has been considering matters that our shareholders have indicated as important to them in written communications as well as during individual conference calls. We provide more details on our enhanced approach to ESG in the Sustainable Business section. This dialogue will continue during 2022. The Board's primary contact with institutional shareholders is through the Chairman, CEO, Chief Financial Officer, Advisor to the CEO and the Head of Investor Relations, who provide a standing invitation to shareholders to meet and discuss any matters they wish to raise. Our Committee Chairs also make themselves available to answer questions from investors. Hanna Loikkanen is the Board's Senior Independent Director, whose role includes acting as an intermediary for shareholders.

Stakeholder	Link to strategy	Engagement and targets
Shareholders continued		We will engage with shareholders, including through the Company's forthcoming AGM, to be held in May 2022, and will also continue to communicate with shareholders on important developments throughout the year. Our annual results announcement, half-year results and quarterly results are supported by a combination of presentations and conference calls. Over the course of 2021, we have engaged with over 400 institutional investors, and participated in more than 20 investor conferences and road shows, most of which were virtual. Throughout the year, our Directors and management met or held video conferences with our existing and potential shareholders in Georgia, the UK, Europe, North America, and South Africa. The Chairman has overall responsibility for ensuring that the Board understands the views of major stakeholders. The full Board is regularly informed on these views by the Chairman as well as management and the Investor Relations team and, to the extent deemed appropriate, the Group has taken active steps to adopt different ways of working in response to the feedback received from shareholders and other stakeholders. Informal feedback from analysts and the Group's corporate advisors is also shared with the Board. Our website, https://www.bankofgeorgiagroup.com, provides our shareholders with access to the Group's results, press releases, investor presentations, analyst reports, details on our engagement with stakeholders, our leadership, as well as other information relevant to our shareholders. We also ensure that shareholders can access details of the Group's results and other news releases through our website as well as the London Stock Exchange's Regulatory News Service. Prior to determining the new Directors' Remuneration Policy, a number of major shareholders were consulted. Hanna Loikkanen, as Chair of the Remuneration Committee, held individual video calls with shareholders to discuss the impact of the NBG Code changes and solicit specific shareholder feedback. Following the feedback of one major shareholder, the Committee decided to extend the holding period of the discretionary deferred shares from proposed one-year holding period to a two-year holding period to further align the Executive Director with the long term success of the Company and the shareholder experience. The discretionary deferred shares in the new Policy will therefore now be released over a period of eight years from the beginning of the work year once the Policy is approved.

Bank of Georgia Group PLC has a wide range of stakeholders with differing interests. The Board has different mechanisms to ensure effective engagement with key stakeholders and that the interests of those stakeholder are considered duly in Board deliberations and decision-making. For the AGM in 2021, shareholders could ask questions via email which were answered ahead of the meeting and could join the AGM electronically for the first time.

When the Board makes decisions, it considers the views of the key stakeholders outlined above as well as other stakeholders as appropriate, including regulators, Georgian and other Governments, and suppliers.

We undertake regular liaison with Government departments, including Ministerial liaison, and the NBG, as the Bank is regulated. As part of our communication programme with the local regulator, we discuss Bank-specific and system-wide issues, and also use a Banking Association platform, together with other banks, to discuss wider banking system issues, such as regulations, macro issues, and the legal environment.

The Bank has taken significant steps towards strengthening its enterprise-wide compliance risk management framework. With the existing complex regulatory environment, the Bank has directed its resources and developed a robust tool kit for a timely implementation of new regulatory requirements. The Bank has also established formal links and coordinated processes for regulatory communication.

Directors' Governance Statement continued

Principal decisions

Examples of principal decisions taken by the Board where the Directors had regard to the relevant matters set out in section 172 (1) (a) – (f) of the Companies Act 2006 when discharging their duties, are set out below.

Decision	Link to strategy	Rationale	Key stakeholders affected by the decision:	KPI
Dividend payment and capital distribution policy review	One of our key strategic targets is to maintain a robust capital management position which incorporates a progressive semi-annual cash dividend, supplemented by additional share repurchases as and when appropriate.	Following the Board's decision in March 2020 not to recommend a dividend to shareholders for the 2019 financial year, the Bank confirmed to the NBG, in May 2021, that it no longer used or expected to use any of the Pillar 2 or conservation buffers that had been waived by the NBG in 2020. Consequently, there are no longer any restrictions on making a capital distribution in any form. The Board considered the capital requirements and capital distribution scenarios, including the capital ratios for 2021-2023 and assumptions, along with macro-economic updates on a regular basis. An analysis of the largest investors, representing in excess of 50% of the share register was undertaken. Specific feedback was sought from a number of the Bank's largest shareholders. The Bank's capital adequacy ratios continue to be robust. While considering the decision to declare an interim dividend in August 2021, the Board reviewed the Basel III CET1, Tier 1 and Total capital adequacy ratios as at 30 June 2021, which were all comfortably above the minimum regulatory requirements. The Board went on to consider and revise the dividend and capital distribution policy. The Board reviewed the dividend and capital distribution policy to ensure healthy capital ratios, taking into consideration expected future capital requirements, including regulatory capital developments and growth opportunities. The Board considered that the decision was prudent and appropriate. Considering the above, the Board declared an interim dividend for the period ended 30 June 2021 of GEL 1.49 per ordinary share payable to shareholders on 5 November 2021. The Board have considered the Basel III CET1, Tier 1 and Total capital adequacy ratios as at 31 December 2021. All are comfortably above the minimum required levels. The Board therefore intends to recommend a dividend for the period ended 31 December 2021 of GEL 2.33 per ordinary share payable in British Pounds at the prevailing rate. See Business Model and Strategy page 19 for more details.	Shareholders.	Capital distribution, ROAE, dividend payment, basic earnings per share, capital adequacy.

Decision	Link to strategy	Rationale	Key stakeholders affected by the decision:	KPI
ESG strategy	The Group understands that the Group's operations may have both positive and negative impact on the economy, people and the environment and recognises its role in ensuring that the Group properly manages its impacts, limiting and mitigating the negative ones, while being a driving force for good and creating opportunities for its stakeholders. Considering the global challenge of climate change, the Bank has committed to supporting Georgia's climate-related goals.	In 2021, the first formal materiality assessment was undertaken. The assessment included an exercise in stakeholder engagement to gather insight on the relative importance of 27 specific ESG topics. Feedback was obtained from internal and external stakeholders, including middle and senior management and the Executive Management of the Bank, investors, and lenders. As a result, material topics have been defined and approved by the Board of Directors. ESG strategy has been formulated, with respective KPIs. Please see page 99 for more details. In 2021 we also enhanced our understanding of climate change and related risks and opportunities, developed a climate action strategy, and took steps to start implementing climate risk and opportunity management processes across Bank of Georgia in 2022. We have committed to enhancing our disclosures in line with best practice and global sustainability standards. This includes the requirement for all premium-listed companies to state, in their Annual Report, whether their disclosures are consistent with the TCFD recommendations, or to explain why not. See Sustainable Business section pages 97 to 99 for more details.	Customers, Employees, Communities, Shareholders.	The relevant KPIs have been defined for core ESG areas as part of overall ESG strategy. For further details see Sustainable Business section page 99.

Board of Directors

Diverse and balanced team who govern with experience

Mel Carvill

Non-Executive Chairman

Mel Carvill was appointed Non-Executive Chairman of Bank of Georgia Group PLC on 10 March 2022. Mr Carvill serves as Chairman of Bank of Georgia Group PLC's Nomination Committee, as well as a member of the Remuneration Committee. Subject to regulatory approval, Mr Carvill will join the Supervisory Board of JSC Bank of Georgia and is expected to become its Chair.

Skills and experience:
Mr Carvill has extensive international experience across a broad range of companies in the financial sector. He worked at the Generali Group from 1985 until 2009, holding various positions, including Chief Risk Officer, Head of Corporate Finance and M&A and of Strategic Planning. He also served as Head of Western Europe, Americas and Middle East at Generali.

In 2009 he joined PPF Partners, a private equity fund investing in Central Eastern Europe and Asia, where he held the position of President until 2014, and then worked for the wider PPF Group serving as an advisor. Mr Carvill also served on company boards in multiple European and Asian markets.

In addition to his directorships at Bank of Georgia Group PLC Mr. Carvill has built up a portfolio of non-executive directorships, including as Non-Executive Director at Home Credit N.V., Chairman at Aviva Life UK, Chair of the Financial Services Opportunities Investment Fund Ltd in Guernsey, and Investor Non-Executive Director at Clearbank. He is the Senior Independent Director at Sanne Group PLC, which he will resign from upon the completion of the Apex Group's acquisition of Sanne. Mr Carvill has spoken at a number of universities, regulatory events and think tanks, maintaining his links to high level global foreign policy and economics contacts.

Education:
Mr Carvill qualified as a Chartered Accountant while at Coopers & Lybrand, and is a Fellow of the Institute of Chartered Accountants in England and Wales. He holds an Advanced Diploma in Corporate Finance, is a Chartered Insurer and an Associate of the Chartered Insurance Institute, as well as a Fellow of the Chartered Institute for Securities and Investment.

Reasons for appointment:
Mr Carvill is highly qualified and has extensive international experience across a broad range of companies in the financial sector. He brings considerable Board level experience.

Archil Gachechiladze

CEO

Archil Gachechiladze was appointed as Executive Director and CEO of Bank of Georgia Group PLC on 28 January 2019. Mr Gachechiladze serves as CEO of the Bank. Prior to his recent appointment Mr Gachechiladze served as CEO of Georgian Global Utilities (formerly part of BGEO Group PLC) from January 2017 to January 2019. Mr Gachechiladze joined the Bank in 2009 as Deputy CEO, Corporate Banking (2009-2013) and has since held various roles with the Bank and the Group, such as Deputy CEO, Investment Management (2013-2015), CFO of BGEO Group (2015-2016) and Deputy CEO, Corporate and Investment Banking (2016-2017).

Skills and experience:
Mr Gachechiladze has over 20 years of experience in financial services, including various senior positions in both local and international organisations, such as TBC Bank (2008-2009), Lehman Brothers Private Equity (currently Trilantic Capital Partners) (2006-2008), Salford Equity Partners (2002-2004), the European Bank for Reconstruction and Development (EBRD) (2001-2002), KPMG, and the World Bank's CERMA (1998-2000).

Education:
Mr Gachechiladze received his undergraduate degree in Economics from Tbilisi State University and holds his MBA with distinction from Cornell University. He is also a CFA Charterholder and a member of the CFA Society in the United Kingdom.

Reasons for appointment:
Archil Gachechiladze has broad and extensive experience in the financial services sector and brings significant insight into the local Georgian business market, as well as having international experience. Mr Gachechiladze has demonstrated leadership and vision in the development of the Group's strategy and promotion of its culture.

Hanna Loikkanen

Senior Independent Non-Executive Director

Hanna Loikkanen was appointed as the Senior Independent Non-Executive Director of Bank of Georgia Group PLC on 24 February 2018. Ms Loikkanen serves as Chair of the Remuneration Committee, as well as a member of the Audit Committee and Nomination Committee. Ms Loikkanen also serves as a member of the Bank's Supervisory Board. Ms Loikkanen previously served as an Independent Non-Executive Director of BGEO Group PLC, which included positions on their Nomination and Risk Committees.

Skills and experience:
Ms Loikkanen has over 25 years of experience working with financial institutions in Russia and Eastern Europe. She worked at the Moscow office of a Swedish asset management company East Capital from 2007 until 2015, managing a private equity fund focusing on investments in financial institutions in the region. During this period, she served on the boards of several regional banks, with special focus on corporate governance and business development. Prior to this, Ms Loikkanen held the position of CEO at FIM Group in Russia, running this Finnish investment bank's brokerage and corporate finance operations in Russia. Earlier in her career, Ms Loikkanen worked for Nordea Finance in various senior management positions in Poland, the Baltic States and Scandinavia with a focus on business development, strategy and business integration; for SEB in Moscow where she was responsible for the restructuring of SEB's debt capital market operations in Russia; and for MeritaNordbanken in St Petersburg where she focused on trade finance and correspondent banking. In addition to her directorships at Bank of Georgia Group PLC, Ms Loikkanen serves as a Non-Executive Director, Chair of the Compensation and Remuneration Committee and a member of the Audit Committee of PJSC Rosbank (Société Générale Group in Russia), as a Non-Executive Director and a member of HR Committee at Finnfund, a Finnish state-owned development financier, and as a Non-Executive Director and Chair of the Audit Committee of VEF AB, a Stockholm First North listed emerging market fintech investor.

Since 2014, she has acted as Non-Executive Chairman of the Board of T&B Capital, an independent regulated wealth management company based in Helsinki. She is also a voluntary Supervisory Board member of the Caucasus nature fund, which provides support for nature conservation in Armenia, Azerbaijan and Georgia and which receives regular donations from the Bank.

Education:
Ms Loikkanen holds a Master's degree in Economics and Business Administration from the Helsinki School of Economics, and was a Helsinki School of Economics scholar at the University of New South Wales.

Reasons for appointment:
Hanna Loikkanen has extensive experience in financial institutions in Russia and Eastern Europe and has held a number of senior positions and advisory roles within the banking industry. In her role as senior independent Non-Executive Director, Ms Loikkanen brings her strong listed company board experience and valuable knowledge of the financial industry to the Board.

Alasdair (Al) Breach

Independent Non-Executive Director

Alasdair Breach was appointed as an Independent Non-Executive Director of Bank of Georgia Group PLC on 24 February 2018. Mr Breach serves as a member of Bank of Georgia Group PLC's Remuneration Committee, Risk Committee and Nomination Committee. Mr Breach also serves as a member of the Supervisory Board. Mr Breach previously served as an Independent Non-Executive Director of BGEO Group PLC, which included positions on their Remuneration, Nomination and Risk Committees.

Skills and experience:
In 2013, Mr Breach co-founded Gemsstock Limited, a UK FCA-regulated fund manager, where he also serves as an Executive Director. In 2010, Mr Breach also founded Furka Advisors AG, a Swiss-based asset management firm, and served as an Executive Director until founding Gemsstock Limited, which manages the Gemsstock Fund, which was previously called the Gemsstock Growth Fund and managed by Mr Breach at Furka Advisors AG. His previous career was in research in investment banks, principally in Russia. In January 2003, Mr Breach joined Brunswick UBS (later UBS Russia) as Chief Economist, and later was appointed Head of Research and Managing Director until October 2007. From 1998 to 2002, Mr Breach was a Russia and Former Soviet Union (FSU) economist at Goldman Sachs, based in Moscow. Mr Breach is also the co-founder of The Browser.com, a web-based curator of current affairs writing, established in 2008. Mr Breach serves as a Director of Gemsstock Limited, the Gemsstock Fund, The Browser and Furka Holdings AG, all of which are private entities. He is also an advisor to East Capital.

Education:
Mr Breach obtained an MSc in Economics from the London School of Economics and an undergraduate degree in Mathematics and Philosophy from Edinburgh University.

Reasons for appointment:
Al Breach has extensive knowledge in asset management, analysis of investment banks and in economics. His experience of managing the investment fund brings strong strategic and critical evaluation skills to challenge and contribute to business strategy.

Board of Directors continued

Diverse and balanced team who govern with experience.

Tamaz Georgadze

Independent Non-Executive Director

Tamaz Georgadze was appointed as an Independent Non-Executive Director of Bank of Georgia Group PLC on 24 February 2018. Mr Georgadze serves as a member of the Risk, Remuneration and Nomination Committees. Mr Georgadze is also a member of the Bank's Supervisory Board. Mr Georgadze previously served as an Independent Non-Executive Director of BGEO Group PLC, which included positions on BGEO Group PLC's Audit, Nomination and Risk Committees.

Skills and experience:
In 2013, Mr Georgadze founded Raisin, a company which launched the first deposit brokerage platform in Europe and he continues to serve as its CEO. PayPal and Goldman Sachs are amongst shareholders of Raisin. Prior to founding this company, Mr Georgadze had a ten-year career at McKinsey & Company in Berlin, where he served as a Partner from 2009 to 2013. At McKinsey & Company, he conducted engagements with banks in Germany, Switzerland, Russia, Georgia and Vietnam, focusing on strategy, risk identification and management, deposit and investment products, operations and sales. Prior to joining McKinsey & Company, Mr Georgadze worked as an aide to the President of Georgia in the Foreign Relations Department from 1994 to 1995. Save for his roles at Raisin, Mr Georgadze does not hold any other directorships.

Education:
Mr Georgadze holds two PhDs, one in Economics from Tbilisi State University and the other in Agricultural Economics from Justus-Liebig University Gießen, Germany. Mr Georgadze also studied Law at Justus-Liebig Universität Gießen and graduated with honours.

Reasons for appointment:
Tamaz Georgadze has a strong understanding of the banking industry, financial technology, strategy and risks, and also brings his considerable experience of operating in the Georgian markets to his role on the Board.

Véronique McCarroll

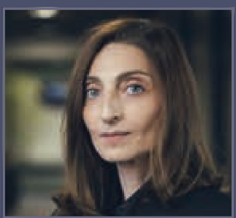
Independent Non-Executive Director

Véronique McCarroll was appointed as an Independent Non-Executive Director of Bank of Georgia Group PLC on 1 October 2018. Ms McCarroll serves as Chair of Bank of Georgia Group PLC's Risk Committee and as a member of Bank of Georgia Group PLC's Nomination Committee, and as a member of the Bank's Supervisory Board.

Skills and experience:
Ms McCarroll has over 30 years' experience in financial services, with a strong focus on corporate and investment banking, risk management and digital banking. She is currently Deputy CEO at Orange Bank, with responsibility for finance, data office, risk and compliance, having previously headed Strategy and Innovation for Mobile Finance and Digital banking across Europe at Orange. Prior to this role, she has been an Executive Director at Crédit Agricole CIB, in charge of Strategy and Business Transformation, and has spent 19 years in consulting firms, helping large banking clients on financial matters, including as a Partner at McKinsey & Company, Oliver Wyman and Andersen/Ernst & Young. Ms McCarroll started her career with Banque Indosuez in Capital Markets in 1986, serving in various front office fixed income and then market risk management roles. Ms McCarroll also teaches Finance at Paris Dauphine University.

Education:
Ms McCarroll graduated from ESSEC (Ecole Supérieure des Sciences Economiques et Commerciales) in 1985.

Reasons for appointment:
Ms McCarroll has developed an extensive career in consulting and financial services, and has significant understanding of risk management. She brings direct experience from her career in strategic consultancy and the banking sector to the Board.



Mariam Megvinetukhutsesi

Independent Non-Executive Director

Mariam Megvinetukhutsesi was appointed as an Independent Non-Executive Director of Bank of Georgia Group PLC on 12 March 2021. Ms Megvinetukhutsesi also serves as a member of Bank of Georgia Group PLC's Risk and Nomination Committees, and, as a member of the Bank's Supervisory Board.

Skills and experience:
Ms Megvinetukhutsesi provides consulting services to businesses on governance and financial management. Previously she served as Head of Georgia's Investors Council Secretariat (2015-2019), promoting reforms for improvement of Georgia's investment climate. She has 20 years' prior experience in the financial services, including as Deputy CEO at TBC Bank (2009-2014) and banking appointments at the European Bank for Reconstruction and Development (1997-2007).

Education:
Ms Megvinetukhutsesi received her undergraduate degree in Banking and Finance from Tbilisi State University and holds an MSc in Finance and Investments from the University of Edinburgh.

Reasons for appointment:
Ms Megvinetukhutsesi has an extensive career in governance and financial services, and brings a strong and significant understanding from her career in the banking sector to the Board.

Jonathan Muir

Independent Non-Executive Director

Jonathan Muir was appointed as an Independent Non-Executive Director of Bank of Georgia Group PLC on 24 February 2018. Mr Muir serves as Chairman of Bank of Georgia Group PLC's Audit Committee, as well as a member of the Nomination Committee. He was appointed as an Independent Non-Executive Director to BGEO Group PLC's Board of Directors after previously serving as an advisor to their Board since December 2016. Mr Muir also serves as a member of the Bank's Supervisory Board.

Skills and experience:
Mr Muir has over 30 years' experience working as a professional in accounting and finance. He is an executive director (CEO) of LetterOne Holdings SA and is CEO of LetterOne Investment Holdings. LetterOne is an international investment business consisting of two groups which target investments in the healthcare, energy, telecoms and technology, and retail sectors. Prior to joining LetterOne, Mr Muir was CFO (2008-2013) and Vice President of Finance and Control (2003-2008) of TNK-BP, which he joined after serving as CFO of SIDANCO, one of TNK-BP's heritage companies. Prior to this, he was a partner at the global audit and consulting company Ernst & Young (1985-2000).

Education:
Mr Muir graduated with first class honours from St. Andrews University in the UK. He is a British-qualified Chartered Accountant and a member of the Institute of Chartered Accountants of England and Wales.

Reasons for appointment:
Mr Muir brings a strong understanding of accounting practice and international finance issues, and has strong and comprehensive experience of audit issues. His wider experience of working in different corporate and national cultures affords him a strong understanding of the Georgian political and economic experience, which in addition to his accounting experience and qualifications makes him ideally suited to chair the Group's Audit Committee.

Cecil Quillen

Independent Non-Executive Director

Cecil Quillen was appointed as an Independent Non-Executive Director of Bank of Georgia Group PLC on 24 February 2018. Mr Quillen also serves as a member of Bank of Georgia Group PLC's Audit Committee, Remuneration Committee and Nomination Committee. Mr Quillen is also a member of the Bank's Supervisory Board.

Skills and experience:
Mr Quillen is a lawyer and a London-based US partner of Linklaters LLP, the global law firm. He is a leading U.S. capital markets practitioner in the London market and works on a broad spectrum of securities and finance matters. A particular focus of his practice has been transactions in the CIS and in central and eastern Europe. Mr Quillen is an officer of the Securities Law Committee of the International Bar Association and chairs its Public Company Practice and Regulation subcommittee, and sits on the Advisory Committee for Securities Regulation in Europe of the Practising Law Institute. He is a trustee of the University of Virginia Law School Foundation and of UK Friends of Harvard University. Mr Quillen became a partner of Linklaters in 1996 and was resident in the firm's New York office before transferring to the London office in 2000. He is admitted to practice in New York and the District of Columbia and is a registered foreign lawyer in England and Wales.

Education:
Mr Quillen received his undergraduate degree from Harvard and his law degree from the University of Virginia.

Reasons for appointment:
Cecil Quillen is a legal professional of the highest level and brings a strong understanding of legal and regulatory issues, as well as corporate governance, to the Board. Mr Quillen's experience brings a distinct perspective to the Board, and his knowledge of established and emerging markets is highly valued by the Board.

Mr Neil Janin served as Chairman of Bank of Georgia Group PLC and its Nomination Committee, as well as as a member of the Remuneration Committee until 10 March 2022. Mr Janin served as a Chairman of the Supervisory Board of JSC Bank of Georgia until 31 March 2022. Mr Janin previously served as Chairman of BGEO Group PLC.

Management Team

Highly experienced leadership who deliver our strategy.

Archil Gachechiladze

CEO

See page 184 for his biography.

Sulkhan Gvalia

Deputy CEO, Chief Financial Officer

Mr Gvalia was appointed as Deputy CEO, Chief Financial Officer of JSC Bank of Georgia in May 2019. Mr Gvalia has extensive experience in banking having worked in a number of senior management roles at the Bank, including Chief Risk Officer (2005-2013) and Head of Corporate Banking (2013-2016). Mr Gvalia previously served as Deputy CEO of TbilUniversalBank, prior to its acquisition by the Bank of Georgia in November 2004. Prior to his recent appointment, Mr Gvalia was the founder and CEO of E-Space Limited, Tbilisi – the only Georgian company developing the electric car charging infrastructure in Georgia. He also serves as a Non-Executive Independent Director at Inecobank (Armenia) since 2018. Mr Gvalia received a law degree from Tbilisi State University.

George Chiladze

Deputy CEO, Chief Risk Officer

Mr Chiladze was appointed as Deputy CEO, Chief Risk Officer of JSC Bank of Georgia in September 2013. He re-joined the Bank having already served as Deputy CEO, Finance from 2008 to 2012. From 2012 to 2013, Mr Chiladze was Deputy CEO at the Partnership Fund, and he served as General Director of BTA Bank (Georgia) from 2005 to 2008. Prior to joining BTA Bank, he was an executive member of the Supervisory Board of JSC Europace Insurance Company and a founding partner of the management consulting firm Altergroup Ltd. Mr Chiladze had previously worked in the US at the Programme Trading Desk at Bear Stearns in New York City, before returning to Georgia in 2003. Mr Chiladze received a PhD in Physics from Johns Hopkins University in Baltimore, Maryland, and an undergraduate degree in Physics from Tbilisi State University.

Levan Kulijanishvili

Deputy CEO, Chief Operations Officer

Mr Kulijanishvili was appointed as Deputy CEO, Chief Operations Officer of JSC Bank of Georgia in September 2017, prior to which he served as BGEO Group PLC's CFO and as Deputy CEO, Finance of the Bank from February 2016. He has been with the Bank since 1997. During his over 25 years of service, Mr Kulijanishvili has held various senior positions, including Head of Compliance and Internal Control from 2009 until his appointment as Deputy CEO, Finance, Head of the Internal Audit department (2000-2009), Manager of the Financial Monitoring, Strategy and Planning department (1999-2000) and Head of the Financial Analysis division (1997-1999). Mr Kulijanishvili received his undergraduate degree in Economics and Commerce from Tbilisi State University and received his MBA from Grenoble Graduate School of Business.

Vakhtang Bobokhidze

Deputy CEO, Information Technology, Data Analytics, Digital Channels

Mr Bobokhidze was appointed as Deputy CEO of JSC Bank of Georgia in March 2018, prior to which he served as Head of IT since April 2016. Mr Bobokhidze joined the Bank in late 2005 as a Quality Control Manager, progressing through several positions until he joined JSC Bank Republic in 2010. Mr Bobokhidze made his return to the Bank in December 2010 as IT Business Consultant and he currently holds the position of Deputy CEO in charge of Information Technology, Data Analytics and Digital Channels. Mr Bobokhidze received his undergraduate and MBA degrees from Tbilisi State University.

Mikheil Gomarteli

Deputy CEO, Mass Retail and Micro Business Banking

Following the split of Retail Banking into two segments in February 2017 due to significant growth in the Retail Banking business, Mr Gomarteli assumed the role of Deputy CEO responsible for Mass Retail and Micro Business Banking of JSC Bank of Georgia. Prior to this, Mr Gomarteli had served as the sole Deputy CEO of Retail Banking since February 2009. He has been with the Bank since December 1997. During his 25 years of service with the Bank, Mr Gomarteli has held various senior positions, including Co-Head of Retail Banking (March 2007 to February 2009), Head of Business Development (March 2005 to July 2005), Head of Strategy and Planning (2004 to 2005), Head of Branch Management and Sales Coordination (2003 to 2004), Head of Branch Management and Marketing (2002 to 2003) and Head of Banking Products and Marketing (2000 to 2002). Mr Gomarteli received his undergraduate degree in Economics from Tbilisi State University.

David Chkonia

Director of International Business

Mr Chkonia was appointed as Senior Advisor of JSC Bank of Georgia in March 2021 and promoted to Director of International Business in March 2022. Prior to joining the Bank, he held various senior positions, including as Deputy CEO and Chief Risk Officer at TBC Bank, Director at BlackRock in London, where he advised financial institutions and regulators on risk management, balance sheet strategy and regulation, Senior Vice President at PIMCO, responsible for the risk advisory practice. In 2009-2011, Mr Chkonia worked at European Resolution Capital, helping European banks with NPL management and recovery strategies. In 2005, Mr Chkonia joined Goldman Sachs in the EMEA Structured and Principal Finance team, where he completed a number of innovative financing transactions in the infrastructure and real estate sectors and worked on restructuring assignments. Mr Chkonia holds a BSc from San Jose State University and an MBA from the Wharton School at the University of University of Pennsylvania.

Management Team continued

Highly experienced leadership who deliver our strategy.

Eter (Etuna) Iremadze

Deputy CEO, Premium Banking Business (SOLO and Wealth Management)

Ms Iremadze was appointed as Deputy CEO, Premium Banking Business of JSC Bank of Georgia in January 2021, prior to which she served as Head of Premium Banking Business since May 2019. Ms Iremadze has around 20 years of experience in financial services. She joined the Bank in 2006 and has held various senior positions, including Head of Blue Chip Corporate Banking Unit covering structured lending, M&As, significant buyouts in the country, as well as project financing. Ms Iremadze also served as Head of the Strategic Projects Department in Georgian Global Utilities (formerly part of BGEO Group PLC), where she was working under the direct supervision of the CEO (2017-2019). Ms Iremadze received her undergraduate degree in Economics and Commerce from Tbilisi State University and received her MBA from Grenoble Graduate School of Business.

Zurab Masurashvili

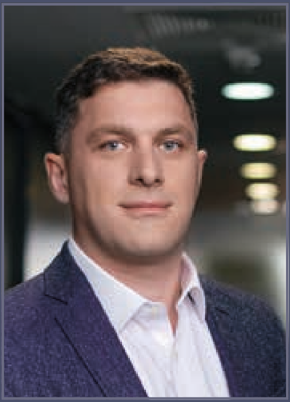
Head of SME Business Banking

Mr Masurashvili was appointed as Head of SME Business Banking of JSC Bank of Georgia in May 2019. Prior to this appointment, Mr Masurashvili has held several senior positions in the Bank since 2015, including Head of Express Business, Head of MSME Business and Head of Retail Business Banking. Mr Masurashvili has extensive experience in financial services. During 2002-2007, he held several positions in international organisations such as EBRD's Small Enterprise Lending Programme, the World Bank's Access to Rural Finance in Bangladesh and GTZ's Micro Finance and Reform of Rural Finance Sector. During 2007-2015, prior to joining the Bank, he served as a Deputy Chairman of the Board of Directors in JSC Privatbank. Mr Masurashvili received his undergraduate degree in Geology from Georgian Technical University.

Zurab Kokosadze

Deputy CEO, Corporate Banking

Mr Kokosadze was appointed as Deputy CEO, Corporate Banking of JSC Bank of Georgia in January 2021, prior to which he served as Head of Corporate Banking under the direct supervision of CEO since May 2020. Mr Kokosadze has around 20 years of experience in financial services. He joined the Bank in 2003 as Junior Corporate Banker and since has held various senior positions, including Senior Corporate Banker (2006-2009), FMCG Sector Head (2009-2016), Deputy Head of Corporate Banking (2016-2017) and Head of Corporate Banking (2017-2020), under the supervision of Deputy CEO, Corporate and Investment Banking. Mr Kokosadze has been actively involved in shaping the Bank's Corporate Banking business platform since its launch. Mr Kokosadze received his undergraduate degree in business administration from Caucasus School of Business and his MBA degree from Grenoble Graduate School of Business.



Andro Ratiani

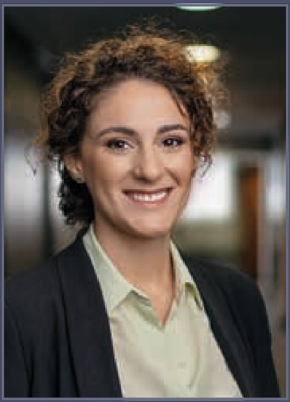
CEO of Digital Area

Mr Ratiani was appointed as CEO of JSC Digital Area in February 2021, prior to which he served as Head of Innovation of JSC Bank of Georgia since January 2018. Mr Ratiani has extensive experience in the global financial services sector, having worked for international banking institutions and financial service providers. Prior to joining the Bank, Mr Ratiani was Director – Global Head of Product Management at IHS Markit, a leading Financial Services Information provider, where he was based in New York (2014-2018). In his role at IHS Markit, he was overseeing and managing Global and US-based Strategic Technology projects for Syndication Lending. Prior to joining IHS Markit, Mr Ratiani spent six years in UBS AG Investment Bank and Wealth Management Bank in New York, where he led multiple strategic technology projects. Before his UBS roles, Mr Ratiani worked for Wells Fargo (2009-2011), during a major acquisition phase of Wachovia Bank. Mr Ratiani started his banking career in Georgia, where he held various roles at Bank of Georgia's Corporate and Investment Banking Department (2002-2006). Mr Ratiani received his undergraduate degree in business administration from University of Hawaii and his Master's degree in technology management from Columbia University.

Levan Gomshiashvili

Chief Marketing Officer

Mr Gomshiashvili was appointed as Chief Marketing Officer of JSC Bank of Georgia in May 2019. Mr Gomshiashvili has extensive experience in marketing. He started his career in Georgian Railway, covering advertising and project management. Before joining the Bank, Mr Gomshiashvili was the founder of creative agency HOLMES&WATSON, where he acted as Account Manage for clients operating in banking, as well as other sectors. Mr Gomshiashvili is also the founder of Tbilisi School of Communication, an educational facility with an emphasis on ExEd. Mr Gomshiashivili received his MSc in Management from the University of Edinburgh.



Nutsa Gogilashvili

Head of Customer Experience and Human Capital Management

Ms Gogilashvili was appointed as Head of Customer Experience and Human Capital Management of JSC Bank of Georgia in August 2019. Ms Gogilashvili has more than ten years of experience in financial services, including various senior positions both in local and international organisations. She joined the Bank in May 2016 and has held various senior positions, including Head of Strategic Processes of Corporate and Investment Banking in 2016 and Head of Customer Experience Management since January 2017. Prior to joining the Bank, she served as Head of Strategic Planning and Budgeting of TBC Bank. Ms Gogilashvili had previously worked in London as analyst at JP Morgan covering several product control roles (2011-2014). Ms Gogilashvili received her MSc in Finance from Cass Business School in London and an undergraduate degree in Economics from Moscow State Institute of International Relations.

Ana Kostava

Chief Legal Officer

Ms Kostava was appointed as Chief Legal Officer of JSC Bank of Georgia in October 2021. Ms Kostava joined Bank of Georgia in April 2018 as Senior Group Lawyer (2018-2020) and prior to recent appointment served as Chief Legal Officer of the Bank under the direct supervision of the Deputy CEO, Chief Risk Officer since June 2020. Prior to joining the Bank she served as Associate at international law firm Dechert LLP (2015-2018). Ms Kostava also has experience of working as a lawyer at the World Trade Organization Appellate Body Secretariat (2014) and European Court of Human Rights (2012-2013), prior to which she worked as Chief Legal Officer at one of the projects of Partnership Fund (2012), and as Associate at the law firm LPA (Legal Partners Associated) LLC (2010-2012). Since 2015, Ms Kostava is Associate Lecturer at Free University of Tbilisi. Ms Kostava obtained her LLM from University of Cambridge and LLB from Caucasus University, Caucasus School of Law. She also holds Harvard Law School Executive Education Certificate of Leadership in Corporate Counsel.

Nomination Committee Report

Mel Carvill
Chairman of the Nomination Committee

Dear Shareholders,

I am pleased to present the report on the activities of the Nomination Committee (the Committee). Following our report last year where it was announced that Neil Janin would be stepping down as Chairman, the Committee undertook a thorough recruitment process to find an appropriate successor. I am delighted that I was appointed by the Board as Chair with effect from 10 March 2022.

As a result of Neil Janin's planned departure, the Committee has, throughout the year, considered the appointment of the next Chair of the Board and Chair of the Nomination Committee, as well as future appointments, in line with our established succession plan. The succession process was led by our Senior Independent Director Hanna Loikkanen and Non-Executive Director, Jonathan Muir. The Senior Independent Director chaired the Committee when it was dealing with the appointment of Neil Janin's successor, in line with good corporate governance practice. As part of the succession plan the Committee has assessed the skills and experience across the existing Board members, identifying opportunities for the future development of the business and other matters, including diversity. The Board concluded that it would benefit from more experience of governance and financial services. The Committee has adopted a model of identifying potential candidates and working with them over a period of time, inviting them to Board meetings and introducing them to senior management, to establish suitability and fit. As a result of the adoption of this process, the Committee was able to recommend that the Board appoint recommend my appointment as Chair. You can read more about my background and experience on page 184.

The Committee has this year continued to focus on gender diversity for both the Board and the management succession and rotation planning, and we continue to apply the Company-wide Diversity Policy. Although the Company is no longer a constituent of the FTSE 250 index, we remain committed to meeting the targets set by the Hampton-Alexander Report (now the Women Leaders Review). We are proud to have reached the target of 33% representation of women on the Board and we would be placed second for the banking sector in terms of women in the Executive Committee equivalent and direct reports.

In light of changes to the NBG Code, the Committee continued to work on the Committee succession planning, in particular the chairmanship of the Risk Committee. As a result of this review Tamaz Georgadze stepped down and was replaced by Véronique McCarroll as Chair of the Risk Committee with effect from 1 January 2022. Further, the Committee, led by Hanna Loikkanen and Jonathan Muir, recommended, and the Board appointed myself as Chair of the Committee on 10 March 2022. The Committee continues to consider the composition of the Board and of all our Committees to reflect the changes to the NBG Code, which we are implementing in stages. This work will continue during 2022.

I invite you to read more about our work in the following report.

Mel Carvill
Chairman of the Nomination Committee
27 April 2022

The role of the Nomination Committee

The role of the Committee is to assist in ensuring that the Board comprises individuals who are best able to discharge the responsibilities of Directors, having regard to the highest standards of governance, the strategic direction of the Group and the ambitions of the Board in respect of diversity and inclusion. We also monitor the processes in place to ensure that the Group appoints excellent executive and senior managers, capable of successfully guiding their teams and delivering on the Group's strategic objectives.

In summary, the key responsibilities of the Committee include:

- a regular review of the composition of the Board and its Committees, and that of executive and senior management, to ensure they are appropriately constituted and balanced in terms of diversity of social and ethnic background, gender, nationality, skills, experience, knowledge, cognitive and personal strengths, outlook, approach, and independence;
- responsibility for identifying and nominating candidates to fill Board and senior management vacancies as and when they arise, for the approval of the Board;
- giving full consideration to succession planning for Directors, including the Chairman, CEO and other executives, considering the challenges and the opportunities facing the Company, and the skills and the expertise needed on the Board in the future;
- keeping under review the leadership needs of the Company, both executive and non-executive, with a view to ensuring the continued ability of the Company to compete effectively in the marketplace;
- making recommendations to the Board on the reappointment of any Non-Executive Director at the conclusion of their specified term of office, having given due regard to their performance and ability to continue to contribute to the Board in light of the knowledge, skills and experience required and their independence; and
- making recommendations to the Board concerning the re-election by shareholders of Directors under the annual re-election provisions of the Code or the retirement-by-rotation provisions in the Company's Articles of Association, having due regard to their performance and ability to continue to contribute to the Board in light of the knowledge, skills and experience required and their independence, bearing in mind the need for progressive refreshing of the Board.

The Committee's Terms of Reference were reviewed and approved by the Board in September 2021. The full Terms of Reference are available on our website at https://www.bankofgeorgiagroup.com/governance/documents.

Composition and members' meeting attendance

The composition of the Committee and the members' meeting attendance for the year are set out in the Board and Committee Meeting Attendance table on page 174, and the skills and experience that each member contributes can be found on pages 184 to 187.

All independent Non-Executive Directors of the Board are members of the Committee to ensure that there is constructive debate relating to succession planning. The CEO, and other members of the management, may be invited to attend meetings to provide more insight into key issues and developments.

To maintain the right balance of skills and knowledge on our Board, the Committee keeps the Board composition under continual review. In addition, as part of the Board effectiveness review, the Committee asks Board members to evaluate their own contribution. For each Non-Executive Director, the Committee reviews the time commitment required by them, taking into account any external Directorships, their length of service and their independence of character and integrity. Based on the results of these reviews, it then recommends to the Board whether each Non-Executive Director should be reappointed.

This year's Board and Committee effectiveness review concluded that the Board functions as an effective and efficient team, and with regard to the required skills on the Board to meet current and future priorities. Following this review and careful consideration of a range of factors, including Directors' other commitments, the Committee recommended to shareholders, through the Board, the re-election of Al Breach, Archil Gachechiladze, Tamaz Georgadze, Hanna Loikkanen, Véronique McCarroll, Mariam Megvinetukhutsesi, Jonathan Muir and Cecil Quillen along with the election of Mr Carvill at our 2022 Annual General Meeting.

Induction

Each Director, upon appointment, receives a tailored induction to the Company. This includes:

- meetings with executive and senior management and employees across the business to understand the Company's strategy, structure, risk profile and risk management procedures;
- meetings with a range of stakeholders, including the shareholders (such as being available at the AGM), the Company's external advisors and senior governmental figures; and
- a session with the Company Secretary on the statutory and regulatory obligations upon the Company and upon themselves as a Director.

The induction for Mariam Megvinetukhutsesi was undertaken remotely. She received presentations on matters relevant to her role and the organisation, met members of the team remotely and took part in a video call with the NBG. She was available to talk to shareholders at the 2021 AGM and looks forward to further engagement with stakeholders.

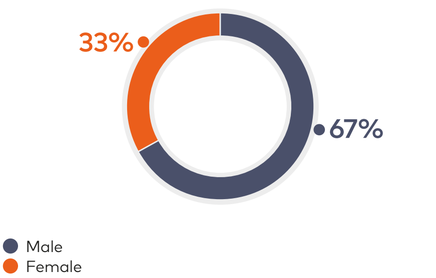
Continuing education and training

During the year, Committee members were briefed on recent developments in respect of diversity in the UK and wider diversity initiatives, and were provided with information on appointment processes and independence criteria.

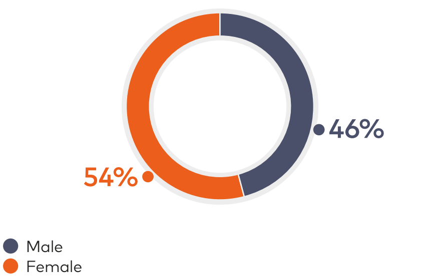
Nomination Committee Report continued

The graphs below show the gender diversity of the Board and Executive Committee and direct reports, as at 31 December 2021.

Board
Gender



Executive Committee and direct reports
Gender



Diversity Policy

The Board has adopted a Diversity Policy, mirroring current best practice, which was reviewed by the Board in September 2021.

As a Board, we are supportive of the ambition shown in recent diversity reviews, including the Parker Review (ethnic diversity) and the FTSE Women Leaders Review (formerly Hampton-Alexander – gender diversity). The Committee will continue to examine ways in which the Board can become more diverse, and the business is also working to maintain levels of female representation at senior management level. In 2020, we committed to a target for diversity of 33% female representation on the Board, which we have achieved in 2021. The Board continues to consider diversity to be important for the future development of the business, including the need to be representative of Georgian society. As a consequence of Mariam Megvinetukhutsesi's appointment in 2021, female representation on the Board met the Hampton-Alexander target and remains above the target at the year-end, at 33%.

The Committee continued to spend time reviewing the diversity of skills and experience, gender, social and ethnic backgrounds, cognitive and personal strengths, amongst other factors, including merit and other objective criteria. These will be taken into consideration when seeking to appoint any further new Directors to the Board. We are also mindful that diversity of outlook and approach are equally as important.

We are also a highly diverse Board in terms of nationality: our nine Directors are citizens of six different countries.

We continue to score highly, regarding the gender diversity on the Executive Committee and direct reports. The Committee was pleased to note that, were the Company in the FTSE 250, the 2022 edition of the FTSE Women Leader Review report indicated that Bank of Georgia Group PLC would be one of the three best performers in respect of the Group's female representation in Executive Committee and direct reporting positions, with a combined total of 54%, a slight increase from 2021. This is a tribute to some of the talent development and management processes and initiatives we have in place, detailed below.

In our 2020 Report, we reported on the following initiatives that help us further improve gender diversity at both the Board and senior management level, and we are pleased to report our progress:

1. Mentoring programme for women leaders:

The programme has been extended to include women as well as other leadership pool employees. The programme is merit-based and promotes diversity. We continue to develop the programme, adapting it with the changing business environment. The programme provides participants with tailored resources, including coaching and mentoring, as well as guidance and support from our senior management.

Since 2014, Bank of Georgia has also run a leadership development executive coaching programme, providing our middle and senior managers with a tailored approach to developing leadership skills. We focus on leadership skills that underpin a culture of feedback, customer-centricity, collaboration and development. Since 2020, the Bank has implemented a new talent management system and extended the leadership pool – in addition to employees in managerial positions, we now include high-potential employees (HiPOs) in non-managerial positions, as determined during the talent assessment process. They all participated in newly designed development programmes in 2021 (including training in project management, data analytics, emotional intelligence, design thinking, among others). We ensure that the pool remains diverse, and we encourage managers to support and promote their female subordinates, while providing equal opportunities for both male and female employees. Since 2020, the Bank prioritised different self-paced courses, which significantly impacted gender representation in business management skills programmes. We also monitor gender balance. Our efforts towards supporting women were recognised by 2XChallenge in 2020, and we continue our practices to provide equal opportunities in the workplace and to empower female employees.

2. Board members meeting with successful Georgian women leaders and entrepreneurs:
In 2021 we launched several initiatives to promote Women in Business. We helped 60 MSME women-owned businesses digitalise their inventory, optimise logistics processes, sell online on Georgia's largest online mall Extra.ge, and take advantage of Extra.ge's delivery services, with the help of Visa and Adapter. The project also assisted with marketing and public relations activities, including TV stories about women entrepreneurs. Overall, this initiative raised the number of women-owned businesses in BOG's portfolio by 3,192, resulting in a 1.3% rise in the number of women-owned firms in the portfolio.

We continue to support women and empower them. To this end, we carried out many activities, including preparing articles and videos in the regional media about businesses in which women play an important role. For example, videos were made about Nino's bio-wine, Galina Inasaridze's traditional way of making cheese, and a restaurant founded by two sisters in Kutaisi. We also focused on our successful female colleagues and 10 articles were published on them in Forbes Woman. Interviews were given to leading business news agencies such as: Bm.ge; marketer.ge. A special issue of Entrepreneur magazine, dedicated to 100 successful women, was also published, including 22 interviews with successful Georgian women and five videos about female clients of Bank of Georgia.

In 2020, the Bank received a 2XChallenge nomination from FMO – part of a syndicate of five European development finance institutions for the special support provided to women employees and clients. 2XChallenge is an initiative to increase access to finance for women-owned, women-led and women-supporting enterprises in developing and emerging countries. The nomination was awarded based on the following criteria related to employment:

1. Over 40% of the Bank's employees are women.

2. The Bank commits to or implements policies or programmes beyond those required for compliance, thus addressing barriers to women's quality employment.

The U.S. International Development Finance Corporation also confirmed this nomination, adding the Leadership criterion:

3. Across the organisation, women represent 40% of senior management and 33% in three committees out of five.

By joining the 2X Challenge, we indicated our objective of providing women in Georgia with improved access to quality employment and economic participation. We closely monitor commitment thresholds. Below is the status update as of 31 December 2021:

- **Employment:**
  - **Share of women in the workforce – 69%.**
  - **"Quality" indicator beyond compliance:**
    - Additional financial benefit: maternity leave compensation
    - Support in back-to-work adaptation – training programmes for employees returning back to work from parental leave
    - Health and wellbeing: corporate health insurance package, including pregnancy and childbirth coverage
    - Furthermore, female as well as male employees are provided with:
      - additional paid days off, beyond those defined by the Labor Code of Georgia.
      - childbirth bonus and marriage-related financial aid.

From 2021, maternity leave was substituted with parental leave of two types: (i) exclusively for female employees relating to childbirth; and (ii) for childcare, which can be used by a mother or a father of a child. The Board supported the progressive approach towards working parents, which may also reduce possible gender bias, particularly with regard to the recruitment and promotion of women.

In July 2021, the Bank became the UN Global Compact (UNGC) participant, confirming the commitment to ensuring that the UNGC 10 principles are integrated into the Bank's strategy, culture, and day-to-day operations. This commitment includes policies and practices which we already have in place as well as their further development to respect human rights and promote diversity and equal opportunities in the workforce.

Diversity remains an important area of focus, and we are committed to sustaining and developing our gender balance and wider diversity in 2022. We will oversee the following initiatives to help us promote gender diversity at both the Board and senior management level:

- A continuation of our sessions between our employees and successful Georgian women to build on the success of the initial event.

Details regarding equal opportunity and diversity are also provided in the Sustainable Business section on page 112.

Succession planning and talent development

We believe that effective succession planning mitigates the risks associated with the departure or absence of well qualified and experienced individuals.

Our aim is to ensure that the Board and management are always well resourced with the right people in terms of skills and experience, to effectively and successfully deliver on our strategy. We also recognise that continued tenure brings a depth of Company-specific knowledge that is important to retain.

Nomination Committee Report continued

In addition to the responsibilities set out above, the Committee is responsible for both Director and Executive Management succession planning. There is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board, including a review of other significant commitments Directors may have.

Appointment of the new Chairman

As announced in the Company's previous Annual Report, Neil Janin had informed the Board of his intention to retire from the Board once a suitable successor had been found, and the Company had announced the retirement accordingly. One of the main focuses for the Committee throughout the year was to ensure an orderly succession of Neil Janin as Chairman of the Board. During the meetings of the Committee where Neil Janin's succession was discussed, the Senior Independent Director, Hanna Loikkanen, chaired the meetings.

Following the exercise of selecting an external recruitment consultant, Ridgeway Partners Limited (Ridgeway) were engaged for the recruitment of the Non-Executive Chairman. Part of the selection exercise was to ensure that the Company selected had no other connection with the Company or any Directors therein. The Board can confirm that Ridgeway does not have any such connection.

The Committee reviewed and agreed with Ridgeway a role profile with a list of key criteria. At an initial stage, the Committee considered a long and diverse list of candidates prepared by Ridgeway. Following the selection of a shortlist and thorough interview process, the Committee recommended Mr Carvill as its preferred candidate.

The role profile referred to the following key characteristics and experience:

- demonstrable leadership capabilities;
- clear understanding of the operating, economic and political environment in the region;
- significant financial services experience;
- experience of the regulatory environment;
- understanding of corporate governance best practices.

Following the Committee's recommendation, the Board approved Mr Carvill's appointment with effect from 10 March 2022. Mr Carvill brings extensive international experience across a broad range of companies in the financial sector and has built up a portfolio of non-executive directorships, including roles as Chairman at Aviva Life UK and Investor Non-Executive Director at Clearbank. Mr Carvill is a Fellow of the Institute of Chartered Accountants in England and Wales. Further details of Mr Carvill's skills and experience can be found at page 184.

Non-Executive Directors' terms of appointment

On appointment, our Non-Executive Directors are provided with a letter of appointment that sets out the terms and conditions of their Directorship, including the fees payable and the expected time commitment. Each Non-Executive Director is expected to commit approximately 25-35 days per year to the role. Additional time commitment is required to fulfil their roles as Board Committee members and/or Board Committee Chairs, as applicable. The Committee was satisfied that all Non-Executive Directors dedicate the amount of time necessary to contribute to the effectiveness of the Board.

External appointments

Prior to accepting any external appointments, Directors are required to seek the Board's approval. The Board believes that other external Directorships and positions provide the Directors with valuable expertise that enhances their ability to act as Non-Executive Directors of the Company. The number of external directorships and positions should, however, be limited, in particular for Executive Directors, to ensure that Directors are able to dedicate the amount of time necessary to contribute effectively to the Board.

Board-level succession planning

The Board has assessed the independence of the new Chairman and each of the seven other Non-Executive Directors in line with principle G and provision 9 of the Code and are of the opinion that the Chairman and each Non-Executive Director act in an independent and objective manner. We consider that, under the Code, all of our Non-Executive Directors are independent and free from any relationship that could affect their judgement.

We note that Al Breach was appointed to the Board of the Company on 24 February 2018 and meets the Code technical requirements in respect of circumstances to take into account for independence.

However, as part of a wider assessment, we also considered the extent to which the length of time on the board of a predecessor company, BGEO Group Limited (BGEO), could impact the independence of the Independent Directors.

Al Breach was appointed to the board of the predecessor company Bank of Georgia Holdings PLC (later BGEO Group PLC, and now BGEO Group Limited) on 20 October 2011. We note that while Hanna Loikkanen was originally appointed to the Board of BGEO on 24 October 2011, she resigned from the Board on 19 December 2013. She was later appointed to the Board of BGEO again, on 12 June 2015, and so had an eighteen-month gap which is deducted from any tenure calculations.

We carried out a consultation with some of our major shareholders on this matter in November and December 2020. Shareholders were supportive, majority of them indicating that they considered the relevant date to be that of appointment to the Company Board in February 2018. There was also an overwhelming preference that, given the exceptional global circumstances at this point, any Board rotation should be gradual. There was also an encouraging degree of support for our current Directors arising from the consultation. The Company also had a helpful engagement in December 2020 with a proxy investor group on this matter.

We took into account their views, and also noted the following:

- No Director has served concurrently with the Executive Director for more than three years. Archil Gachechiladze was appointed in January 2019, with the previous Executive Director Kaha Kiknavelidze serving from May 2018 to December 2018.
- There have been substantial changes in the Executive Management upon demerger in 2018 (only three out of the twelve executive managers have remained since early 2018).
- There were substantial changes in the nature of the business as well as management personnel upon the demerger in May 2018.
- There are no other factors that the Board considered could impinge on the independence of the Directors.

The Board also notes that in respect of succession and the recruitment of appropriate members to the Board in our particular geographical, geopolitical and market environment:

- Any new Board member must clearly understand the operating, economic and political environment in Georgia to give full and proper oversight.
- The Bank is a regulated company in Georgia, so Board members must meet the regulator's various requirements for the Supervisory Board, but also be willing to take responsibility for an emerging-markets-focused group.

Considering the matters above, the Board considers that all current Directors have retained their independence and strongly recommends their appointment or re-appointment by shareholders.

However, following the publication by the NBG of amendments to the NBG Code, the length of time that a member of the Supervisory Board is considered independent has been reduced to seven years, and further a Chair of the Board must now be independent. The new NBG Code came into force at the end of 2021. As a result, several Directors were no longer considered independent, although they remain independent under the UK Code. This includes Neil Janin, who has now stepped down from the Board on 10 March 2022, Tamaz Georgadze, Al Breach and Hanna Loikkanen (the NBG Code does not take into account the eighteen-month period that she was not on the Board). Some of the other regulations on Committees do not come into effect until the end of 2022. The NBG regulations on the membership of Committees also differ from the UK Code.

The Board of the Company believes that the "mirror boards" structure, where the same members sit on the Board of the Company and the Supervisory Board of JSC Bank of Georgia, with the same roles in the mirror Committees, remains the best structure for the governance for the Group.

In conclusion, the Chair of the Board has recently left and we do not think it in the best interests of the Company for several Directors to leave at once. Furthermore, we intend that the new Chairman of the Board gets involved in succession planning. Therefore, we will consider an orderly transition of those Directors who are no longer independent under the NBG rules over the next couple of years.

Senior and middle management succession planning

We are committed to talent development programmes and initiatives within the Group. We increase the skills of our existing executive managers and develop a pipeline of new executive, senior and middle managers through coaching, mentoring and leadership programmes. We continue to expand our programmes year on year to include management at lower levels.

Our talent development programmes are transparent. We promote teamwork and development in these programmes, in line with our business principles. We aim to nurture managers who:

- have the courage to give and seek honest feedback;
- realise that "a stronger me plus a stronger you makes a stronger us";
- value meritocracy over favouritism;
- encourage dialogue instead of having an authoritative decision-making style; and
- favour cooperation over individualistic or "heroic" behaviour.

During 2021, the Bank continued initiatives to encourage talent development across the Bank, with a focus on young talent and HiPOs.

The Bank runs the most recognised student development programme on the market – Leaderator. This programme is designed to provide opportunities for young people to develop skills and competencies, explore various business and operational units of the Company, and gain practical experience with real projects. Leaderator is one of the most extensive student programmes implemented by the Bank in recent years. We have expanded the programme offerings for the past few years. In 2021, we had programmes in the following directions: Corporate and Investment Banking, Financial Management, Retail Banking, Digital Channels Development, Human Capital Management, and Compliance. Those participating in the programmes were assigned mentors within the Bank or from Galt & Taggart. A new hybrid format (online work and face-to-face meetings) was implemented due to -19 in 2020 and we used the same format in 2021.

In 2021 the Bank also continued to extend the talent pool by identifying employees in non-managerial positions with potential for advancement to a higher level or a broader role – HiPOs. The HiPOs are identified through our talent management process, which we updated in 2020. HiPOs receive individual feedback based on the assessment results. This process ensures a mutual understanding of the talent/success profile, feedback culture, and contributes to increased employee engagement, productivity and performance, talent retention, and streamlined corporate succession. Identified HiPOs participate in a specially designed talent development programme which aims to prepare them to take on more responsibilities and successfully fill more senior positions in the future.

Nomination Committee Report continued

Further information on talent management can be found in the Sustainable Business section on page 115.

In 2022 we will focus on the talent management of leadership roles as well as on the further development of high potentials, and we will enhance our IT and front-office employees. The talent management of leadership roles focuses on the development of key middle management into future leaders through coaching and other initiatives. The process already runs successfully, and we will ensure that it aligns with the strategic direction of the Company as we progress with it.

During 2021, the Committee received reports on the talent pipeline across the Group for senior management positions, and has, alongside the Board, dedicated time to strengthening the senior management team as part of the wider strategic development of the Group, and recommended Ana Kostava, the Chief Legal Officer as a new member of the Management Team, in recognition of her strong performance and further leadership potential.

The Committee will also devote its efforts to the Board-level succession planning, and will give consideration to local regulatory corporate governance requirements on board composition and independence to avoid any conflict between the NBG Code and the UK Code, to ensure effective governance of the PLC over the Bank.

Review of the Committees' effectiveness

The Committee undertook a self-assessment of its effectiveness towards the end of the year as part of the Board evaluation process. The findings of the review were considered by the Committee at its September 2021 meeting. The Committee was satisfied with the results of the evaluation and is confident that it continues to operate and perform appropriately and fulfils its responsibilities fully. For more information on the Board and Committee evaluation see page 176.

Looking ahead to 2022

In the coming year, the Committee will spend time on succession planning and diversity at Board and senior management level, including a review of Committee composition.

We will also focus on the talent management of leadership and high potential roles within the senior management team.

Audit Committee Report

Jonathan Muir
Chairman of the Audit Committee

Dear Shareholders,

As a Committee, we recommend the financial statements to the Board and review the Group's financial reporting and accounting policies, including formal announcements and trading statements relating to the Company's financial performance. We also oversee the relationship with Ernst & Young LLP (EY), the Group's external auditor, and the role and effectiveness of the Internal Audit function.

The ongoing economic uncertainty for the Georgian economy as a result of COVID-19 and related challenges remained the focus area of the Audit Committee. We have reviewed and challenged management across a number of areas during 2021, including the monitoring of the control framework during the changing environment. We have overseen work on critical areas such as loan loss provisions and the accounting treatment of key non-recurring items. We have heard how management has approached assessing the ECL provision in light of the current economic conditions, as well as challenged the key assumptions and controls around the model used to assess their impact. This has been updated at the scheduled meetings of the Committee and at ad hoc meetings to review and approve the regular quarterly and annual financial reports. Further, the Audit Committee continues to give considerable focus to reviewing management's work in addressing cybersecurity- and IT-related issues arising during the year, in light of ongoing remote working and the increased potential for attacks on the infrastructure.

The Audit Committee has held regular discussions, and received reports on economic matters with regard to the ongoing viability of the Company and its liquidity status. We have also continued to focus on the key issues relevant to the Group's financial reporting, and worked with management and the external auditor to review any changes required in response to the introduction of new accounting or regulatory guidance. At each meeting, the Audit Committee receives a report on specific areas of accounting and quality of earnings and where material judgement has been applied. These areas are discussed, challenged and the opinion of the external auditor sought before final conclusions on appropriate treatment reached. Such areas in 2021 included IT project cost capitalisation and accounting/valuation for repossessed assets.

Finally, we have worked with the Risk Committee on matters including liquidity, adequacy of capital and buffers.

The Audit Committee is also responsible for ensuring that the Bank maintains a risk-aware culture. We receive regular reports of work on training and the embedding of fraud risk management and cyber risk, and these will continue to be areas of focus in 2022.

During the year, the Audit Committee reviewed and approved the Internal Audit Plan and its execution for 2021. The Committee recognises the importance of the Internal Audit function to the control environment and as such spent considerable time in approving a suitable candidate to replace the head of the function, when the incumbent moved to head the Enterprise Risk Management function. In addition, the Committee oversaw an independent review of the function, which confirmed its independence while identifying a number of areas to improve, particularly around efficiency which will form the basis of enhancements in 2022 and beyond. We also continued to ensure the integrity of the Company's published financial information and reviewed the judgements made by management and the assumptions and estimates on which they are based.

As a Committee, we have worked closely with our colleagues on the Risk Committee to review and develop the tools and metrics used by the Company to manage and report on climate-related risks, as well as considering wider ESG matters. More information on this can be found in the Risk Committee Report on page 208 and in the Sustainable Business section on pages 97 to 99.

The Audit Committee firmly believes that the Group has strong foundations in place in terms of risk management and internal control processes and we look forward to playing a very active role in continuing to develop these structures over the course of 2022.

I now invite you to read this year's Audit Committee report.

Jonathan Muir
Chairman of the Audit Committee
27 April 2022

Audit Committee Report continued

Composition and operations of the Audit Committee

The composition of the Audit Committee complies with the 2018 UK Corporate Governance Code (the Code), which provides that the Audit Committee should comprise at least three Independent Non-Executive Directors. The Audit Committee members are Jonathan Muir (Chairman), Hanna Loikkanen, and Cecil Quillen, all of whom are independent. The Board is satisfied that at least one member of the Audit Committee has recent and relevant financial experience, and believes the Audit Committee as a whole has competence relevant to the sector (financial and banking) in which the Company operates, and holds the relevant combination of skills and experience to discharge its responsibilities. Mr Muir is a member of the Institute of Chartered Accountants of England and Wales and has over 30 years of experience working as a professional in accounting and auditing. In addition, Ms Loikkanen has significant experience working with financial institutions and has held a number of senior positions within the banking industry, and Mr Quillen has extensive experience of securities and finance matters as the leader of Linklaters LLP's US securities practice. Full details of the Audit Committee members' biographies and their qualifications can be found on pages 184 to 187.

The Audit Committee works to a planned programme of activities focused on key events in the annual financial reporting cycle and standing items that it considers regularly under its terms of reference (the Terms of Reference, as reviewed and updated in September 2021, are available at: https://www.bankofgeorgiagroup.com/governance/documents). It also reacts to business developments as they arise.

Details of attendance at the Audit Committee meetings can be found on page 174. The Company Secretary is secretary to the Audit Committee and attends all meetings. The meetings are also attended by the Bank's CFO, CRO, COO, Head of Internal Audit and Head of Compliance. Representatives of EY, the Chief Executive Officer, the Chief Legal Officer and the UK General Counsel, where required. On occasion, invitations to attend are extended to other members of the Board and management where necessary, to provide a deeper level of insight into key issues and developments.

The Chairman of the Audit Committee will be available at the AGM to respond to any shareholder questions that may be raised on the Audit Committee's activities.

Meetings with the auditor

During the year, the Audit Committee met privately, without management present, with EY and the Head of Internal Audit. The Chairman of the Audit Committee also held discussions with the lead audit partner in advance of meetings. The focus of these private meetings was to encourage discussion of any issues of concern in more detail and directly with the external auditor and the Bank's Head of Internal Audit.

Key purpose and responsibilities

On behalf of the Board, the Audit Committee safeguards high standards of integrity and oversees conduct in financial reporting, internal control and risk management (together with the Risk Committee) and internal audit. It also oversees the work of our external auditor. A full description of the Audit Committee's roles and responsibilities is set out in the Terms of Reference. The Chairman of the Audit Committee reports to the Board on how it has discharged its responsibilities at a subsequent Board meeting.

Financial reporting

One of the key responsibilities of the Audit Committee is to review the integrity of the financial statements, consider the appropriateness of accounting policies and practices and review the significant issues and judgements considered in relation to the financial statements.

The Audit Committee received detailed reporting from the Chief Financial Officer and the external auditor in respect of key areas of management's judgements, reporting and audit during the year. The Audit Committee and the external auditor, without management present, discussed the key areas of audit focus, the suitability of the accounting policies which have been adopted and whether management's key reporting estimates and judgements were appropriate. Considering the external auditor's assessment of risk, but also using our own independent knowledge of the Group, we reviewed and challenged where necessary, the actions, estimates and judgements of management in relation to the preparation of the financial statements.

The significant accounting matters and financial judgements considered by the Audit Committee in relation to the financial statements are addressed below.

Matter considered	Action taken by the Audit Committee
Governance	• reviewed governance processes; • reviewed the Terms of Reference of the Audit Committee; and • undertook an externally facilitated effectiveness evaluation.
Financial reporting	• reviewed the appropriateness and disclosure of accounting policies and practices; • reviewed the Annual Report and Accounts content and advised the Board on whether the Annual Report was fair, balanced and understandable; • reviewed the Company's annual and interim financial statements and quarterly accounts relating to the Company's financial performance including a review of the significant financial reporting policies and judgements contained therein; and • reviewed and recommended to the Board for its approval of the Going Concern and Viability statements including stress scenarios as a consequence of the ongoing economic impact of COVID-19 and the situation between Russia and Ukraine.
Internal Audit	• reviewed reports of internal audits and monitored action points and follow-up actions arising from audits; • approved the annual audit plan; and • monitored and reviewed the effectiveness of the Company's internal audit function, including overseeing an independent review.
Litigation	• reviewed litigations that could be material to the Company and whether provisions for contingent liabilities were required in respect of such cases. For further information please see Note 20 on page 328 of this Report.
ECL provisions	• reviewed the controls around the development of the model used to assist in determining the appropriate provisions; • reviewed the key inputs into the models, including key economic scenarios and management overlays; • assessed outputs against peers and industry; • sought external audit opinion and views on the model and its output; and • reviewed and challenged the judgements used and resolution of any model deficiencies.
IT Capitalisation	• reviewed the approach for the capitalisation of IT assets in accordance with IFRS requirements.
Accounting for repossessed assets	• agreed the approach for re-valuation of repossessed assets.
BNB governance	• review of BNB's AML/sanctions compliance processes

The Audit Committee also received regular reports on recoveries and write-offs of loans, information security strategy and cyber risks.

Audit Committee Report continued

Internal Audit

The Audit Committee is responsible, on behalf of the Board, for overseeing the Internal Audit function, which serves as the Group's independent assurance over the adequacy and effectiveness of the systems and processes of risk management and control across the Group.

The Audit Committee monitors the scope, extent and effectiveness of the Group's Internal Audit function. It reviews and approves the Internal Audit Policy and oversees the Internal Audit Plan, which is designed using a risk-based approach aligned with the overall strategy of the Group. Regular reports are received from Internal Audit on audit activities and significant findings as well as corrective measures and follow-ups. In certain cases, the Audit Committee invites heads of divisions and departments to present their responses and mitigating actions in response to Internal Audit findings, in 2021 this included Georgian Leasing.

The Head of Internal Audit has direct access to the Audit Committee and the opportunity to discuss matters with the Audit Committee without other members of management present. The Audit Committee also monitors the staffing of the Internal Audit department as well as the relevant qualifications and experience of the team.

Having undertaken a full review of the Group's risk landscape to assess the implications of the pandemic on the annual Internal Audit Plan during 2020 the Internal Audit team continued to monitor the adequacy of management responses to the pandemic during the year.

During 2021 a review was also conducted of the effectiveness of the Internal Audit department by considering the progress of Internal Audit against the agreed plan, considering the need to respond to changes in the Group's business and the external environment.

The Audit Committee also considered the quality of the reporting by Internal Audit to the Audit Committee and the ability of Internal Audit to address unsatisfactory results. In addition, the independent assessment of the function confirmed its independence, and many areas of compliance with best practice, while identifying areas for improvement. These will form the basis of a plan of action to commence in 2022, to enhance the efficiency and overall effectiveness going forward. On this basis, the Committee concluded that the Internal Audit function is effective and respected by management.

External audit

With respect to our responsibilities for the external audit process on behalf of the Board, the Audit Committee:

- approved the annual audit plan, which included setting the areas of responsibility, scope of the audit and key risks identified;
- oversaw the audit engagement, including the degree to which the external auditor was able to assess key accounting and audit judgement;
- reviewed the findings of the external audit with the external auditor, including the level of errors identified during the audit;
- monitored management's responsiveness to the external auditor's findings and recommendations;
- reviewed the qualifications, expertise and resources of the external auditor;
- monitored the external auditor's independence, objectivity and compliance with ethical, professional and regulatory requirements;
- reviewed audit fees;
- monitored the rotation of key partners in accordance with applicable legislation; and
- recommended the appointment, reappointment or removal, as applicable, of the external auditor.

Auditor independence

The Audit Committee has adopted a Non-Audit Services Policy to safeguard the auditors' independence and objectivity. The provision of non-audit services by our external auditors aligns with the current EU Statutory Audit regime, the FRC Ethical Standards and recent amendments to the Code. Any work other than for audit or review of interim statements to be undertaken by the external auditor now requires authorisation by the Audit Committee except in very narrow circumstances. The Policy is available at https://www.bankofgeorgiagroup.com/governance/documents.

The Audit Committee has formally assessed the independence of EY, which included the review of: (i) a report from EY describing their arrangements to identify, report and manage any conflicts of interest, and their policies and procedures for maintaining independence and monitoring compliance with relevant requirements; and (ii) the value of non-audit services provided by EY. EY has also confirmed its independence throughout the year, within the meaning of the regulations on this matter and in accordance with their professional standards. As indicated in Note 24 of the audited IFRS financial statements for 2021, the total fees paid to EY for the year ended 31 December 2021 were GEL 2.0 million, of which GEL 43,000 related to work other than the audit or review of the interim accounts.

The Audit Committee is of the view that engaging EY on occasions for non-audit work is the most efficient method of having those particular services delivered to the Company, and does not consider that this work compromised the independence of the external auditor.

Auditor effectiveness

The Audit Committee has an established framework for assessing the effectiveness of the external audit process. This includes:

- a review of the audit plan, including the materiality level set by the auditor and the process they have adopted to identify financial statement risks and key areas of audit focus;
- regular communications between the external auditor and both the Audit Committee and management, including discussion of regular papers prepared by management and EY;
- regular discussions with EY (without management present)

and management (without EY present) to discuss the external audit process;

- a review of the final audit report, noting key areas of auditor judgement and the reasoning behind the conclusions reached; and
- a formal questionnaire issued to all Audit Committee members and to the management of the Group responsible for interaction with the external auditors which covers among other items the quality of the audit and audit team, the audit planning approach and execution, the presence and capabilities of the lead audit partner, the audit team's communication with the Audit Committee and management and the auditor's independence and objectivity.

Following the Audit Committee's assessment of the external auditor, it formed its own judgement (which was consistent with management's view) and reported to the Board that:

- the audit team was sound and reliable, providing high-quality execution and service;
- the quality of the audit work was of a high standard;
- EY's independence and objectivity were affirmed;
- EY was able to challenge management on its approach to key judgements; and
- appropriate discussions were held with the Audit Committee during the audit planning process.

The Audit Committee is satisfied that the relationships between the external auditor and management allow for scrutiny of views on both sides and it is pleased that the evaluation paid testament to the ability and willingness of the external auditor to challenge management's views in a constructive and proportionate manner.

The Audit Committee has recommended to the Board that EY be reappointed as auditor of the Company, and the Directors will be proposing the reappointment and the determination of EY's remuneration at the 2022 AGM.

Audit tender and lead partner rotation

EY was appointed as auditor of Bank of Georgia Group PLC in 2018, and subsequently appointed by shareholders at the 2021 AGM, and the Audit Committee was authorised to set the remuneration of the auditor, with 98.35% and 99.46% votes in favour for each resolution.

Following the tender in 2018, EY appointed John Headley as the lead audit partner. During 2021, as part of the planned rotation of Audit Partner, John Headley stepped down from his role as the lead partner and was replaced by Peter Wallace.

We continue to review the auditor appointment and, although the Group is not required to put the external audit contract out to tender before 2027, the NBG transition rules require EY to rotate out from the JSC BOG audit after the 2022 audit. After receiving an audit service from one and the same audit firm for five consecutive years, the Bank is required to hold a tender according to its internal policies and procedures to select an audit firm for its mandatory audit. Based on the tender outcome, the Bank's Audit Committee provides a recommendation to the Supervisory Board in order to select an audit firm. Mandatory audit services from the same firm can be received for no more than 10 consecutive years. After the 10-year period has elapsed, the Bank is required to take at least a four-year break before going back to the same firm for mandatory audit services. We will therefore undertake a competitive tender process during 2022, and the Audit Committee undertook initial preparation for this during 2021.

During 2021, the Company complied with The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Viability statement

In accordance with the Code, the Directors are required to assess the viability of the Group. In collaboration with the Risk Committee, and considering the recommendations of the FRC guidance, we spent time considering the timeframe over which the viability statement should be made as well as an assessment underlying the period of coverage, which we agreed should be three years. In addition to aligning with the period covered by the Group's strategy and financial forecasts, this three-year period seems particularly appropriate for a company whose business model continues to evolve in a rapidly developing market like that of Georgia. We considered: the Group's principal risks, including those that will threaten its business model, future performance and solvency or liquidity; the current financial position of the Group, including future cash flows, allocated capital expenditure and funding requirements; prospects; and downside stress tests involving several different scenarios. Our viability statement can be found on page 95.

Whistleblowing, conflicts of interest, anti-bribery and anti-corruption, data protection

The Audit Committee ensures that there are effective procedures relating to whistleblowing. The Whistleblowing policy, which is reviewed annually, allows employees to confidentially raise any concerns about business practices. The Group has an advanced independent whistleblowing reporting channel and case management tool (WhistleB) in place. We reviewed additional measures to be put in place to improve the robustness of investigations of issues raised through this channel and other reporting lines. The Marketing and Communications Department has continued to make good progress in promoting the importance of the whistleblowing process and procedures to employees.

In line with the Code, responsibility for the whistleblowing process sits with the Board. The Audit Committee continues to monitor the use of the system. Updates on whistleblowing procedures, the actions undertaken to promote the WhistleB platform and the case management tools are provided to the Audit Committee quarterly.

The Audit Committee reviews the Group's Anti-Bribery and Anti-Corruption Policy and procedures and receives reports from management on a regular basis in relation to any actual or potential wrongdoing.

Audit Committee Report continued

It also receives reports on any Code of Conduct & Ethics violations. There were no significant findings in 2021.

The Audit Committee also oversees compliance with the General Data Protection Regulation and receives regular updates from the Bank's Personal Data Protection Officer.

Risk management and internal controls

Although the Board assumes the ultimate responsibility for the Group's risk management and internal control framework, its work is supported by both the Audit Committee and the Risk Committee.

The Audit Committee assists the Board in fulfilling its responsibility to review the adequacy and effectiveness of the controls over financial reporting and certain types of operational risk: IT and information security (including cyber risks), corporate security and similar areas of operational risk and internal and external fraud or misconduct.

The Audit Committee also monitors the Group's compliance with the corporate governance policies and procedures related to anti-bribery and anti-corruption, conflicts of interest, and whistleblowing.

During the year, the Audit Committee received updates on UK Corporate Governance reform, in particular on the consultation paper entitled 'Restoring trust in audit and corporate governance' which would apply to all UK Premium-listed entities. The output from the consultation process was expected in Spring 2022. An effective date for compliance was anticipated to be 2024. The Audit Committee has begun to consider the preparations that would be required and will carefully monitor progress of the consultation paper.

The Audit Committee is supported by a number of sources of internal assurance within the Group in order to discharge its responsibilities. Risks are regularly reviewed and management provides updates to the Audit Committee on how risks are managed within particular business areas. It also receives reports from the Internal Audit team as well as reports on any compliance issues and litigation updates.

In 2021, the Internal Audit Plan included a thorough risk management and internal controls assessment, including compliance with corporate governance policies and procedures.

The Internal Audit Plan is risk-based and aligned with the Company's strategy. Increasing engagement-level focus on risks and opportunities related to customer-centricity and the digitalisation process across the organisation is one of the ways in which we achieve this. During 2021 and up to the date of this Annual Report and Accounts, Internal Audit did not find any material weaknesses in the risk management processes or internal controls. We challenged the reports by management and Internal Audit and requested data regarding compliance with key policies and procedures related to operational risk.

With respect to external assurance, the Audit Committee reviews the external auditor's reports presented to the Audit Committee, which include the external auditor's observations on risk management and internal financial controls identified as part of its audit. Without management present, the Committee and EY discussed the key areas of audit focus, the suitability of the accounting policies which have been adopted and whether management's key reporting estimates and judgements were appropriate.

Fair, balanced and understandable reporting

The Audit Committee reviewed drafts of this Annual Report and Accounts to consider whether it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy. We also gained assurance that there is a robust process of review and challenge at different levels within the Group to ensure balance and consistency. When forming its opinion, the Audit Committee considered the following questions in order to encourage challenge and assess whether the Report was fair, balanced and understandable:

Is the Report fair?	• Is the whole story presented? • Have any sensitive or material areas been omitted? • Are the KPIs disclosed at an appropriate level based on the financial reporting?
Is the Report balanced?	• Is there a good level of consistency between the front and back sections of the Annual Report? • Is the Annual Report a document for shareholders and other stakeholders?
Is the Report understandable?	• Is there a clear and understandable framework to the Annual Report? • Is the Report presented in straightforward language and in a user-friendly and easy to understand manner?

We also discussed the overall messages and tone of the Annual Report with the Bank's CEO and CFO. We also considered other information regarding performance presented to the Board during the period, both from management and the external auditor. After consideration of all this information, we are satisfied that, when taken as a whole, the Annual Report and Accounts is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Committee effectiveness

An internally facilitated evaluation of the Audit Committee's effectiveness was undertaken during 2021 as part of the wider Board and Committee effectiveness review. The findings of the review were considered by the Board at its September 2021 meeting. The review concluded that the Audit Committee functioned well, had the appropriate composition to fulfil its duties, and that the interaction between the Audit Committee and the Board was appropriate. The joint Audit and Risk Committees which were first developed in 2020 had been particularly well received and improved dialogue between the Committees. The Audit Committee was pleased with the results of the evaluation, and will continue to consider areas in which it can improve in the future to the benefit of the Company. For more information on the evaluation of the Board and Committees see page 176.

Priorities for 2022

The Audit Committee has agreed a number of areas of focus for 2022, including:

- enhanced risk management processes and cyber and IT risks;
- continued interaction between the Risk Committee and the Audit Committee on specific topics of relevance to both Committees, in particular capital adequacy and liquidity in response to the environment;
- ensuring continued integrity and balance in the Group's financial reporting;
- monitoring proposals for UK Corporate Governance reform and consider appropriate processes;
- undertaking a competitive audit tender process in line with NBG requirements;
- consideration of new and emerging risks;
- continue to focus on the ECL provision;
- working to improve the work of Internal Audit as it implements recommendations from the independent review; and
- looking at specific implications of the current Ukraine/Russia war on the bank including macro and regional-specific impacts and assessing financial impacts.

Risk Committee Report

Véronique McCarroll
Chair of the Risk Committee

Dear Shareholders,

I am pleased to present the Risk Committee (the Committee) report on behalf of the Board and to provide details on how the Committee discharged its responsibilities throughout 2021. As member of the Committee and Chair with effect from 1 January 2022, I would like to take this opportunity to thank my predecessor, Tamaz Georgadze, for his outstanding contribution. I would also like to take this opportunity to thank my fellow Committee members and everyone on the Bank's team who supported me in my appointment as Committee Chair.

The challenges to the business, and to the Georgian economy, as a consequence of the ongoing impact of COVID-19, continued to be high on the Committee's agenda during the year. Consequently, the Committee maintained a focus on business continuity and a close monitoring of these operational challenges. The Committee received regular reports from George Chiladze, the Bank's Chief Risk Officer, about customer portfolios who have needed support, and how the Bank worked to identify sectors or counterparties in the portfolio which could have been significantly affected.

Notwithstanding the ongoing challenges of COVID-19, the Company's Operational Risk Management Framework allowed the Group to proactively manage the operational requirements of the business. The Committee was able to respond to ensure that our operational risk profile remained robust. In 2021, the Committee continued to strengthen the risk management framework and the internal controls of the Bank. The Committee has assisted the Board in providing oversight of the Group's overall risk appetite in a challenging global macroeconomic environment.

The Committee continued to strengthen the governance framework of the Group in line with the NBG Code, building on the progress made in previous years.

The Committee also focused on the continued development of the tools and metrics used by the Company to manage and report on climate-related risks. The Committee worked closely with the Audit Committee to monitor progress on Climate Strategy and Task Force on Climate-Related Financial Disclosures (TCFD). Further information on these matters can be found on pages 99 and 127 of this report.

Throughout the year, the Committee has carefully monitored the development of the credit portfolio, ensuring compliance with the Risk Appetite level. In addition, the Committee has continued to monitor liquidity, interest rate and foreign exchange (FX) risk, on all of which the Bank has solid positions within the frames of its defined limits.

The Committee recognises that COVID-19 has led to significant changes to the global and regional macroeconomic environment. It also acknowledges the importance of other risks, such as information security and financial crime, which may impact the business in the short- and medium-term, as well as the impact of an emerging risk of climate change, which may affect the business over a longer time horizon and increase disclosure requirements in the short-term.

In March 2022, the Board reviewed an update on the impact of the situation and ongoing sanctions imposed on Belarus and Russia. The Committee reviewed the processes in place to assess, monitor and mitigate the risks more specifically linked with these events.

Further detail of the Committee's work during the year is set out in the following report.

Véronique McCarroll
Chair of the Risk Committee
27 April 2022

An overview of our risk management framework is set out on pages 67 to 73.

A description of principal risks and recent trends and outlook, as well as mitigation efforts, can be found on pages 75 to 93.

Key purpose and responsibilities

The purpose of the Committee is to assist the Board in fulfilling its responsibilities in relation to the oversight of risk, ensuring that appropriate controls are designed and implemented to mitigate these risks, and to provide advice in relation to current and potential future risk exposures. This includes reviewing the Group's risk appetite and risk profile, the desired risk culture and how it has been embedded, assessing the effectiveness of the risk management framework and systems of internal control, and the Group's capability to identify and manage new types of risk.

The key responsibilities of the Committee are to:

- support the Board to ensure that the risk profile is in line with the overall bank strategy, and well managed within a sound and comprehensive risk appetite framework across the bank;
- oversee the risk management policies, processes and infrastructure;
- oversee and support the Board in monitoring risk exposure and the implementation of strategy to address risk;
- oversee, support and evaluate the risk management roles of our senior management team;
- assess, review and challenge the emerging and principal risks facing the Company, including those which would threaten its business model, future performance, solvency or liquidity, and the management and mitigation of those risks;
- encourage and ensure open and broad discussion on perceived risk concerns and responsive efforts to mitigate when necessary;
- assess the adequacy and quality of the risk management function in conjunction with the Audit Committee and the effectiveness of risk reporting within the Group; and
- in collaboration with the Audit Committee, review the principal risks and uncertainties disclosures in the Half-Year and Annual Reports, and assist with the formulation of the longer-term viability statement.

The Committee works closely with the Audit Committee to ensure both Committees are updated and aligned on matters of common interest, including those relating to information security risks and other operational risks which are reviewed in a joint Risk and Audit Committee session. The Committee also considers external risks arising from macroeconomic developments, regional instability and regulatory changes.

The Committee operates under terms of reference, which are reviewed annually and are available on the Group's website at https://www.bankofgeorgiagroup.com/governance/documents.

Composition and meetings of the Committee

I was appointed Chair of the Committee with effect from 1 January 2022, and membership was refreshed in 2021 with the appointment of Mariam Megvinetukhutsesi. The Committee comprises Independent Non-Executive Directors with extensive experience in managing the types of risk faced by a modern bank. The members are Véronique McCarroll (Chair), Al Breach, Tamaz Georgadze and Mariam Megvinetukhutsesi. Full details of the Committee members' biographies and their qualifications can be found on pages 184 to 187.

Details of attendance at Committee meetings can be found on page 174. The Company Secretary is secretary to the Committee and attends all meetings. The Chief Risk Officer, George Chiladze, has full access to the Committee and attends all its meetings. From time to time, other members of management are invited to provide a deeper level of insight into key issues and developments. In addition, other Board members are invited to attend. Meetings of the Committee take place prior to the Board meetings and the Committee Chair reports on its activities.

During 2021, the Committee considered a range of reports which provided ongoing identification, assessment, mitigation and management of risks. The Committee received reports on the Group's overall risk profile using both quantitative models and risk analytics; changes to the loan portfolio; key risk exposures, with detail of how they are being managed; performance against risk appetite for credit, liquidity, interest rates, and foreign currency; emerging and potential risks, including the drivers of risk throughout the Group; and analysis of stress testing scenarios and the results of stress tests and reverse stress tests. The underlying assumptions, methodology and results of these tests were reviewed and challenged by the Committee. Jointly with the Audit Committee, the Committee considered reports detailing the Bank's information security and other operational risks.

External risks

Prior to the Committee meeting the Board considers the macroeconomic situation and political risks which provide the context to the Committee's discussions on the Group's management of financial risks. Most of the restrictions introduced in response to the COVID-19 pandemic by the Georgian Government have been reversed and a nationwide vaccination programme is now in operation. The Bank continuously monitors the ongoing economic impact as a result of the pandemic and continues to monitor capital and liquidity positions.

Additionally, the Committee discussed updates on political and geopolitical events relating to the economies of the region which are Georgia's key trading partners as well as on the impact those events may have on the Georgian economy.

As Georgia continues to align its regulatory framework with that of the EU according to the Association Agreement signed in 2014, we expect further changes in the regulatory framework going forward which may impact our business and competitive landscape in the financial services industry overall. The Bank is engaged in discussions on regulatory changes with the NBG as well as with other stakeholders such as government bodies or banking and business associations, in order to assess and manage the impacts of these changes. The Committee is regularly updated on the regulatory developments.

Risk Committee Report continued

Emerging risk

In 2020, the Company identified climate change as an emerging risk. During 2021, the Committee focused on the development of the Bank's Climate Strategy and climate-related reporting in line with the TCFD recommendations. The Bank continues to work on integrating climate-related risks and opportunities into the management processes to ensure an appropriate framework is in place to effectively manage risks and pursue related opportunities. For more details on climate action, please see pages 138 to 147 in the Sustainable Business section.

Financial risks and our loan book

The Committee receives regular updates on relevant areas including: profiles of the businesses with the most significant Group exposures; management's plans to manage exposures through initiatives including increasing local currency loans and de-dollarisation of the portfolio; and analysis of retail borrowers' debt-bearing capacity. Reports are discussed at scheduled meetings and, where necessary, during informal interim calls with management.

The Committee continues to monitor the credit risk exposure, sector and single name concentration of the corporate loan book, as well as the foreign currency share of the retail loan book. It also reviews the stress testing results, including internally developed stress tests and the stress test using the criteria specified by the NBG.

During 2021, the Committee continued to monitor Non-Performing Loan (NPL) levels and management actions to assure adequate coverage of our loan loss exposure. Our NPL Coverage ratio increased from 76.3% at 31 December 2020 to 95.5% at 31 December 2021. The Committee regularly reviewed details of the write-offs and recoveries of loans, and the overdue rate on the Retail Banking side. The Committee is confident that management takes an appropriately prudent and conservative approach to write-offs.

Operational risks

Jointly with the Audit Committee, the Risk Committee reviews the operational risk profile through a comprehensive risk map as well as a description of the top incidents and key risk scenarios. As always, compliance risk and financial crime risks, including internal and external fraud risks, remain areas of focus. The Audit and Risk Committees received a report, which considered fraud risks and the actions which were being undertaken to mitigate these risks. We also considered the events which had caused business disruption, their root causes, mitigation actions and remediation plans.

Information technology and information security risks

The resilience of the Information Technology (IT) infrastructure remains key to ensuring that the Bank is able to maintain the necessary systems and processes. During the year the Audit and Risk Committee worked together to oversee the development of a risk-based information security approach, which included the improvement of policies and documentation, the maintenance of a cyber risk register, and the assistance from IT team to create a strategy for the First Line of Defence. An independent security assessment of the Group's network for external vulnerabilities was undertaken. A programme was introduced to raise awareness of information security risks internally and externally.

Risk management

Over the course of the year the Committee considered a wide range of risks facing the Group, both principal and emerging, across all key areas of risk management. The Committee also assisted the Board in setting the Group's risk culture, appetite and exposure in line with our strategic objectives and in making the necessary modifications as strategy evolved and when the risk environment changed. In addition to the work undertaken in response to the economic impact of COVID-19, the Committee monitored risk exposures and actions taken to address risks, which included oversight and support of our Executive Management risk team.

During the year, the Committee continued to work closely with the Audit Committee to ensure that our risk management framework and systems of internal controls operate effectively as well as in compliance with the Code and FRC guidance. This included the ongoing development of the Enterprise Risk Management System (ERM) and reorganisation of the Risk Management function. The Committee also reviewed the processes which supported the assessment of the Group's longer-term solvency and liquidity which underpin the viability statement. In 2021, the Committee continued to build on the strengths of our risk management framework to increase the effectiveness and ensure alignment with the Group's strategic objectives.

During the year, management reviewed the risk mitigation tools and control functions. Management reported to the Committee (and to the Audit Committee) on their assessment of the effectiveness of these controls. Where changes had been implemented to the design and implementation of controls in response to COVID-19, the Committee was mindful of the need to ensure that the impact of those changes as well as any changes to the risk profile that might arise as a result were fully considered.

The Committee also carried out a robust review of the principal risks disclosures and other relevant risk management disclosures and reported our recommendations to the Board on their inclusion in the Half-Year Report and this Annual Report.

Finally, the Committee reviewed the viability statement in conjunction with the Audit Committee and management. The viability statement can be found on page 95.

Committee effectiveness

An internally facilitated evaluation of the Committee's effectiveness was undertaken during 2021 as part of the wider Board and Committee effectiveness review. The review concluded that the Committee functioned well, had the appropriate composition to fulfil its duties, and that the interaction between the Committee and the Board was appropriate. The joint Audit and Risk Committees which were first developed in 2020 had been particularly well received and improved dialogue between the Committees. The Committee was pleased with the results of the evaluation and will continue to consider areas in which it can improve in the future to the benefit of the Company. For more information on the evaluation of the Board and Committees see pages 176 and 177.

Focus for 2022

During 2022, the Committee will continue to strengthen the Group's risk culture, enhance our risk appetite framework to better support our financial resource allocation, and embed emerging risks in this journey. The Committee will ensure that the climate-related risk framework and the associated reporting requirements are effective, meet the necessary reporting standards, and align with the Company's strategy and culture. Going forward, the Committee will obviously keep special awareness of the potential threats caused by the Russia-Ukraine situation regarding compliance and information security issues, as well as consideration for the longer term economic impacts.

As in previous years, the Committee will continue to coordinate with other Board Committees, particularly the Audit Committee. Joint meetings with the Audit Committee, primarily relating to operational risks and stress testing will continue to be held to ensure an appropriate link between the Risk and Audit Committees is maintained without the need for overlapping committee membership.

Directors' Remuneration Report

Hanna Loikkanen
Chair of the Remuneration Committee

What is in this report?
This Directors' Remuneration Report is split into two sections:

- The new Directors' Remuneration Policy (set out on pages 215 to 226) which will be voted on at the 2022 AGM.
- The Annual Report on remuneration (set out on pages 210 to 238) which includes the Annual Statement by the Chair of the Remuneration Committee, describes the implementation of Bank of Georgia Group PLC Directors' Remuneration Policy and discloses the amounts earned relating to the year ended 31 December 2021.

The report complies with the provisions of the Companies Act 2006 and Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The report has been prepared in line with the recommendations of the Code and the requirements of the UKLA Listing Rules.

Dear Shareholders,

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the 2021 financial year. This year we are also presenting our revised Directors' Remuneration Policy (the "Policy") that will operate over the next three years. The revised Policy is being put to shareholder approval in accordance with the three-year cycle but it has been changed as required by the regulator as a result of the new National Bank of Georgia Code of Corporate Governance (the "NBG Code"). We also set out shareholder and stakeholder feedback on the revised Policy below and our response to it, including the extension of total vesting and holding period of the performance-based remuneration to eight years.

2021 Policy Review

We are required to make certain changes to our Policy to ensure that the Bank's remuneration complies with the new NBG Code. The NBG Code broadly follows the principles of the Capital Rights Directive and all material risk takers are included in the scope of the NBG Code, including the Executive Director. One of the principal changes is that we are now obliged to use a monetary value maximum for both the salary (which can be translated into deferred shares) and for the performance-based remuneration. Previously we linked both deferred share salary and discretionary performance-based remuneration to a number of shares.

As a result of the implementation of the new NBG Code, the new regulatory changes have meant that we have had to renegotiate existing senior management contacts mid-term – in the case of the Executive Director a number of years prior to his previously negotiated contract. The Remuneration Committee is proposing to implement the required changes in the fairest way possible, one that is economically neutral to management's existing contracts and in a way that retains as much alignment between management and shareholder outcomes as possible. This economic neutrality was positively received by our major shareholders during our consultation process. We will be retaining many of the main elements of our approach to remuneration, including that the majority of the Executive Director's salary being translated into deferred shares, and all the performance-based remuneration being in deferred shares, all of which will have an extensive vesting and holding period.

Whilst it is permitted under the new NBG Code, we are not seeking to implement the maximum 2:1 variable to fixed pay cap as we do not think it is appropriate alongside the pay structure that shareholders have supported to date. For many years, shareholders have been appreciative of our current structure with its high proportion of the salary being in deferred shares and the strong medium- to long-term alignment with shareholders that this creates.

The key proposed changes to the Policy are:

- In accordance with the NBG requirements, share salary is to be fixed in monetary value in the contract, which is translated into deferred shares rather than the previous fixed number of shares. Vesting and holding periods are as set out in the new Policy table and are over a total period of five years.
- In accordance with the NBG requirements, performance-based remuneration remains capped at a maximum of 100% of salary (cash and share salary) but given that share salary is now a dollar amount, the maximum performance-based remuneration is also now a dollar amount, which is translated into shares.
- The vesting and holding periods of the discretionary performance-based remuneration mean that the shares will be released over a period of eight years from the beginning of the work year – an increase from the six years under the previous Policy.
- Malus provisions, which were already extensive, have been expanded further for discretionary remuneration, including the addition of material breach of applicable regulations and/or of the Bank's internal policies and of significant increases in the Bank's regulatory capital requirements.
- Clawback will apply for two years from the date of vesting under the new Policy, an increase from one year in the previous Policy.

Pension entitlements for Executive Directors and senior management remain in line with the Georgian workforce at 0-2% contribution by the Bank with a further 0-2% contribution by the Georgian government. Shareholding guidelines remain, with Executive Directors required to build and then maintain a shareholding requirement equivalent to 200% of total salary to be built up and maintained for two years post-employment. Given the high proportion of remuneration in deferred shares, and the length of deferral, Executives Directors who have been with the company more than a couple of years will naturally hold a higher amount than the Shareholding guidelines at any particular time. There remains no cash bonus and no LTIP.

In accordance with the NBG regulations, if the revised Policy is approved by shareholders the provisions shall be deemed to have taken effect from 1 January 2022 and deferred salary shares shall be awarded accordingly (Archil Gachechiladze has not been awarded any share salary to date for 2022) after the AGM. In accordance with the NBG Code, salary shares will only lapse pro-rata in the event of early termination.

There are no provisions to allow a salary or performance-related remuneration increase for our CEO and sole Executive Director, Mr Gachechiladze, for the three-year period of his new contract. Total fixed remuneration and performance-related entitlements will therefore remain fixed for the three-year contract period, with no annual inflation linked increases.

Ahead of determining the revised Policy, a number of major shareholders were consulted. I held individual video calls with shareholders to discuss the impact of the NBG Code changes and solicit specific shareholder feedback. Shareholders were generally very understanding of the requirement to change to a dollar based maximum for both fixed salary and discretionary remuneration, and were very supportive of the fact that they were still to be awarded in deferred shares. Some shareholders and proxy investor groups expressed a view that the new approach was preferable in that salary and performance-based remuneration would be tied to a monetary value rather than to fixed numbers of shares.

In addition, we consulted major proxy advisor agencies explaining the enforced changes to the Policy. We received helpful guidance on the levels of disclosure they expected to see in the Remuneration Report, including that we should include our reasoning behind the monetary value and that good levels of disclosure around KPIs continues to remain important. One proxy advisor agency noted that it was pleased to see the change to a fixed monetary value, whilst another confirmed that, having reviewed the proposed new Policy, they had no further questions.

Proxy advisory agencies also noted that investors expected disclosure of the powers to enforce the malus and clawback provision should the Committee be required to do so. We can disclose that we have several layers of protection: (i) Archil Gachechiladze's contract explicitly includes malus and clawback provisions; (ii) the Executive Share Plan has provisions allowing the Trustee to lapse or recover shares in accordance with an Executive's contract; and (iii) furthermore, at the time of grant Executives are required to sign an acceptance form stating that they recognise that the shares are awarded in accordance with the provisions of the Share Plan and subject to the relevant malus and clawback provisions.

Following feedback from one major shareholder, the Committee decided to extend the holding period of the discretionary deferred shares from the proposed one-year holding period to a two-year holding period in order to further align the Executive Director with the long-term success of the Company and the shareholder experience. The discretionary deferred shares in the new Policy will therefore now be released over a period of eight years from the beginning of the work year.

Conversion of contractual salary and performance-based remuneration to projected monetary value

As stated in our 2019 Policy approved by shareholders, Mr Gachechiladze's contract was for a duration of five years, until 28 January 2024. Cash salary was fixed to a cash amount but the deferred share salary was linked to a fixed number of shares (not a monetary amount translated into shares). Performance-based remuneration was also linked to a maximum number of shares (plus a smaller element of a maximum monetary value, to reflect the cash salary, translated into deferred shares). If Mr Gachechiladze had opted to break the contract early without good reason (which is defined in the contract and covers circumstances such as ongoing breach

Directors' Remuneration Report continued

by the group), then all his unvested performance-based shares to date would lapse. The structure therefore incentivised Mr Gachechiladze to remain with the Group to ensure stability for the Group, and to grow the share price.

The introduction of the NBG Code has forced the company to either breach or reopen the terms of the contract by changing the salary and maximum performance-based remuneration into monetary amounts (which would then be used to calculate the maximum number of deferred shares).

Archil Gachechiladze has transformed the Company into one ready for the digital future and he has delivered exceptional financial and strategic results under very challenging circumstances. Therefore recruitment of a replacement CEO was absolutely not considered to be a good option for the Company.

Our CEO must be of a sufficient calibre, able to communicate and lead Georgian colleagues and with sufficient banking experience to run a systemic bank with a signficant role in the Georgian economy, which is also listed on the London Stock Exchange. Over the last few years, there has been a drain of management talent to surrounding countries where remuneration packages are significantly higher. The candidate pool is significantly limited.

The aim of the Committee therefore was to change the number of shares in the above existing contractual arrangement under the shareholder approved 2019 Policy into a monetary value at an economically neutral amount over the three-year period from 1 January 2022. The Committee noted that shortly before the impact of the global COVID-19 pandemic, the share price had reached GBP 18.12 (as at 31 December 2021, the share price had also largely recovered to GBP 16.68). Base share price of GBP 17.00 (US$ 23.46) was used and, as discussed with our major shareholders, this was linked to a 15% cost of equity in ensuring the economic neutrality of the new Policy, compared with the previous Policy.

The following chart illustrates the share price under the current Policy and under the new Policy to show that the new Policy is economically neutral over the three years to end of 2024, There is no inflation-linked increase during the length of the contract. There is also no increase in the cash salary, which was set in 2019. There remains no cash bonus nor LTIP.

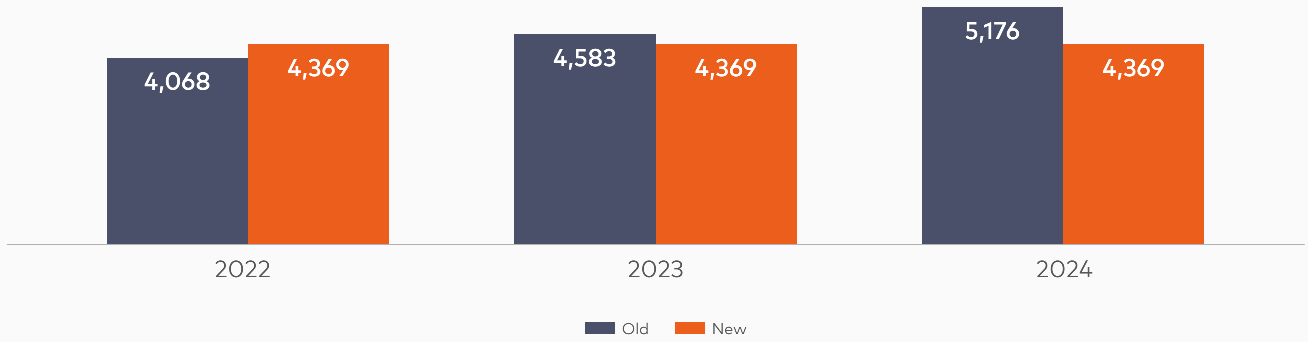
While the new Policy is economically neutral for senior management, in considering the Policy as a whole, the Committee took into account pay and conditions across the Group, and was pleased to note a year-on-year rise in deferred share salary for average employees of 89.9%. The average

EXISTING POLICY – CEO	2021 (US$ '000)	2022 (US$ '000)	2023 (US$ '000)	2024 (US$ '000)
Cash	370	370	370	370
Shares 75,000	1,759	2,023	2,326	2,675
Total Fixed	**2,129**	**2,393**	**2,696**	**3,045**
Target Bonus (70%)	1,490	1,675	1,887	2,131
Total	**3,619**	**4,068**	**4,583**	**5,176**
Maximum Bonus (100%)	2,129	2,393	2,696	3,045
Total	**4,258**	**4,786**	**5,392**	**6,090**

NEW POLICY – CEO	2022 (US$'000)	2023 (US$'000)	2024 (US$'000)
Cash	370	370	370
Shares	2,200	2,200	2,200
Total Fixed	**2,570**	**2,570**	**2,570**
Target Bonus (70%)	1,799	1,799	1,799
Total	**4,369**	**4,369**	**4,369**
Maximum Bonus (100%)	2,570	2,570	2,570
Total	**5,140**	**5,140**	**5,140**

* Based on share price GBP 17.00 (US$ 23.46) and assumes cost of equity linked annual share price uplift of 15%

Comparative impact of the New Policy based on target achievement



* Based on share price GBP 17.00 (US$ 23.46) and assumes cost of equity linked annual share price uplift of 15%

employee bonus has also increased by 66.0% year on year. (See Percentage change in remuneration of Directors and employees on page 233.)

Shares are allocated at the time of grant, rather than vesting, which ensures the maximum alignment with shareholders.

In respect of possible "windfall" concerns, we note that for Mr Gachechiladze the impact of the revised structure under the new Policy (of using a fixed monetary value for his deferred salary shares and discretionary deferred shares) is also offset by the number of deferred shares that have accrued under the current Policy for 2019, 2020 and 2021. Through years of service to and investment in the Group, Mr Gachechiladze has a significant shareholding – as at 31 December 2021 he had a total shareholding in the Company of 442,234 shares, of which 288,395 were unvested. Unvested deferred shares vest over several further years. (Indeed share price has been lower in past two years during which shares were awarded at a fixed number.) In the event that the share price is also lower in the future under the new policy, it proportionately affects the shares he has already earned in previous years and therefore there is a natural hedge against any "windfall effect" of future changes in the share price.

Lastly we note that the current Policy has extensive malus and clawback provisions, and that these will be strengthened further under the new Policy by additional malus and clawback arrangements. Clawback is also being extended from one to two years. Additionally, discretionary deferred shares lapse if the contract is terminated under certain circumstances including early termination by Mr Gachechiladze in addition to termination by the Company in certain circumstances (this would be a proportion of several years of performance-based remuneration that had been earned and awarded that would lapse).

Non-Executive Directors' Remuneration Policy

The revised Policy does not propose any changes to the section on the Non-Executive Directors' Fees. Further the Board is not proposing an increase in Directors' fees to align with inflation, and fees have not been increased since the current Policy was introduced three years ago.

Further Stakeholder Considerations for the Remuneration Report

We were pleased that the Directors' Remuneration Report received strong support at the 2021 AGM with 95.7% approval. Feedback on the new level of disclosure for the CEO 2020 KPIs (including the minimum, target and maximum) and their weightings was very positive during 2021, and we have ensured a similar level of disclosure for the 2021 KPIs. In addition, following feedback from a major shareholder we have disclosed the total shareholdings of top management.

Given the importance of ESG matters to stakeholders, for the past two years and also for the forthcoming years, the CEO has a number of KPIs and personal KBOs which relate to ESG matters. From a structural perspective, the correlation between ESG and the share price of companies is becoming increasingly established and the Committee notes that the majority of compensation delivered to senior management is in shares which are deferred for several years. The Committee also retains ultimate discretion over the performance-based remuneration. Therefore, the incentive structure for senior management is naturally geared towards the medium- to long-term success of our company and does not create ESG risks by inadvertently motivating irresponsible behaviour and supports positive behaviour.

Workforce remuneration and engagement

In addition to my role as Chair of the Remuneration Committee, I am the designated Non-Executive Director to engage with the workforce. I facilitate quarterly informal discussions known as Employee Voice to engage with the workforce. All Board members are invited to participate in these meetings, which aim to facilitate the exchange of opinions, ideas and views between the Board and the workforce and allow the workforce to raise matters (including remuneration). These meetings were held virtually in 2021 due to ongoing restrictions and further information on the output from these meetings can be found in the Directors' Governance Statement.

Directors' Remuneration Report continued

The Committee considered and approved an overview of the employee bonuses for 2021. These are divided along business lines and are comprised of both cash bonuses and share bonuses. The average employee bonus for 2021 increased by 66% year on year.

The Committee considered the approach to remuneration and the new workforce remuneration policy for employees of the Bank other than material risk takers. The main principles of the policy are competitiveness, flexibility and fairness. The policy covers fixed and variable remuneration as well as benefits. Employees can be awarded deferred shares via the Employee Equity Compensation Plan on a discretionary basis. The alignment with the Group's values and long-term sustainable success of the Group is enhanced by this scheme.

At the same time as considering workforce matters, the Committee considered the internal policies for the material risk takers, for senior management (including the Executive Director) and for the Board members. These were in line with the new NBG Code (which affects employees who have managerial responsibilities over the Bank's control functions or significant business unit and all members of senior management).

2020 Performance-based remuneration cancelled

After shareholder approval at the 2021 AGM, the NBG informed the Remuneration Committee that as the Bank had utilized Pillar 2 or conservation buffers made available to systemic banks during the pandemic, no discretionary deferred share remuneration should be granted to the CEO (67% of maximum opportunity as measured against KPIs had been approved) and the top five members of the senior management for 2020. Consequently, 2020 bonuses were not granted to these people and the 2020 figures have been restated accordingly in this Remuneration Report. The NBG has confirmed that this does not apply to 2021 performance-based remuneration.

2021 Performance-based remuneration

Under Mr Gachechiladze the Group delivered an excellent 2021 performance with a 25.2% increase in operating income, a 146.5% increase in profit to a record GEL 727.1 million, and a full-year return on average equity of 25.8%.

Full-year basic earnings per share increased by 146.7% to GEL 15.22 per share. Strong top- and bottom-line growth were supported by an improving economic environment in 2021 in Georgia. The loan book was up 19.8% year-on-year on a constant currency basis.

Net Promoter Score, a metric that reflects the underlying strength of the Bank's customer franchise, improved to 55% in December 2021 which is a historic high. The Employee Net Promoter Score also stood at an all-time high of 61% as of December 2021. The further development of ESG in line with the Group's five Sustainable Development Goals continued at pace, including the idenification of key topics, the excellent results on 54.1% of women on the Executive Committee equivalent and direct reports, financial inclusion initiatives and recognition by the UN Global Compact.

Further analysis of performance against KPIs showing the basis for the decision of the Remuneration Committee is in the section Basis for determining Mr Gachechiladze's discretionary deferred share remuneration in respect of 2021 on pages 230 to 232 below.

The results were extraordinary and achievement was outperforming against each KPI, as further shown in the table and the notes on each KPI below the table. The outcome was that Mr Gachechiladze was awarded 97% of his maximum opportunity which was paid in deferred shares. No discretion was exercised, and the detailed calculations along with the Notes to each KPI are laid out in the aforementioned section of the Directors' Remuneration Report.

The Remuneration Committee also recognised that, as for 2020, in 2021: (i) the Group did not receive direct support from the UK or Georgian governments and did not utilise the furlough scheme; and (ii) it did not raise any additional capital from shareholders. The Remuneration Committee also noted that in September 2021 the Group implemented a new capital distribution policy to target a payout in the range of 30-50% of annual profits. Shareholders were pleased to receive an interim dividend in November.

Alignment with shareholders is built into the structure by the award being entirely in deferred shares which have a total vesting and holding period of six years from the beginning of the work year. There is no cash bonus and the Company does not operate an LTIP. The discretionary deferred shares in relation to Mr Gachechiladze's 2021 performance-based remuneration are awarded in accordance with the current 2019 Policy.

Hanna Loikkanen
Chair of the Remuneration Committee
27 April 2022

Directors' Remuneration Policy – Bank of Georgia Group PLC

Shareholders approved the current Remuneration Policy at the AGM in 2019. As such, the Bank is required to seek approval for the new Policy at the 2022 AGM, from which date the new Policy will apply. This Policy, once approved, will be formally effective for three years from the date of the 2022 AGM. This Policy is intended to be a largely a continuation of the existing Remuneration Policy, with some changes for example using a monetary maximum for the salary and discretionary deferred remuneration as required by the NBG, and extended total period of vesting and holding period on the discretionary deferred remuneration.

For transparency, where amendments have been made to the existing Remuneration Policy, we have highlighted this in the policy below with changes shown in red.

It is a provision of this Policy that the Group will honour all pre-existing obligations and commitments that were entered into prior to this Policy taking effect. The terms of those pre-existing obligations and commitments may differ from the terms of the Policy and may include (without limitation) obligations and commitments under service agreements (as detailed in the information below), deferred share remuneration schemes and pension and benefit plans. After the Policy becomes effective from the date of the 2022 AGM, the service contract of the Group's sole Executive Director and CEO, Archil Gachechiladze, will be amended and reinstated to incorporate the terms of the Policy. To comply with NBG requirements the amendments will be effective from 1 January 2022. Discretionary deferred remuneration awarded for work year 2021 is governed by the 2019 Policy.

The Remuneration Committee retains its discretion under the Policy to make minor amendments to the Policy for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation without obtaining prior shareholder approval.

The Policy is UK Corporate Governance Code 2018 compliant, noting that the deferred share salary is neither a typical remuneration scheme nor a typical salary, and the discretionary deferred shares are released later than a typical cash bonus.

Executive Directors' Remuneration Policy

The Policy provides for an Executive Director's remuneration package to be comprised of the elements set forth below. For the avoidance of doubt, all references to Executive Directors refer to the Executive Directors of Bank of Georgia Group PLC, to cover the present Executive Director Archil Gachechiladze and any future Executive Directors of BOGG PLC while this Policy is in force. The compensation structure of senior management (most of whom serve on the Management Board of the Bank but who are not Executive Directors of BOGG PLC) is set by the Remuneration Committee and is modelled on the Policy but is not bound by it. The Remuneration Committee can set different vesting or other terms and conditions for some or all of senior management as the Remuneration Committee thinks appropriate.

Directors' Remuneration Report continued

Salary in the form of cash and long-term deferred shares

Purpose and link to strategy	Operation	Opportunity
• To closely align the Executive Directors' and shareholders' interests. • To promote long-term value creation and share price growth. • To reflect the role and required duties, skills, experience and individual contribution to the Group. • To encourage commitment to the Group and to recruit and retain high-calibre talent.	• The level of base salary for an Executive Director is fixed in his or her service agreements. The level of salary is reviewed by the Remuneration Committee when a service agreement is up for renewal or if there is a significant change in circumstances and the Executive Director and Remuneration Committee agree to consequent changes in their agreements, for example the implementation of a new Remuneration Policy. • Salary is comprised principally of long-term deferred shares ("deferred share salary"), plus a cash salary. • Deferred share salary is fixed in monetary value in the contract, and awarded in the form of nil-cost options annually in respect of the work year, and is usually expected to be awarded towards the beginning of the work year. It is noted that none of the deferred share salary vests during the work year; and also it is subject to pro rata lapse in the event an incomplete year is worked. • Deferred share salary awarded in respect of a work year will be released over five years from the start of the year in which the salary is earned as follows: 100% of the deferred share salary vests on the first anniversary of the start of the work year and is subject to holding periods so that 40% is released on the second anniversary, and 20% is released on each of the third, fourth and fifth anniversaries of the start of the work year. • Upon vesting the Executive Director also receives cash payments equal to the dividends paid on the underlying shares between the date the award was made and the vesting date. • Lapse provisions (natural malus) for an incomplete year are built into the deferred share salary as set out in the notes to this Policy table. Extended malus and clawback provisions do not apply to the deferred share salary as the awards attach to salary already earned. Instead the Remuneration Committee considers the discretionary deferred salary as a sufficiently large pool from which to apply the extended malus and clawback provisions if necessary in the circumstances to do so.	• The level of cash salary and number of deferred salary shares are set in the Executive Directors' service agreements, and will be no more than the Remuneration Committee considers reasonable based on his or her duties, skills and experience. In the event that another Executive Director is appointed, the value of his or her total salary and his or her bonus opportunity (i.e. the discretionary deferred shares) is not expected to exceed that of the CEO at the time. • The Remuneration Committee has the discretion to change the split of total salary between the cash salary and the deferred share salary. **Cash salary** • The total amount payable to the current CEO and Executive Director, Mr Gachechiladze, is US$ 370,000 per annum. **Deferred share salary** • The value of deferred share salary for Mr Gachechiladze is fixed at the equivalent of US$ 2,200,000 per annum, to be awarded in deferred shares. The number of shares shall normally be calculated using the average price of the shares over five working days prior to 25 December of the year immediately preceding the year of award.

Performance-based remuneration – discretionary deferred shares

Purpose and link to strategy	Operation	Opportunity

• In the context of overall Group performance, to motivate and reward an Executive Director in relation to his or her contribution to the achievement of the KPIs set for him or her by the Remuneration Committee towards the beginning of the year.
• Performance-based remuneration solely in the form of deferred shares (no cash):
  • Closely aligns the interests of an Executive Director with shareholders.
  • Avoids inappropriate risk taking for short-term gain.
  • Encourages long-term commitment to the Group.
	• Performance-based remuneration is awarded annually entirely in the form of nil-cost options over shares which are subject to vesting ("discretionary deferred shares"). BOGG does not award cash bonuses to Executive Directors.
	• The Remuneration Committee will determine annually the number of shares to be awarded based on the Executive Director's achievement of his/her KPIs set for the work year and the performance of the Group during that year. If appropriate, where a strategic change or change in business circumstances has made one or more of the KPIs an inaccurate gauge of the Executive Director's performance, the Remuneration Committee may decide to base its assessment on alternative measures. The Remuneration Committee also has the discretion to consider the performance of the individual and the Group as a whole. The outcome of the Executive Director's performance and the Remuneration Committee's determination will be reported in the Directors' Remuneration Report for the work year in consideration.
	• Any discretionary deferred shares will normally be granted following the end of the work year, although the Remuneration Committee retains the discretion to determine the timing of the awards. Any discretionary deferred shares will vest as follows: 40% vests immediately, and 15% will vest on each of the third, fourth, fifth and sixth anniversaries of the start of the work year.
	• Each tranche will be subject to a further holding period of two years as per the notes to this Policy table (effectively discretionary deferred shares are released over eight years from the beginning of the work year).
	• Upon vesting, the Executive Director also receives cash payments equal to the dividends paid on the underlying shares between the date the award was made and the vesting date.
	• KPIs for the Executive Director are set near the start of each work year and reflect the Executive Director's targeted contribution to the Group's overall key strategic and financial objectives for the work year. KPIs may also include non-tangible factors such as self-development, mentoring and social responsibility.
	• There is no contractual right to discretionary deferred shares and the Remuneration Committee reserves the right to award no discretionary deferred share remuneration if the Group's performance is unsatisfactory.
	• Extended malus and clawback, in addition to lapse provisions (natural malus) apply as set out in the notes to this Policy table.
		• The maximum number of discretionary deferred shares that may be awarded in respect of the previous work year is capped at 100% of total salary (i.e. cash and deferred share salary), calculated as set out in the notes to this Policy table.

Directors' Remuneration Report continued

Pension

Purpose and link to strategy	Operation	Opportunity
• The Group is required to comply with pension requirements set by the Georgian Government. • Pension provision is the same for all employees in the Group in Georgia.	• Pension provision will be in line with Georgian pension legislation, which may change from time to time. • There is no provision for the recovery or withholding of pension payments.	• In line with current Georgian legislation, the Executive Director and the Bank each contribute 0-2% of total remuneration from the Bank, and the Georgian Government may contribute a further small amount (0-2% depending on income levels). • Pension contributions will only increase above this level if mandated by Georgian legislation or if mandated by any other applicable legislation. • The same arrangement applies to employees across the Group in Georgia.

Benefits

Purpose and link to strategy	Operation	Opportunity
• Non-cash benefits are in line with Georgian market practice and are designed to be sufficient to attract and retain high-calibre talent.	• Benefits consist of: life insurance; health insurance; incapacity/disability insurance; directors' and officers' liability insurance; physical examinations; tax gross-ups and tax equalisation payments; company car and driver; mobile phone costs; personal security arrangements (if requested by the Executive Director); assistance with completing tax returns (where required); relocation costs for Executive Director and close family and legal costs. • Other benefits may be provided from time to time if considered reasonable and appropriate. • There is no provision for the recovery or withholding of benefits.	• There is no prescribed maximum on the value of benefits payable to an Executive Director. The maximum amount payable depends on the cost of providing such benefits to an employee in the location at which the Executive Director is based. • If the Executive Director's personal circumstances do not change and the Group is able to obtain benefits on substantially the same terms as at the date of this Policy, the aggregate cost of benefits for an Executive Director during the Policy's life is not expected to change materially.

Other Executive Director policies – shareholding guidelines

Purpose and link to strategy	Operation	Opportunity
• To ensure Executive Directors build and hold a significant shareholding in the Group over the long term. • To align Executive Directors' interests with those of shareholders. • To ensure departing Executive Directors make long-term decisions and maintain an interest in the ongoing success of the Group post-employment.	• Executive Directors are required to build and then maintain a shareholding with an 200% equivalent of total salary (i.e. cash and deferred share salary), such amount to be built up within a five-year period from appointment as an Executive Director (the "Required Shareholding"). • All beneficially owned shares, as well as unvested (net of tax) and vested deferred share salary and discretionary deferred shares will count towards the Required Shareholding (as such awards are not subject to any performance conditions after grant). • Meeting and maintaining the Required Shareholding is likely to happen naturally over the course of the Executive Director's employment. • Executive Directors are to retain the lower of the Required Shareholding or the Executive Director's actual shareholding at the time employment ceases, for a period of two years from the date on which employment ceases unless the Remuneration Committee determines otherwise. It is noted that a good leaver may hold substantially higher than this in unvested shares alone. • In very exceptional circumstances, for example in the event of a serious conflict of interest, the Remuneration Committee has the discretion to vary or waive the Required Shareholding, but must explain any exercise of its discretion in the Group's next Remuneration Report. It should be emphasised that there is no present intention to use this discretion.	• Not applicable.

Directors' Remuneration Report continued

Notes to the Policy table

Cash salary

The Remuneration Committee has the discretion under the Policy to change the currency in which cash salary is paid and also has the discretion to determine the appropriate exchange rates for determining the cash salary to be paid.

Deferred share salary

Deferred share salary is the most important element of the Executive Director's fixed annual remuneration and is commensurate with his or her role within the Group. By weighting salary towards a deferred share salary that vests and is released over five years rather than cash, the Executive Director's day-to-day actions are geared towards achievement of the Group's strategic goals and sustained Group performance over the long term.

Deferred share salary is granted towards the beginning of the work year and vests/is held for over five years from the start of the work year as follows: 100% vests on first anniversary of the start of the work year and is then subject to holding periods, with 40% released on the second anniversary, and 20% released on each of the third, fourth and fifth anniversaries of the start of the work year.

The deferred share salary is neither a bonus nor an LTIP: it is salary fixed as a monetary value in an Executive Director's service agreement(s) and is therefore not subject to performance targets or measures. Nil cost options for deferred share salary will be awarded towards the beginning of the work year rather than at the end (although they lapse pro rata for any incomplete years worked). The Executive Director's service agreement will reflect these provisions, subject to the new Policy being approved at the 2022 AGM.

As noted above, the value of the deferred share salary is fixed as a monetary value in the Executive Director's service agreement(s). The number of shares shall normally be calculated using the average price of the shares over five working days prior to 25 December of the year immediately preceding the year of award.

In compliance with NBG requirements, for 2022 deferred share salary will be awarded after the Policy is approved at the AGM, but will be effective from 1 January 2022 and vesting and holding periods will be adjusted as if it had been awarded in January 2022; and so 100% will vest in January 2023 with 40% released from holding in January 2024, and 20% released in each of January 2025, January 2026 and January 2027.

Performance-based (discretionary deferred share) remuneration

No cash bonuses are paid to Executive Directors. Further the Group does not operate an LTIP because it believes there is sufficient long-term incentive built into its deferred share salary.

Instead, an Executive Director's individual and Group performance is rewarded through an annual award of discretionary deferred shares which will be subject to vesting or holding periods as follows: 40% vests immediately but is subject to a two-year holding period whereupon it is released on the third anniversary of the start of the work year; and 15% will vest each of the third, fourth, fifth and sixth anniversaries of the start of the work year and are subject to a further two-year holding period and so are released on the fifth, sixth, seventh and eighth anniversaries of the start of the work year. For work year 2022, performance based remuneration will be awarded on the basis of this Policy. The performance-based remuneration will be subject to the above holding and vesting periods so that 40% would vest upon grant in 2023 but subject to a further two-year holding period and so released from holding on January 2025, and the remainder would vest in 15% tranches and be released after a further two-year holding period so that 15% is release from holding in each of January 2027, January 2028, January 2029 and January 2030 (and so the shares are released over eight years from the beginning of the work year).

The Remuneration Committee will determine the aggregate number of shares (if any) that will be awarded to an Executive Director and as in the table above, the maximum opportunity that Mr Gachechiladze, the current CEO, may be awarded in a given year is equivalent to 100% of total salary (i.e. cash salary and deferred share salary) converted into a number of shares (normally calculated using the last closing share price before the Remuneration Committee meeting at which the discretionary deferred share award is determined or over an appropriate date range).

The Remuneration Committee will make the determination on the number of shares to be awarded annually in respect of the Executive Directors and senior management and will consider the defined maximum opportunity, the Group's performance and the individual's KPIs when making a determination.

Performance measures and relative targets are chosen to reflect strategic priorities for the Group and will be chosen by the Remuneration Committee annually towards the beginning of the performance year. The aggregate pool of shares available each year for awards of discretionary deferred share compensation for the Executive Directors and senior management as a whole is determined annually by the Remuneration Committee in its absolute discretion, based on a number of factors usually including:

- financial results;
- strategic objectives; and
- people and culture objectives.

The Remuneration Committee retains flexibility to adjust the amount to be awarded, for example if strategic objectives evolve or if business circumstances change during the year. The Remuneration Committee believes that this flexibility ensures that the Board can work with an Executive Director so that he or she does not take excessive risk to achieve KPIs. Even in a "good" year for an Executive Director (e.g. achievement of most of his or her KPIs), if this coincides with a "bad" year for the Group (e.g. markets have turned), the Remuneration Committee has the discretion to award little or no discretionary remuneration to the Executive Director if it considers it appropriate to do so. The precise measures will be determined by the Remuneration Committee and disclosed retrospectively in the Remuneration Report following the year of the Remuneration Committee's determination.

Malus and clawback and shareholding guidelines

Discretionary deferred shares are subject to malus and clawback in the following circumstances:

- misconduct in the performance or substantial failure to perform duties by the Executive or material breach of applicable regulations and/or the Bank's internal policies;
- significant financial losses, serious failure of risk management or serious damage to the reputation of BOGG or the Bank caused by misconduct or gross negligence (including inaction) of the Executive;
- material misstatement or material errors in the financial statements that relate to the area of responsibility of the Executive or can be attributed to action or inaction of the Executive's performance of their duties;
- deliberately misleading BOGG or the Bank in relation to financial performance;
- failure to continue to meet the fitness and properness criteria for an Executive of the Bank;
- material increase with respect to the required regulatory capital of the Bank that can be attributed to the action or inaction of the Executive;
- misconduct that contributed to the imposition of material regulatory or other similar sanctions;
- payments based on erroneous or misleading data, for which malus and clawback apply to discretionary deferred remuneration for awarded for the year in question; and
- significant increases in the Bank's regulatory capital requirements (for clawback to apply such failures/problems are to have been caused by or attributable to the actions or inactions of the Executive)

The Remuneration Committee further has the right to withhold the release of already-awarded discretionary deferred share remuneration if such is mandated by the needs of preservation of the Bank's regulatory capital.

The above provisions will form part of Mr Gachechiladze's service contract which shall be amended and restated following the approval of the Policy at the AGM. Further, the Group has also amended the Executive Equity Compensation plan to allow shares to be lapsed, including to zero, or clawed back in accordance with the provisions in the Executive's contracts.

Clawback is for up to two years from vesting and for the Group's current Executive Director and CEO, Mr Gachechiladze, the Group also has unusually strong malus provisions where unvested discretionary deferred shares lapse when the service contract is terminated under certain circumstances, including for "Cause" such as gross misconduct, failure to perform duties, material breach of obligations and unethical behaviour. This may be several years of discretionary deferred shares. See the Termination of the JSC Bank of Georgia service agreement table on page 225 below.

The Shareholding Guidelines, to build and then maintain a shareholding with a 200% equivalent of total salary and then to maintain such for two years post-employment, are set as express provisions in Mr Gachechiladze's contract.

Directors' Remuneration Report continued

Discretion

The Remuneration Committee retains a substantial degree of discretion in relation to discretionary share remuneration. This includes:

- the determination of the award, if any;
- selection of KPIs, which may vary from year to year in order to align with strategy and financial objectives;
- any adjustments required to an Executive Director's KPIs during the work year when, for example, there has been a change in strategy or business circumstances which results in one or more KPIs becoming an inaccurate gauge of performance; and
- the discretion to override any formulaic outcomes when it considers it reasonable in the circumstances to do so prior to or upon vesting of discretionary deferred shares.

For the avoidance of doubt the Group shall not award (or shall reduce the amount of the award accordingly) to the extent that such award would cause a breach of the NBG's capital adequacy requirements and other regulatory ratios.

Consideration of employment conditions elsewhere in the Group

Remuneration packages for all Group employees comprise both fixed and variable elements. In accordance with prevailing commercial practice, the Remuneration Committee does not formally consult with employees in preparing the Remuneration Policy but in determining an Executive Director's remuneration, the Remuneration Committee considers:

(i) pay and employment conditions of senior management;

(ii) pay and employment conditions across the Group as a whole;

(iii) whether employees across the Group are personally satisfied with the way they are remunerated; and

(iv) feedback received from Human Resources and other employees in the executive remuneration structure.

Our employees' remuneration packages are comprised of cash salary, bonus opportunity and benefits. For senior management, the remuneration package is heavily weighted towards deferred shares in the form of nil-cost options which align remuneration of senior management with shareholder interests. All employees receive a competitive benefit package in line with Georgian market practice.

All Georgian employees are entitled to participate in the national pension scheme on the same terms as applicable to Executive Directors.

Other factors taken into consideration are competition in the market place, individual performance and competencies. Usually, exceptional personal performance is recognised through variable pay. The Company also operates an Employee Equity Compensation Plan on a discretionary basis.

For a company of our size and depth, our Executive Directors and senior management must have the skills, experience, work ethic and attitude required to successfully execute our strategy, meet our objectives and create value for shareholders over the long term. In order to recruit and retain this talent, we benchmark the value of remuneration against FTSE 250 and FTSE small cap companies in financial services and against relevant peer financial services companies in emerging markets (which may include Russia, other former Soviet republics and South Africa) and all UK-listed companies based in Georgia.

The remuneration of employees in the Group, other than Executive Director(s) and senior management, is benchmarked against the Georgian Labour Market as this is the most relevant comparator. The Remuneration Committee is regularly informed by Human Resources of remuneration developments across the Group.

The compensation structure of the senior management is set by the Remuneration Committee and is modelled on the Policy but the Remuneration Committee is not bound by it when setting the senior management's remuneration. The Remuneration Committee generally awards members of the senior management discretionary deferred shares as a bonus to ensure maximum alignment with shareholders and to help set the tone from the top.

Equity Compensation Trusts and dilution limits

The Bank of Georgia Group operates two employee benefit trusts (EBT), one for senior executives, and the other for employees below the executive level (the "ESOPs"), which hold ordinary shares on trust for the benefit of employees and former employees of the Group, and their dependents, and which is used in conjunction with the Group's employee share schemes.

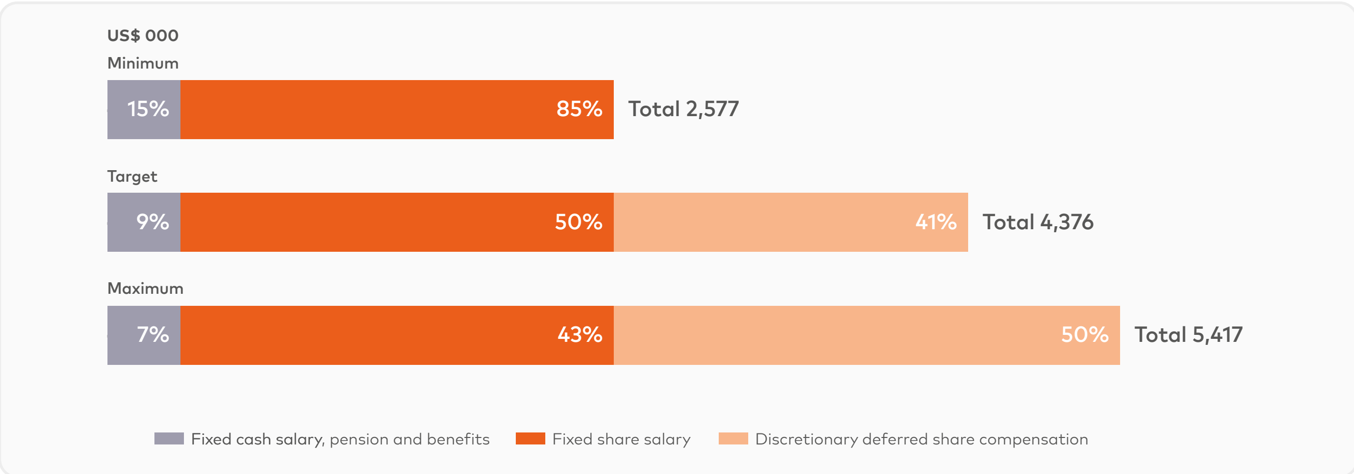
The Bank of Georgia Group has committed that new shares issued in satisfaction of share compensation from the time of the Company's listing on the premium segment of the LSE will not exceed 10% of Bank of Georgia Group's ordinary share capital over any ten-year period.

Business expenses

Executive Directors are reimbursed for reasonable business expenses incurred in the course of carrying out duties under their service contract, on provision of valid receipts.

Illustration of application of Remuneration Policy

The chart below shows an estimate of the remuneration that could be received by Mr Gachechiladze, our sole Executive Director and CEO, in respect of 2022 under the proposed Policy at three different performance levels. The chart represents a full year's remuneration for illustration purposes.



The Group voluntarily discloses that there is no effect or share growth or decline on the value of awards at the time of award because the awards are calculated using a fixed cash value as required by per the NBG regulations of 2021.

(For long-term incentive awards which have performance targets or measures relating to more than one financial years, disclosure of the value of the award in the event of a 50% share price appreciation is required by the Companies (Miscellaneous Reporting) Regulations 2018; however the Group is not subject to such disclosure requirements as performance measures for the discretionary deferred share award are limited to one year. Such disclosure is also not required for salary compensation in the form of shares.)

Notes:

1. Salary is comprised of cash and deferred salary shares. Mr Gachechiladze's total cash salary in 2022 in respect of his service agreement with the Group would be US$ 370,000. The value of the deferred share salary is US$ 2,200,000, and for 2022 it will vest in January 2023, with 40% released from holding in January 2024, and 20% released in each of January 2025, January 2026 and January 2027.
2. The means of determining the number of shares underlying the discretionary deferred share remuneration and terms and conditions applicable to this remuneration are described in the Policy table. Discretionary deferred shares in respect of 2022 will be formally granted in 2023 and 40% will vest immediately but is subject to a two-year holding period and so released from holding in January 2023, and 15% will vest in each of January 2025, January 2026, January 2027 and January 2028 but be subject to a further two-year holding period and so released January 2027, January 2028, January 2029 and January 2030.
3. Minimum opportunity reflects a scenario whereby Mr Gachechiladze receives only fixed remuneration which is salary (cash and deferred share salary), pension contributions and benefits and the Remuneration Committee considers that the Group's and/or Mr Gachechiladze's performance in 2022 does not warrant any award of discretionary deferred shares.
4. On-target opportunity reflects a scenario whereby Mr Gachechiladze receives fixed remuneration (as described in 3. above) and discretionary deferred shares with a value of US$ 1,799,000, being 70% of the maximum opportunity (as described in 5. below). In this scenario, the Remuneration Committee considers that the Group's and Mr Gachechiladze's performance in 2022 are in line with the Group's expectations.
5. Maximum opportunity reflects a scenario whereby Mr Gachechiladze receives fixed remuneration (as described in 3. above) and discretionary deferred shares with a value of US$ 2,570,000 being 100% of total salary (i.e. cash and deferred share salary). In this scenario, the Remuneration Committee considers that the Group's and Mr Gachechiladze's performance in 2022 warrant the highest possible level of discretionary deferred share remuneration.

Policy on the appointment of external hires and internal appointments

Any new Executive Director appointed to the Board would be paid no more than the Remuneration Committee considers reasonably necessary to attract a candidate with the relevant skills and experience. His or her maximum remuneration package would comprise the components described in the Policy table above. The Remuneration Committee may, at its sole discretion and taking into account the role assumed by the new Executive Director, vary the amount of any component in the package up to the limits set out in the Policy table above in relation to new Executive Directors. This discretion will only be exercised to the extent required to facilitate the recruitment of the particular individual. In addition, the terms and conditions attaching to any component of the remuneration might be varied insofar as the Remuneration Committee considers it necessary or desirable to do so in all the circumstances.

Directors' Remuneration Report continued

In addition to the components and outside of the limits set out in the Policy table, the Remuneration Committee may also decide to provide to an incoming Executive Director:

- Relocation support, tax support and legal fees depending on the individual's circumstances, including, where relevant, to his or her family. The Group has not set a maximum aggregate amount that may be paid in respect of any individual's relocation support, but it will aim to provide support of an appropriate level and quality on the best terms that can reasonably be obtained.
- Upon the recommendation of the Remuneration Committee, a "buy out" incentive award intended to compensate the incoming Executive Director for any awards which were granted to an incoming Executive Director by a previous employer and which have been foregone as a result of an individual's employment with the Group. In these circumstances, the Group's approach will be to match the estimated current value of the foregone awards by granting awards of deferred share compensation which vest over a similar period to the awards being bought out. The application of performance conditions and/or clawback provisions may also be considered, where appropriate. Such new awards may be granted in addition to any deferred share salary and discretionary deferred share compensation.

Non-Executive Directors' Remuneration Policy

The table below sets out our Policy for the operation of Non-Executive Directors' fees and benefits at the Company. Each Non-Executive Director also serves as a member of the Supervisory Board of the Bank. It is proposed that, if the Policy is approved, the Non-Executive Director fees stated below will apply in each year that the Policy operates from the date of approval of the Policy.

Purpose and link to strategy	Operation	Opportunity
• To attract and retain high- performing Non-Executive Directors with the requisite skills, knowledge, experience, independence and other attributes to add value to the Group. • To reflect the responsibilities of time commitment dedicated by Non-Executive Directors.	• All fees are paid in cash on a quarterly basis. • Fees may be reviewed from time to time by the Board (but not necessarily changed), taking into account the time commitment, responsibilities and the technical skills required to make a valuable contribution to the Board, and by reference to comparators, benchmarking, results of the annual review and other guidance. The fees may also be amended and varied if there are genuinely unforeseen and exceptional circumstances which necessitate such review and in such circumstances any significant increase shall be the minimum reasonably required. The Board reserves the right to structure the Non-Executive Directors' fee differently in its absolute discretion. • Non-Executive Directors receive a base fee. Additional Committee fees are payable to compensate for time spent discharging Bank duties and Committee duties. • There is no remuneration in the form of deferred share salary or discretionary deferred shares, pension contributions, benefits or any variable or performance-linked remuneration or incentives. • Non-Executive Directors are reimbursed for reasonable business expenses, including travel and accommodation, which are incurred in the course of carrying out duties under their letters of appointment, on provision of valid receipts.	• The maximum aggregate BOGG PLC fees for all Non-Executive Directors which may be paid under BOGG PLC's Articles of Association is GBP 750,000. • A specific maximum has not been set for the individual base cash fee. • The Senior Independent Non-Executive Director receives a higher base fee which reflects the extra time commitment and responsibility. • The Chairman receives a fee which reflects the extra time commitment and responsibility. The Chairman does not receive Committee fees. • The fees paid to each Non-Executive Director will be disclosed in the relevant reporting year's Annual Report.

Service agreements and policy on payments for loss of office for our Directors

At the date of this Annual Report, Mr Gachechiladze is the sole Executive Director of the Company. Mr Gachechiladze has a service agreement with an effective date of 28 January 2019 with BOGG for an indefinite term (subject to annual re-election at the AGM) which is terminable by either party on four months' notice unless for cause where notice served by BOGG shall have immediate effect.

Mr Gachechiladze also has a service agreement with JSC Bank of Georgia with an effective date of 28 January 2019 for an employment term of five years which is terminable by the Company with immediate effect and by the Executive on not less than four months' notice.

Both documents are available for inspection by shareholders at BOGG's registered office.

Both agreements of Mr. Gachechiladze will be amended and restated to incorporate the terms of the Policy. To comply with NBG requirements the amendments will be effective as of 1 January 2022.

The Group's policy towards exit payments allows for a variety of circumstances whereby an Executive Director may leave the business. The Remuneration Committee reserves the right to determine exit payments other than those set out below, where appropriate and reasonable in the circumstances to do so, including where an Executive Director leaves by mutual agreement. The Remuneration Committee may decide to pay some or all of the Executive Director's legal fees in relation to the termination. In all circumstances, the Remuneration Committee does not intend to reward failure and will make decisions based on the individual circumstances. The Remuneration Committee's objective is that any such agreements are determined on an individual basis and are in the best interests of the Company and shareholders at the time.

The provisions in section (1) and (2) below summarise the termination and payments for loss of office provisions pursuant to Mr Gachechiladze's service agreement with BOGG and the Bank respectively. The Remuneration Committee retains the discretion to apply different notice, termination and payment for loss of office provisions to incoming Executive Directors.

(1) Termination of BOGG PLC service agreement

Where the service agreement is to be terminated on notice, BOGG may put Mr Gachechiladze on garden leave and continue to pay his cash salary under the BOGG service contract provided that any accrued and unused holiday entitlement shall be deemed to be taken during the garden leave period. BOGG may terminate Mr Gachechiladze's employment early with immediate effect and without notice or pay in lieu of notice in the case of, among other circumstances, his dishonesty, gross misconduct, gross incompetence, conviction of an offence (other than traffic-related where a non-custodial penalty is imposed) or becoming of unsound mind. BOGG may also terminate the agreement with immediate effect by payment in lieu of notice, in which case the payment in lieu of notice shall be of his basic salary only.

(2) Termination of Bank service agreement

Termination reason	Separation payments	Vesting and lapse of awards
Termination by the Bank for cause.	Accrued but not yet paid: salary, dividends (or equivalent amounts), benefits and expenses.	Any unvested awarded discretionary deferred shares as at the date when the Executive Director ceases to be an Executive Director shall lapse (unless the Remuneration Committee determines otherwise).
Termination by the Bank without cause.	As above but with a leaving allowance and severance payment constituting the immediate monetary value of no less than four months' salary.	Any unvested awarded discretionary deferred shares as at the date when the Executive Director ceases to be an Executive Director shall continue to vest in the normal way during the respective vesting period(s).
Termination by the Chief Executive Officer for good reason.	As per termination of the Bank without Cause.	Any unvested awarded discretionary deferred shares shall vest immediately.
Termination by the Chief Executive Officer without good reason.	Upon serving four months written notice, as per termination of the Company for Cause.	Any unvested awarded discretionary deferred shares as at the date when the Executive ceases to be an Executive Director shall lapse (unless the Remuneration Committee determines otherwise).

Deferred share salary continues to vest in the normal way during the respective vesting period(s). In the event an incomplete calendar year is worked, deferred share salary for the relevant performance year is subject to pro rata lapse for the incomplete portion of the year.

In the event of termination for cause, in accordance with the Malus and Clawback section above the Bank may also look to clawback vested discretionary deferred shares.

In addition to the vesting and lapse provisions above, in certain circumstances, including if the Executive Director terminates by reason of death or there is a change of control, unvested discretionary deferred shares shall vest immediately (subject to NBG requirements otherwise). If the Executive Director is not offered a new service contract upon substantially the same terms or continued Board membership at the end of his or her service contract or the Executive Director terminates due to injury, disability, redundancy or retirement, discretionary deferred shares will continue to vest in the normal way during the respective vesting period(s).

Directors' Remuneration Report continued

There are also garden leave provisions and non-compete provisions which may apply up to six months after termination of the service agreement and during which the Executive Director would be paid salary (including cash salary and deferred share salary) but not bonuses (i.e. discretionary deferred shares).

(3) Termination of Non-Executive Directors' appointments

Each Non-Executive Director is required to submit himself or herself for annual re-election at the AGM. The letters of appointment for Non-Executive Directors provide for a one-month notice period although the Group may terminate the appointment with immediate effect without notice or pay in lieu of notice if the Non-Executive Director has committed any serious breach or non-observance of his or her obligations to the Group, is guilty of fraud or dishonesty, brings the Company or him/herself into disrepute or is disqualified as acting as a Non-Executive Director, among other circumstances. Upon termination, the only remuneration a Non-Executive Director is entitled to is accrued fees as at the date of termination together with reimbursement of properly incurred expenses incurred prior to the termination date.

Consideration of shareholder views

The Remuneration Committee is committed to an open and transparent dialogue with its shareholders on all aspects of remuneration. The Remuneration Committee seeks to regularly and actively engage with shareholders and shareholder representative bodies, seeking views which will be considered when making decisions about the remuneration framework. The Remuneration Committee consulted its major shareholders on the proposed Policy with letters, follow-up-calls and the offer of individual meetings in late 2021 and early 2022. The Remuneration Committee is grateful for the feedback and the time taken to consider the Remuneration Committee's proposals. Input was also sought from management, while ensuring conflicts of interest were suitably mitigated.

Investor feedback is explained in more detail in the Chair's letter to the Remuneration Report, but most notably in response to investor feedback the Remuneration Committee extended the holding period on the discretionary deferred remuneration from the proposed one year to two years.

Annual report on remuneration

The Remuneration Committee and its advisors

The Remuneration Committee is principally responsible to the Board for establishing and implementing a Remuneration Policy that rewards fairly and responsibly and is designed to support the Company's strategy and promote its long-term sustainable success. The Remuneration Committee takes into account pay and employment conditions elsewhere in the Group, and oversees any major changes in employee benefits structures throughout the Group. The Remuneration Committee is comprised of five independent Non-Executive Directors: Hanna Loikkanen serves as Chair, and other members during 2021 were Neil Janin, Al Breach, Tamaz Georgadze and Cecil Quillen. Neil stepped down from the Board and as a member of the Committee on 10 March 2022, and from that date Mel Carvill was appointed to the Board and as a member of the Committee. The members' attendance is shown in the Board and Committee meetings attendance table on page 174.

In addition to the formal meetings held during the year, the Remuneration Committee participated in various discussions by telephone outside of these meetings. Other attendees at the Remuneration Committee meetings who provided advice or assistance to the Remuneration Committee on remuneration matters from time to time included the CEO, other Board members and the UK General Counsel. Attendees at the Remuneration Committee meetings do not participate in discussions or decisions related to their own remuneration which helps avoid conflicts of interest.

The Remuneration Committee may also take into account outside guidelines, for example it follows the Investment Associations' Principles of Remuneration, and the UK General Counsel attends events organised by accountancy firms, law firms, stock exchanges, investor bodies and similar organisations so as to keep the Remuneration Committee up to date with developing market practice.

The Remuneration Committee were not advised by remuneration consultants during 2021 or 2022 to date. The Remuneration Committee received additional advice on compliance from Baker McKenzie LLP, the Group's legal advisors. The Remuneration Committee is of the view that the advice received from Baker McKenzie LLP is objective and independent.

Shareholder context

The Directors' Remuneration Policy applicable to this section of the Annual Report on Remuneration was approved by shareholders at our AGM on 17 May 2019 (the "2019 Policy"). The Directors' Remuneration Policy received the following votes from shareholders.

Resolution	Votes for	%	Votes against	%	Total votes cast	Votes withheld
Approval of the Directors' Remuneration Policy	37,459,269	90.92	3,740,514	9.08	41,199,783	931,813

Set out below are the shareholder voting figures for the Directors' Remuneration Report 2020 (including the Annual Statement of the Chair of the Remuneration Committee) presented at our 2021 AGM.

Resolution	Votes for	%	Votes against	%	Total votes cast	Votes withheld
Approval of the Directors' Remuneration Report	37,073,749	95.74	1,648,901	4.26	38,722,650	453,766

How the Remuneration Committee addressed the factors in provision 40 of the Code

The Remuneration Committee pays close attention to the requirements of the UK Corporate Governance Code (the "UK Code") in determining the Policy and structure. This includes the factors set out in provision 40 of the Code:

Principle	Approach
Clarity	The rationale is clear: the Executive Director and senior management are incentivised towards the medium- to long-term success of the Company. Targets for annual bonus are aligned to the Group's strategic priorities. This provides clarity to shareholders and other stakeholders on the relationship between the successful delivery of the Group's strategy and remuneration paid.
Simplicity	The remuneration policy is designed to retain simplicity while complying with all relevant regulatory requirements and meeting shareholder expectations. Remuneration elements include fixed pay (base salary comprised of cash salary and deferred salary shares, pension and benefits) and variable pay (discretionary deferred shares and no cash bonus).
Risk	By its nature, having such a high proportion of the remuneration in shares which are deferred over several years, the structure drives the CEO and senior management to mitigate reputational and behavioural risks or short-termism in their actions and decisions and avoids conflicts of interest. The new Policy has changes which aim to further reduce risk taking behaviour in line with the new NBG Code. The Policy has minimum shareholding and post-employment shareholding requirements.
Predictability	The Remuneration Policy describes the purpose, operation and maximum potential of each remuneration element and illustrates a range of potential outcomes for Executive Director. Weighted KPIs and ranges for the targets of KPIs are used in the financial year's performance review.
Proportionality	Outcomes reward performance proportionately by reference to performance targets, although the Remuneration Committee retains its discretion to adjust the award as it considers appropriate. For further considerations on proportionality, see the section Chief Executive's Pay and Comparators on page 233, which includes a list of possible peers. The CEO's performance-based remuneration is subject to malus and clawback provisions.
Alignment to culture	A high proportion of remuneration paid in deferred shares rather than cash promotes alignment with the culture and long-term success of the Company, supported by the CEO's performance KPIs, including: (i) employment net promoter score; and (ii) developing ESG in line with Group's five Sustainable Development Goals (SDGs).

Single total figure of remuneration for the sole Executive Director (audited)

The table below sets out the remuneration earned by the Company's Executive Director, Archil Gachechiladze, in respect of his employment with the Company for the years ended 31 December 2021 and 31 December 2020. To aid comparison, we have also disclosed remuneration for the year ended 31 December 2019, although we note that 2019 was not a complete year.

For 2021, 89% of Mr Gachechiladze's remuneration as set out in the table below is in the form of deferred shares. Deferred share salary will vest in tranches, with vesting and holding periods of up to five years in accordance with the current Policy.

Mr Gachechiladze's current service agreements provide for salary in the form of cash and deferred shares. In addition, Mr Gachechiladze is eligible to receive discretionary deferred share remuneration up to a maximum of 100% of total salary (full cash salary converted into shares plus a number of deferred salary shares).

Directors' Remuneration Report continued

	Cash salary[1] (US$)	Deferred share salary[2] (US$)	Taxable benefits[3] (US$)	Pension Benefits[4] (US$)	Dividend equivalents[5] (US$)	Total fixed pay (US$)	Discretionary deferred share remuneration[6] (US$)	Total variable pay (US$)	Single total figure (US$)
2021	**370,000**	**1,686,000**	**3,141**	**3,287**	**32,575**	**2,095,003**	**1,791,927**	**1,791,927**	**3,886,930**
2020	308,333	1,248,900	954	2,833	–	1,561,020	–	–	1,561,020
2019	343,222	1,486,456	1,528	3,197	–	1,834,403	1,724,012	1,724,012	3,558,415

Notes:
1 Expressed in US Dollars but paid in British Pounds and Lari, as applicable, converted into the respective currency as at the date of payment. Accordingly, there may be variations in the numbers above and those provided in the accounts. For the year 2020 cash salary was voluntarily reduced by 20% from 1 March 2020 to 31 December 2020. While Mr Gachechiladze also donated 50% of his remaining cash salary from 1 March to 31 December 2020 to charitable causes, the above 2020 figure does not take this into account and reflects the full amount paid by the Group in salary. 2019 is not a complete year as he joined as the Group on 28 January 2019. Normal cash salary is US$ 370,000 per annum.
2 Deferred share salary. The figures show the value of the underlying nil-cost options over BOGG shares granted in respect of the 2021, 2020 and 2019 work years. Mr Gachechiladze was awarded 75,000 BOGG shares for the 2021 and 2020 work years. He was awarded 69,247 for 2019, which was not a complete year as he joined the Group on 28 January 2019. The value attached to each BOGG share for both years is calculated by reference to the share price on 31 December of that year. For 2019, the share price was US$ 21.466 (based on the official share price of GBP 16.250 closing price on 31 December 2019 converted into Dollars using an exchange rate of 1.3210, being the official exchange rate published by the Bank of England on the same date). For 2020, the share price was US$ 16.652 (based on the official share price of GBP 12.200 closing price on 31 December 2020 converted into Dollars using an exchange rate of 1.3649, being the official exchange rate published by the Bank of England on the same date). For 2021 the share price was US$ 22.480 (based on the official share price of GBP 16.680 share closing price on 31 December 2020 converted into Dollars using an exchange rate of 1.3477, being the official exchange rate published by the Bank of England on the same date). 25% of the salary shares will vest in each of the second, third, fourth and fifth anniversary of the start of the work year, subject to the terms of his service agreement. Share salary is 75,000 deferred shares per full year and the above differences in monetary value are a reflection of the changing share price.
3 Benefits. The figures show the gross taxable value of Mr Gachechiladze's health, life and personal accident insurance.
4 Pensions. The figures show the aggregate employer contributions for the relevant years into the Group's defined contribution pension scheme. Under the Group's defined contribution pension scheme, normal retirement age is 65. Mr Gachechiladze receives up to 2% employer contribution, in line with other Georgian employees.
5 Dividend equivalents. The figure shows the dividend value paid in respect of nil-cost options exercised in the relevant year. Mr Gachechiladze did not receive dividend equivalents payments in 2019 or 2020.
6 Discretionary deferred share remuneration. The figures show the value of the underlying nil-cost options over BOGG shares granted in respect of bonus awards in the relevant year. For 2021, Mr Gachechiladze was awarded 90,970 BOGG shares. The value was calculated by reference to the closing share price on 31 January 2022 (the working day before the meeting at which the award was determined) which was US$ 19.698 (based on the official share price of GBP 14.68 per share converted into Dollars using an exchange rate of 1.3418, being the official exchange rate published by the Bank of England on the same date). For 2020, Mr Gachechiladze, the discretionary deferred share remuneration was cancelled as per the notes below. For 2019, Mr Gachechiladze was awarded 86,460 BOGG shares. The value was calculated by reference to the closing share price on 31 January 2020 (the working day before the meeting at which the award was determined) which was US$ 19.940 (based on the official share price of GBP 15.13 per share converted into US Dollars using an exchange rate of 1.3179, being the official exchange rate published by the Bank of England on the same date). The discretionary remuneration is deferred and will vest 40% on the third and 60% on the fourth anniversary of the start of the work year; each tranche is subject to a further two-year holding period following vesting. The awards are subject to the leaver provisions as described in the 2019 Policy available at https://bankofgeorgiagroup.com/governance/documents. The means of determining the number of shares underlying this remuneration and the terms and conditions are described in the 2019 Policy. The basis for determining Mr Gachechiladze's 2021 discretionary award is described on pages 230 to 232.
7 Mr Gachechiladze was reimbursed for reasonable business expenses, on provision of valid receipts in line with company policy.
8 No money or other assets are received or receivable by Mr Gachechiladze in respect of a period of more than one financial year. The Company does not operate an LTIP.
9 The number of shares awarded pursuant to the deferred share salary and discretionary deferred share remuneration is fixed on grant. No discretion has been exercised as a result of share price appreciation or depreciation. Discretionary deferred shares are subject to one-year targets. No amounts were recovered or withheld in 2019, 2020 or 2021. The values reported at grant are not attributable to share price appreciation.

The decision date for the 2021 discretionary deferred shares award was 1 February 2022, hence the closing share price as at 31 January 2022 is used (figures further disclosed in and as further explained in note 6 above). The maximum opportunity at that date is cash salary converted into 18,784 shares plus 75,000 salary shares (93,784 shares total). Hence 97% of maximum opportunity results in 90,970 deferred shares awarded, which at $ 19.698 per share is calculated to be US$ 1,791,927 monetary equivalent.

Deferred share salary prices have been disclosed using the 31 December share price for each year to give a true and fair view of value. Using the contract price of US$ 18.419 a share, the value of the deferred share salary is US$ 1,381,425 for 2021 and 2020 and US$ 1,275,460 for 2019 (which was an incomplete year). It is notable that in any event the deferred share salary is released over a five-year period during which actual share prices will vary.

We note that for comparison, as explained in the Letter from the Chair above, that although shareholders had approved the 2020 Directors' Remuneration Report with the proposed discretionary deferred share award, the share award was not granted given information by the NBG. The approved discretionary deferred share award, which considered against KPIs as disclosed in the 2020 Directors' Remuneration Report, had been 67% of maximum opportunity.

Mr Gachechiladze's overall cash salary in 2020 was lower than 2021 due to the 20% reduction in cash from 1 March to 31 December 2020 taken by senior management in response to the impact of COVID-19. The cash salary figure in the table above includes the amount of salary donated to charity by Mr Gachechiladze for 2020.

Share salary is 75,000 shares per full year for all three years and the differences in monetary value are a reflection of the changing share price. Salary and discretionary shares for 2021 vest over several years (with discretionary shares also subject to holding periods), and likewise the salary shares for 2020 and discretionary shares for 2019 were deferred for and continue to vest and/or have holding periods over several years.

Mr Gachechiladze's remuneration is included for 2019 to allow further comparison, however 2019 is for an incomplete year, as his service commenced on 28 January 2019, which accounts for the difference in share salary and some difference in cash salary (and maximum discretionary remuneration opportunity was also proportionately lower). For easy comparison, his single total figure remuneration scaled up pro rata for a complete year for 2019 would have been US$ 3,846,935.

The following table sets out details of total remuneration for the Chief Executive Officer, Mr Gachechiladze, for the period from 28 January 2019 to 31 December 2021, and his discretionary compensation as a percentage of maximum opportunity.

	2019	2020	2021
Single total figure of remuneration (US$)	3,558,415	1,561,020	**3,886,930**
Discretionary compensation as a percentage of maximum opportunity (%)	100%	0% [1]	**97%**

Note:
1 The 2020 discretionary compensation was not granted as explained above. The approved discretionary deferred share award, which considered against KPIs as disclosed in the 2020 Directors' Remuneration Report and subsequently approved by shareholders, was 67% of maximum opportunity.

Basis for determining Mr Gachechiladze's discretionary deferred share remuneration in respect of 2021

Mr Gachechiladze's KPIs included both financial and non-financial components. The financial elements largely track the Group's published KPIs as he is expected to deliver on the Group's key strategic priorities, but the KPIs also include non-financial factors such as developing Group culture and ESG performance.

The following table sets out the financial KPIs set for Mr Gachechiladze in respect of 2021 as well as Mr Gachechiladze's performance against them. See below the table for further explanation of each KPI, in order.

The financial KPIs were selected to reflect the key Group medium-term financial metrics for our investors and the sustainable health of our business. The Remuneration Committee ensures that targets set are the relevant drivers of required annual performance. The KPIs also take into account stakeholders of the Group and the culture of the Group, alongside non-financial strategic priorities.

The 2021 KPIs were disclosed in last year's Annual Report. Given the solid capital position reflecting the more conservative regulatory framework of the Georgian banking sector and feedback received from shareholders on the capital adequacy KPI, the Committee had not continued with previous years' capital adequacy KPI (i.e. the 100-200 basis points additional internal buffer target on CET1 and Tier 1 capital requirement), and instead had replaced it with a cost to income ratio KPI. Further, given the importance of financial KPIs to shareholders and following feedback from proxy advisory agencies and shareholders, this year the financial KPIs formed 60% of the overall value (in 2020 they formed 50%).

Given investor and proxy group feedback, the last KPI has been simplified from "Personal KPI- post COVID crisis management" to "Personal KBOs". The Committee felt that firstly this more accurately summarized the KPI, and that the effects of the post-crisis management were already integrated to the extent necessary into the financial and non-financial KPIs.

Directors' Remuneration Report continued

KPI with weighting % (Numbering refers to the notes below the table)	Threshold (25%)	Target (70%)	Max (100%)	Achievement	Weighted performance outcome (see corresponding notes below for further explanation)
Financial KPIs 60%					
1. ROAE (15%) 20% is the medium to long term target, in line with strategy	<15%	20%	22%	25.8% See note 1 below	15%
2. Cost to Income ratio (15%)	40%	39%	38%	37.2% See note 2 below	15%
3. COR (15%) Cost of credit risk	>2%	1%	0.9%	0.0% See note 3 below	15%
4. PBT (15%) Profit before tax	GEL 550mln	GEL 600mln	GEL 650mln	GEL 802mln See note 4 below	15%
Non-financial KPIs 30%					
5. NPS (10%) Net promoter score	<30%	40%	>50%	55% See note 5 below	10%
6. eNPS (10%) Employee net promoter score	<46%	54%	>62%	61% See note 6 below	9.5%
7. Developing ESG, in line with the Group's five championed Sustainable Development Goals (SDGs) and with market best practice (10%)	Below	Met	Exceeded	80% of max See note 7 below	8%
Personal KPIs 10%					
8. Personal Key Business Objective (KBOs)	Below	Met	Exceeded	95% of max See note 8 below	9.5%
Total					97%

Notes for each KPI in turn:

1. **Return on Average Equity (ROAE)**: 25.8% achieved. ROAE is a longstanding metric of the Company and a key determinant of profitability for shareholders. Our communicated medium-term target remains 20%+. ROAE was 13.0% in 2020 and 26.1% in 2019.

2. **Cost to Income ratio**: 37.2% achieved. The Bank increased investment in IT-related resources, digitalisation, and marketing, and, at the same time, Mr Gachechiladze maintained its focus on cost efficiencies. In the second quarter of 2020, he initiated cost optimisation measures, the impact of which has been reflected in subsequent quarters. Cost to Income was 39.7% in 2020 and 37.8% in 2019.

3. **Cost of Credit Risk ratio (COR)**: 0.0% achieved. COR allows the businesses to focus on areas of operation that will have the greatest long-term effects on its total risk management costs. This was achieved firstly by Mr Gachechiladze's initiative to conduct an indepth analysis of the first and second line of defence which resulted in increased efficiency in preventive credit management and better collection and recovery results. This was aided by continously revisiting of the assumptions to reflect better visibility and up-to-date macroeconomic forecasts, as well as in-depth analyses of the financial standing and the creditworthiness of borrowers. Given that there is still high uncertainty regarding the duration and the impact of the COVID-19 pandemic, the Group continues to monitor new developments. 0.0% is an extraordinary achievement; Cost of Credit Risk Ratio was 1.8% in 2020 and 0.9% in 2019; the five-year average for COR for the years preceeding 2021 was 1.8%.

4. **Profit before tax (PBT)**: GEL 802 mln achieved. PBT is an important measure of overall performance for any business. Profitability was outstanding in 2021, with GEL 802mm being the highest level ever achieved. PBT is adjusted for one-offs, PBT was GEL 316mln in 2020 and GEL 573mln in 2019.

5. **NPS**: 55% achieved. Net Promoter Score is based on external research and is the key measure for measuring customer satisfaction. NPS surveys are not only aimed at customers (which tends to give a higher score to companies) but by surveying the Georgian public at random. Mr Gachechiladze lead a new focus on customer satisfaction: (i) engage with customers proactively and responding in real time; (ii) anticipate customer needs, wants and future behaviour; (iii) harness strong human relationships with data analytics for dynamic customer insights; and

(iv) invest in technology to deliver customer experience. The Bank believes that satisfaction feeds customer loyalty, which in turn impacts the sustainable profitability and the long-term success of the Group. NPS was 46% in 2020 and 37% in 2019.

6. **eNPS**: 61% achieved. Employee Net Promoter Score stood at an all-time high as of December 2021, highlighting the engagement and the commitment of employees that feed into better customer experience and the overall success of the organisation. Employee NPS is calculated by the response to a confidential survey of employees. It is based on the question: "On a scale of 0-10, how likely is it that you as an employee would recommend our Bank to a friend or a colleague as an employer?" Responses 9 and 10 are promoters; 7 and 8 are neutral; and 0-6 are detractors. eNPS is calculated as the percentage of promoters minus the percentage of detractors. eNPS improved further to 61% in 2021, it was 46% in 2020 and 46% in 2019. This metric feeds directly into profitability of the Bank through higher retention rates and thus lower recruitment requirements. It also supports the Bank in the recruitment of the best talent, which is crucial in a small market like Georgia. To ensure employee engagement and open lines of communcation, the CEO held town halls and regular live vlogs with employees on current developments with live Q&A.

7. **Developing ESG, in line with the Group's five championed UN Sustainable Development Goals (SDGs) and with market best practice**: 80% of max achieved. Mr Gachechiladze continued his role as ESG champion for the Bank to emphasize the importance of ESG matters. After consultation with management, five goals were selected which are considered material for our organisation and where the Bank has or can have the greatest impact: (i) No Poverty; (ii) Quality Education; (iii) Gender Equality; (iv) Decent Work and Economic Growth; and (v) Climate Action. Contributions to these five goals are signposted by the SDG icons throughout the Sustainable Business section on pages 96 to 149.

   The Bank Joined the UN Global Compact in July 2021. Work towards these SDGs was recognised when Bank of Georgia was selected as the winner of the UN Global Compact Network Georgia awards for "Quality Education" and "Decent Work and Economic Growth".

   In respect of progress on gender equality, the Group's Executive Committee and Direct Reports were 54.1% women as at the date of 2021 submissions for the FTSE Women Leaders (up from an already high 45.2% in 2020), which, if the Group were in the FTSE 250, would have placed the Group as second in the banking sector.

   Together with Visa and Adapter (which is part of Group's digital ecosystem), the Bank helped 60 women-owned MSMEs undergo a digital transformation, digitising their inventories with Optimo, optimising logistics, and selling online on Georgia's largest online marketplace, extra.ge.

   In 2021 the Group launched and completed a major ESG project, its first formal ESG materiality assessment process to gain a multi-stakeholder perspective on ESG issues, as described on pages 97 to 98 of the Sustainable Business section. The Group carried out a combination of research, data analysis and internal and external stakeholder engagement, including interviews with investors and survey. The Bank were able to identify 27 topics which were mapped by importance to stakeholders and importance to business, and 14 priority topics were identified. This has positioned the Group well to help reshape its ESG strategy and to rethink governance systems. Mr Gachechiladze presented the findings in a town hall meeting in December 2021 to raise awareness of ESG topics.

   Two pillars were identified for the Bank's social impact areas: sustainable financial inclusion and education/financial education. Significant progress has been made to increase the number of active monthly users of the mobile app as part of the sustainable financial inclusion initiative in Georgia. Customers can access MBank even without internet access or mobile data, which ensures wider accessibility of simple and safe financial services. Retail brokerage was also launched through the Bank of Georgia's mobile app to make investments more accessible to the wider population in Georgia, alongside educational content accessible through multiple channels. See the Sustainable Financial Inclusion Empowerment section on pages 101 to 110 for new strategy and further initiatives.

   The Group's climate action project was launched in 2021 to consider climate-related risks and opportunities across the organization and develop methodologies and processes to integrate the management of climate-related risks and opportunities into the Bank's operations. The Bank has been looking beyond its own operations to portfolio GHG emissions, which is ongoing given the scale of the project. See Climate-related disclosures on pages 138 to 149.

   The Group has an MSCI ESG ratings score as of December 2021 was AA, which is classed as a leader.

8. **Personal KBOs**: 95% of max achieved. Mr. Gachechiladze's leadership style, vision and implementation of strategy has been outstanding and he has exceeded the targets set for his personal KBOs in 2021. He shaped the culture and direction of the Group by the initiation of, and progress on, our strategic building blocks (Data-Driven Organisation, Strong Franchise, Customer Satisfaction and Employee Empowerment) set out in the Strategic Focus section on pages 19 to 33. The Group has become a data-driven organisation and a leader in the payments business, the

Directors' Remuneration Report continued

financial mobile application and the loyalty programme. Mr. Gachechiladze's drive on digitalisation has made great progress during 2021, with mBank as Georgia's popular financial app and in 2021 achieving 30% product offloading to digital channels. He recognized the payments business as being a strategic direction in which the Bank could unlock untapped new business opportunities and drive the digital economy in Georgia. Bank of Georgia is now the leading retail banking franchise in Georgia with 40% of market share in deposits and 39% of market share in loans to individuals respectively as of 31 December 2021, and based on an external research in autumn 2021 was "top of mind" and "most trusted" financial institution across all age groups of the Georgian population. Improved customer satisfaction and Employee satisfaction is also reflected in the all time high NPS and eNPS scores and furthermore according to Korn Ferry survey, our 73% score for employee engagement and 74% score for employment enablement for 2021 show that the Bank is now above the banking industry benchmark and in line with the scores at high-performing organisations.

In respect of the stakeholder experience, Remuneration Committee also recognised that: (i) the Group did not receive direct support from the UK or Georgian governments and did not utilise the furlough scheme; and (ii) it did not raise any additional capital from shareholders. Year-on-year bonuses for the average employee increased by 66.0%.

In September 2021 a new dividend and capital distribution policy was implemented which incorporates a progressive ordinary cash dividend, supplemented by additional share repurchases as and when appropriate. The overall policy is to target a payout ratio in the range of 30-50% of annual profits. The Policy is expected to ensure healthy capital ratios, above minimum regulatory requirements, and take into consideration expected future capital requirements, including the full loading of Basel III requirements on minimum capital ratios, ongoing regulatory capital developments and the growth opportunities available to Bank of Georgia. Shareholders received an interim dividend in November 2021.

Alignment with shareholders is built into the structure by the award being entirely in deferred shares which have a total vesting and holding period of six years from the beginning of the work year. The discretionary deferred shares in relation to Mr Gachechiladze's 2021 performance-based remuneration are awarded in accordance with the current 2019 Policy. There is no cash bonus and the Company does not operate a LTIP. The Remuneration Committee concluded that the level of deferred share award as calculated against the KPIs remained appropriate and did not exercise discretion. In accordance with the results of the KPIs as determined above, the Remuneration Committee awarded the CEO 97% of the maximum deferred share opportunity.

Percentage change in remuneration of Directors and employees

The following table sets out details of the percentage change in the remuneration awarded to Directors, compared with the average percentage change in the per capita remuneration awarded to the Group's employees, in line with the requirements in The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019. Given the small number of employees employed by the Bank of Georgia Group PLC entity (less than five), we consider comparison against the Group.

See the Single total figure remuneration table on page 228 for an explanation of cash salary, deferred share salary, taxable benefits and discretionary deferred remuneration of the Executive Director.

	Year-on-year change in pay for Directors compared to the Group's employees as a whole for FY 2021									
		Executive Director	Non-Executive Directors							
	Average employee	Archil Gachechiladze[3]	Neil Janin	Hanna Loikkanen[4]	Al Breach[5]	Jonathan Muir	Tamaz Georgadze	Cecil Quillen	Véronique McCarroll	Mariam Meghvinetukhutsesi[6]
Total cash salary	–5.7%	20%	0.0%	2.7%	–3.4%	0.0%	0.0%	0.0%	0.0%	–
Total deferred share salary[1]	89.9%	35%	–	–	–	–	–	–	–	–
Taxable benefits	1.9%	229.2%	–	–	–	–	–	–	–	–
Total bonus[2]	66.0%	NMF	–	–	–	–	–	–	–	–

	Year-on-year change in pay for Directors compared to the Group's employees as a whole for FY 2020								
		Executive Director	Non-Executive Directors						
	Average employee	Archil Gachechiladze[3]	Neil Janin	Hanna Loikkanen[4]	Al Breach[5]	Jonathan Muir	Tamaz Georgadze	Cecil Quillen	Véronique McCarroll
Total cash salary	–2.8%	–16.7%	0.0%	6.5%	–1.8%	–0.6%	–0.6%	–0.6%	7.2%
Total deferred share salary[1]	–27.3%	–22.4%	–	–	–	–	–	–	–
Taxable benefits	–4.4%	–42.8%	–	–	–	–	–	–	–
Total bonus[2]	-43.1%	NMF	–	–	–	–	–	–	–

Notes:
1 The share prices at 31 December 2019 (US$ 21.466), 31 December 2020 (US$ 16.652) and 31 December 2021 (US$ 22.480) were used for the deferred shares salary comparison. Alternatively calculated using closing price at the date of the agreements for FY2021 the y-o-y change was 22.8% for other employees and 0% for the CEO. The number of salary shares under the CEO's agreement remained constant at 75,000 shares per annum.
2 Total bonus in each case is discretionary deferred share remuneration for Mr Gachechiladze which was not granted for 2020 (hence NMF), and deferred discretionary share remuneration and/or any cash bonus in the case of other employees of the Group.
3 Archil Gachechiladze's 2020 cash salary was voluntarily reduced by 20% from 1 March 2020 to 31 December 2020 (as was the cash salary of senior management). The amount contributed to charity by Mr Gachechiladze – half of the remaining cash salary for that period – has not been taken into account. The increase in cash salary in 2021 compared to 2020 is therefore fully attributable to the reinstatement of the normal cash salary. Archil Gachechiladze was appointed on 28 January 2019 and therefore for the FY2020 table (which shows the changes from 2019) his 2019 remuneration was scaled up pro rata to a full year for comparison reasons. Archil Gachechiladze did not receive a bonus for FY2020 as explained in the Chair's Letter.
4 Hanna Loikkanen was appointed to the Remuneration Committee on 20 September 2019 as the Chair of the Remuneration Committee on 26 September 2020.
5 Al Breach stepped down as the Chair of the Remuneration Committee on 26 September 2020 but remained as a member of the Remuneration Committee.
6 Veronique McCarroll was appointed to the JSC Bank of Georgia board on 11 February 2019, her fee in connection to this forms a part of her total fees.
7 Mariam Megvinetukhutsesi was appointed to the PLC Board and as a member of the Risk Committee and the Nomination Committee on 12 March 2021 and to the JSC Board and as a member of their Risk Committee and Nomination Committee on 6 May 2021.
8 The Company has less than five UK (parent company) employees and the percentage changes could be considered to be distortive. Year-on-year changes for UK employees from 2019 to 2020 for cash salary is 1.8% and for bonus is 29.6%; year-on-year changes from 2020 to 2021 for cash salary is -4.0% and bonus is -2.9%; deferred share salary and taxable benefits are not applicable for all years.

Chief Executive's pay and comparators – peers

It is noted that the Group has less than 250 UK employees and therefore is not required to disclose ratios of the CEO's pay against the UK pay (and indeed given it has less than five UK employees, to do so would be distortionary). The Remuneration Committee benchmarked the CEO's remuneration against FTSE 250 and FTSE small cap companies in financial services.

Moreover, the pay was also benchmarked against relevant peer financial services companies in emerging markets (in particular Russia, other former Soviet republics and South Africa), comparable listed companies in financial services in the UK and all UK-listed companies based in Georgia. Comparable peers are: Moscow Credit Bank of Moscow PJSC, Tinkoff Bank, Halyk Savings Bank of Kazakhstan JSC, OTP Bank Nyrt, Moneta Money Bank a.s., Erste Group Bank AG, FirstRand Ltd, Raiffesen Bank International AG, Virgin Money UK PLC, One Savings Bank PLC, Close Brothers Group PLC, Nationwide Building Society; lastly we considered Georgia Capital PLC and TBC Bank Group PLC, Georgian companies which are also UK-listed, to be our foremost peers.

The delayed receipt of the majority of salary and of all the performance-based remuneration (in shares vesting across several years) means that the time value of money and also the risk of salary and performance-based remuneration not vesting (due to malus but also to shares lapsing in the event of early termination under certain circumstances) were factored in.

Further details of fixed and discretionary deferred share compensation granted during 2021 (audited)

The following table sets out details of the nil-cost options over BOGG shares which have been granted to Mr Gachechiladze in 2021.

	Deferred share salary
Number of underlying shares and basis on which award was made	75,000 granted on the basis of the 2019 Policy available at https://www.bankofgeorgiagroup.com/governance/documents
Type of interest	Nil-cost option
Cost to Group	US$ 1,686,000[1]
Face value	US$ 1,686,000[1] Cash payments equal to the dividends paid on the underlying shares will be made upon vesting (if applicable).
Percentage of award receivable if minimum performance achieved	100% of the award will be receivable, since the award is part of salary set out in the service contract and accordingly is not subject to performance measures or targets over the vesting period.
Exercise price	Nil. The options form part of the Executive Director's salary under the policy and so no payment is required upon exercise. There has been no change in exercise price.
Vesting period	25% in each of 2023, 2024, 2025 and 2026.
Performance measures	None. See the 2019 Policy available at https://www.bankofgeorgiagroup.com/governance/documents

Notes: Figures calculated as described in Note 2 to the single total figure of remuneration for the Executive Director.

Directors' Remuneration Report continued

Single total figure of remuneration for Non-Executive Directors (audited)

The table below sets out the remuneration received by each Non-Executive Director in 2020 and 2021.

	Bank of Georgia Group PLC fees (US$)		JSC Bank of Georgia fees (US$)		Total fees (US$)[5]	
	2021	2020	**2021**	2020	**2021**	2020
Neil Janin	**103,587**	103,587	**210,313**	210,313	**313,900**	313,900
Alasdair Breach[1]	**53,405**	55,671	**96,391**	99,411	**149,796**	155,082
Tamaz Georgadze	**55,502**	55,502	**104,964**	104,964	**160,466**	160,466
Hanna Loikkanen[2]	**71,582**	69,317	**129,022**	126,002	**200,604**	195,319
Véronique McCarroll	**46,835**	46,835	**87,631**	87,631	**134,466**	134,466
Mariam Meghvinetukhutsesi[3]	**37,693**	–	**57,243**	–	**94,935**	–
Jonathan Muir	**53,405**	53,405	**96,391**	96,391	**149,796**	149,796
Cecil Quillen	**56,471**	56,471	**100,479**	100,479	**156,950**	156,950
Andreas Wolf[4]	**–**	4,158	**–**	7,643	**–**	11,801
TOTAL	**478,480**	**444,946**	**882,434**	**832,834**	**1,360,914**	**1,277,780**

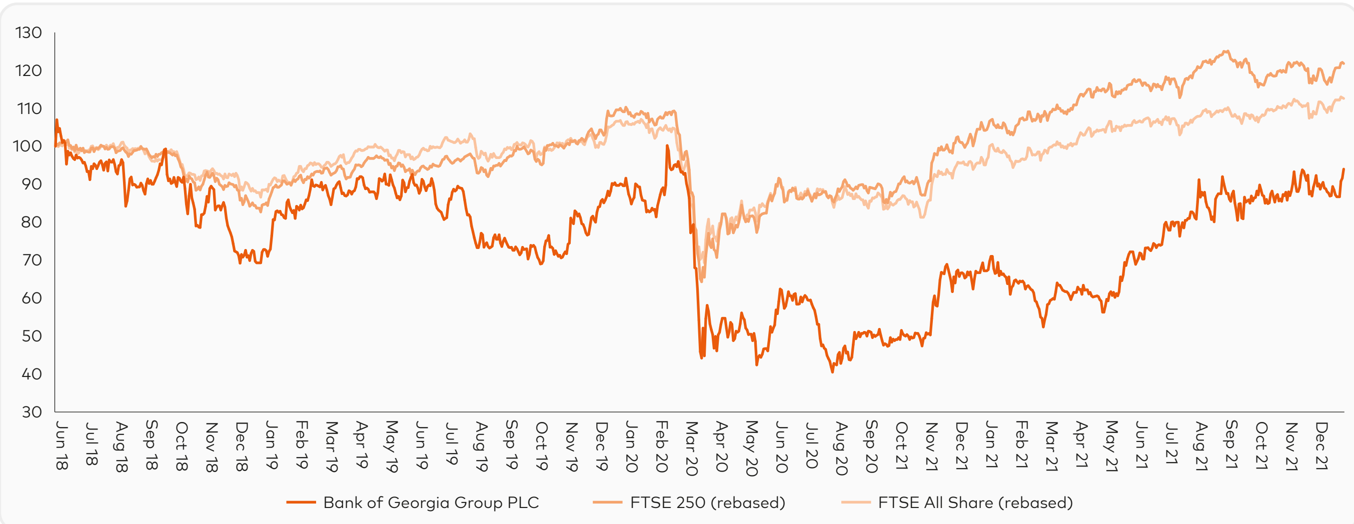
Notes:
1 Al Breach stepped down as the Chair of the Remuneration Committee on 26 September 2020 but remained as a member of the Remuneration Committee.
2 Hanna Loikkanen was appointed as the Chair of the Remuneration Committee on 26 September 2020.
3 Mariam Megvinetukhutsesi was appointed to the PLC Board and as a member of the Risk Committee and the Nomination Committee on 12 March 2021 and to the JSC Board and as a member of their Risk Committee and Nomination Committee on 6 May 2021.
4 Andreas Wolf stepped down from the Board of Directors on 31 January 2020.
5 The maximum amount for Non-Executive base fees, including the Chairman, as provided for in BOGG PLC's Articles of Association, is GBP 750,000. This does not affect the JSC fees. The Non-Executive Directors do not receive any taxable benefits, pension benefits or variable remuneration.

Payments to former Directors and payments for loss of office

No payments were made to former Directors or in respect of loss of office during the year ended 31 December 2021.

Total Shareholder Return

Bank of Georgia Group PLC TSR vs. the FTSE indices TSR. We note that given the demerger and the creation of two separate businesses with separate listed shares in May 2018, it is not possible to compare a five-year TSR against other companies, and this is the first year we are able to show a TSR graph for three years or more. The following graph compares the Total Shareholder Return (TSR) of Bank of Georgia Group PLC with the companies comprising the FTSE 250 index and the FTSE All Share index for the period since BOGG's listing on the Premium segment of the LSE on 21 May 2018 until 31 December 2021.



Relative importance of spend on pay

The following table shows the difference in remuneration paid to all employees of the Group between 2020 and 2021 as well as the difference in value of distribution paid to shareholders by way of dividends between 2020 and 2021.

	Remuneration paid to all employees of the Group in US$	Distributions to shareholders by way of dividends
Year ended 31 December 2021 (US$) (interim dividend paid in 2021)	94,131,398	22,303,501
Year ended 31 December 2020 (US$)	76,242,659	0
Percentage change	23.5%	–

Notes:
1 Due to the level of uncertainty with regard to the global impact of COVID-19 and ongoing restrictions, the Group did not distribute dividends to shareholders in 2020 and did not make any other significant distributions in 2020.
2 The Company did not make any other significant distributions in 2021.

Directors' interests in shares (audited)

The following table sets out the respective holdings of the Company's shares of each Director as at 31 December 2020 and 2021.

	As at 31 December 2020				As at 31 December 2021			
	Number of BOGG shares held directly	Number of vested but unexercised BOGG shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)	Number of unvested and unexercised held under option BOGG shares through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)	Total number of interests in BOGG shares	**Number of BOGG shares held directly**	**Number of vested but unexercised BOGG shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)**	**Number of unvested and unexercised held under option BOGG shares through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)**	**Total number of interests in BOGG shares**
Neil Janin[1]	32,880	N/A	N/A	32,880	**32,880**	**N/A**	**N/A**	**32,880**
Archil Gachechiladze[2]	140,266	N/A	230,707	370,973	**153,839**	**N/A**	**288,395**	**442,234**
Alasdair Breach[3]	30,000	N/A	N/A	30,000	**30,000**	**N/A**	**N/A**	**30,000**
Tamaz Georgadze	5,000	N/A	N/A	5,000	**5,000**	**N/A**	**N/A**	**5,000**
Hanna Loikkanen	–	N/A	N/A	–	**–**	**N/A**	**N/A**	**–**
Véronique McCarroll	–	N/A	N/A	–	**–**	**N/A**	**N/A**	**–**
Mariam Megvinetukhutsesi	–	N/A	N/A	–	**3,102**	**N/A**	**N/A**	**3,102**
Jonathan Muir	–	N/A	N/A	–	**–**	**N/A**	**N/A**	**–**
Cecil Quillen	–	N/A	N/A	–	**2,900**	**N/A**	**N/A**	**2,900**

Notes:
1 At 2021 year-end, NeilCo Ltd, a company wholly owned by Mr Janin, held 7,000 BOGG shares. This is not included in table. Neil Janin stepped down from the PLC Board on 10 March 2022. On 11 March 2022 he acquired 3,100 shares and as at 25 April 2022 his total shareholding is 35,980.
2 In June 2021, Mr Gachechiladze exercised options in respect of 17,312 Bank of Georgia Group PLC shares, of which 3,740 were withheld to satisfy tax liabilities. The net gain of these options was US$ 243,075. As at 25 April 2022, Archil Gachechiladze's total number of share interests is 426,974.
3 On 7 March 2022, Mariam Megvinetukhutsesi acquired 1,000 shares and as at 25 April 2022 her total shareholding is 4,102.
3 At 2021 year-end, Gemsstock Fund, which Mr Breach manages, held 870,197 BOGG shares. This is not included in the table.
4 Mel Carvill was appointed as a Director of the Board on 10 March 2022 and therefore is not included in the above table.

Directors' Remuneration Report continued

As at 31 December 2021, Mr Gachechiladze's total vested and unvested and direct shareholding was 442,234 shares, representing approximately 0.9% of the share capital of BOGG. Mr Gachechiladze's connected persons do not have any interests in the shares of the Company.

The Policy is heavily weighted towards remuneration in deferred salary shares and discretionary compensation in deferred shares. The Policy and the long vesting periods, even for salary shares, naturally results in the Executive Director and our senior management team holding a significant number of unvested shares and achieves a delay between performance and vesting. This is reinforced even further by formal guidelines on shareholding and on post-employment shareholding in the Remuneration Policy (200% of total salary to be built up within five years). Further, Mr. Gachechiladze is expressly contractually bound to build up and to hold this level for two years post-employment. As at 31 December 2021, Mr Gachechiladze met the shareholding requirement.

There are no shareholding requirements for Non-Executive Directors. Changes in shareholding for PLC Directors between 31 December 2021 and the last practicable date of 25 April 2022 are as shown in the notes to the table above.

Non-Executive Directors are not awarded incentive shares.

In response to a shareholder feedback request during 2021 to show our top senior executives' level of total shareholding to demonstrate their level of alignment with shareholders, below we disclose the shareholdings of our senior executives as at 31 December 2021 (unvested shares vest in tranches over several years):

	Total vested and unvested and direct shareholding in number of shares
Archil Gachechiladze	442,234
Sulkhan Gvalia	137,875
Giorgi Chiladze	335,272
Levan Kulijanishvili	156,534
Mikheil Gomarteli	305,141
Vakhtang Bobokhidze	163,001
Zurab Kokosadze	31,288
Eter Iremadze	26,652

Details of Non-Executive Directors' terms of appointment

The Company has entered into letters of appointment with each Non-Executive Director. The letters of appointment require Non-Executive Directors to provide one month's notice prior to termination. The letters of appointment for the majority of current Non-Executive Directors are effective from 24 February 2018, with Véronique McCarroll's letter of appointment being effective from 1 October 2018 and Mariam Megvinetukhutsesi's from 12 March 2021 and Mel Carvill being effective from 10 March 2022. Each Non-Executive Director is put forward for election at each Annual General Meeting following his or her appointment. Continuation of a Non-Executive Director's employment is conditional on his or her continued satisfactory performance and re-election by shareholders at each Annual General Meeting.

A succession plan adopted by the Board provides for a tenure of six years on the Bank of Georgia Group PLC Board. Upon the expiry of such six-year tenure, the Board will consider if the appointment of the relevant Non-Executive Director will generally cease at the next upcoming Annual General Meeting. Notwithstanding the foregoing, if the Board determines that, in order to maintain the balance of appropriate skills and experience required for the Board, it is important to retain a Non-Executive Director on the Board beyond the relevant six-year period, the Board may offer the Non-Executive Director a letter of appointment for an additional one-year term. Such a one-year "reappointment" may be renewed no more than two times, with the effect that the usual six-year tenure may be extended to a maximum of nine years if circumstances were to warrant such extension.

Remuneration Committee effectiveness review

An external review had been undertaken in 2020 by Farman and Partners as documented in the 2020 Annual Report and Accounts. Following this, in 2021 the Committee undertook an internal review, supported by the Company Secretary. Regarding the operation of the Committee, the Committee noted significant success in gaining a high degree of approval from investors on the compensation report and strategy in 2021 and that such was an encouraging development. The Committee concluded that it operated effectively. It noted the challenges of the proposed changes to the new Directors' Remuneration Policy in 2022 as required by the NBG and is satisfied that the new Policy meets these requirements.

Implementation of Remuneration Policy for 2022

Details of how the new Policy will be implemented for the 2022 financial year if approved by shareholders at the 2022 Annual General Meeting are set out below. Subject to shareholder approval, the Policy is intended to apply until the date of the Annual General Meeting in 2025.

For Archil Gachechiladze:

Fixed pay

Total cash salary (combined BOGG and Bank)	US$ 370,000
Total deferred share salary (combined BOGG and Bank)	US$ 2,200,000 in deferred shares
Pension	The Executive Director and the Company each contribute 0-2% and the Georgian Government contributes between 0-2% of total remuneration from the Bank, all in line with Georgian legislation and with the pension arrangements for the Georgian workforce.
Benefits	Details of the benefits received by Executive Directors are on page 218.

There are circumstances in which unvested deferred shares may lapse, and narrow circumstances in which such shares may vest immediately (i.e. when an Executive Director's employment is terminated without cause) and these are summarised in the Policy.

Discretionary deferred share remuneration

Opportunity	Maximum is 100% of total salary (total cash salary and total deferred share salary as explained in the table and notes to the Policy above) in deferred shares.
Deferral terms	The Remuneration Committee will determine whether an award is merited, based on an Executive Director's achievement of the KPIs set for the work year and the performance of the Group during the work year. Assuming the new Policy is approved by shareholders, if Mr Gachechiladze is awarded discretionary deferred shares, 40% will vest immediately and 15% will vest on each the third, fourth, fifth and sixth anniversaries of the start of the work year, but each tranche will be subject to a further holding period of two years. Upon vesting, Mr Gachechiladze will receive (in addition to the vested shares) cash payments equal to the dividends paid (if any) on the underlying shares between the date the award was made and the vesting date.
Performance measures	The Remuneration Committee has set Mr Gachechiladze's KPIs for 2022: 1. Return on Average Equity (ROAE) 2. Cost to Income ratio 3. Cost of Risk ratio 4. Profit before tax (PBT) 5. NPS 6. eNPS 7. Developing ESG, in line with the Group's five championed Sustainable Development Goals (SDGs) and with market best practice 8. Personal Key Business Objectives.

See also page 221 for Malus and Clawback, in addition to provisions covering lapse of shares in the event of termination of the contracts (natural malus).

Directors' Remuneration Report continued

For Non-Executive Directors:
The table below shows the fee structure for Non-Executive Directors for 2022. Non-Executive Directors' fees are determined by the Board.

Component	Purpose and link to strategy	Operation	Opportunity
Base cash fee	The fee for the Board is competitive enough to attract and retain individuals. The Chairman receives a fee that reflects the extra time committed and responsibility. The Senior Independent Non-Executive Director receives a higher base fee, which reflects the extra time and responsibility.	Cash payment on a quarterly basis.	The amount of remuneration may be reviewed from time to time by the Board. The fees may also be amended and varied if there are genuinely unforeseen and exceptional circumstances which necessitate such review and, in such circumstances, any significant increase shall be the minimum reasonably required. The maximum aggregate BOGG PLC fees for all Non-Executive Directors which may be paid by the PLC itself is GBP 750,000, which is consistent with the PLC's Articles of Association.
Cash fee for each Committee membership	Additional fee to compensate for additional time spent discharging Committee duties.	Cash payment on a quarterly basis.	The amount of remuneration for the membership may be reviewed from time to time by the Board. The Chairman does not receive Committee fees.

Signed on behalf of the Remuneration Committee and the Board of Directors

Hanna Loikkanen
Chair of the Remuneration Committee
27 April 2022

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the consolidated and separate financial statements in accordance with applicable law and regulations.

Company law requires us to prepare financial statements for each financial year. As required, we have prepared the accompanying consolidated and separate statements in accordance with UK-adopted international accounting standards (IFRSs).

We must not approve the accompanying consolidated and separate financial statements unless we are satisfied that they give a true and fair view of the state of affairs of the Bank of Georgia Group PLC (the "Company") and the Group as a whole and of the profit or loss of the Company and the Group for that period.

Under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules, group financial statements are required to be prepared in accordance with UK-adopted international accounting standards (IFRS).

In preparing the accompanying consolidated and separate financial statements, we are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- in respect of the group financial statements, state whether UK-adopted international accounting standards (IFRSs) have been followed, subject to any material departures disclosed and explained in the financial statements;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

We are also responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions, to disclose with reasonable accuracy at any time the financial position of the Company and the Group, and to enable us to ensure that the consolidated and separate financial statements comply with the Companies Act 2006. We are responsible for such internal control as we determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to us to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, we are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that each comply with that law and those regulations. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We are also responsible for the maintenance and integrity of the Company's website.

We confirm that to the best of our knowledge:

- the consolidated and separate financial statements, prepared in accordance with UK-adopted international accounting standards (IFRSs), give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group taken as a whole; and
- the Annual Report, including the Strategic Report, includes a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that they face.

We consider that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and give shareholders the information needed to assess the Group's position and performance, business model and strategy.

By order of the Board

Mel Carvill
Chairman
27 April 2022

Archil Gachechiladze
CEO
27 April 2022

Directors' Report

The Directors present their Annual Report and the audited consolidated financial statements for the year ended 31 December 2021.

Strategic Report

The Strategic Report on pages 1 to 149 was approved by the Board of Directors on 27 April 2022 and signed on its behalf by Archil Gachechiladze, Chief Executive Officer.

Management Report

This Directors' Report, together with the Strategic Report on pages 1 to 149, forms the Management Report for the basis of DTR 4.1.5 R.

Information contained elsewhere in the Annual Report

Information required to be included in this Directors' Report can be found elsewhere in the Annual Report as indicated in the table below and is incorporated into this report by reference:

Information	Location in Annual Report
Future Developments	pages 1 to 149
Going Concern Statement	page 95
Viability Statement	page 95
Risk Management	pages 66 to 73
Principal Risks and Uncertainties	pages 74 to 93
Directors' Governance Statement	pages 169 to 183
The Board of Directors	pages 184 to 187
Nomination Committee Report	Pages 192 to 198
Audit Committee Report	Pages 199 to 205
Risk Committee Report	pages 206 to 209
Related party disclosures	Note 31 on page 366
Greenhouse Gas Emissions	pages 138 to 149
Employee Matters	pages 111 to 120 and Nomination Committee Report pages 194 to 196
Environmental Matters	pages 97 to 149
Share Capital	Note 21 on page 329
Engagement with suppliers, customers and others in a business relationship with the Company	pages 178 to 183
Information on the Group's financial risk management objectives and policies, and its exposure to credit risk, foreign currency risk and financial instruments	Note 28 on pages 337 to 356

Information to be disclosed in accordance with the Listing Rule 9.8.4R

The following information required to be disclosed in accordance with Listing Rule 9.8.4R is not applicable unless stated otherwise:

- the amount of interest capitalised during the period under review and details of any related tax relief;
- information in relation to the publication of unaudited financial information;
- any arrangements under which a Director has waived emoluments, or agreed to waive any future emoluments, from the Group;
- details of any non-pre-emptive issues of equity for cash by the Group;
- any non-pre-emptive issues of equity for cash by the Group or by any unlisted major subsidiary undertaking;
- parent participation in a placing by a listed subsidiary;
- any contract of significance in which a Director of Bank of Georgia Group is or was materially interested;
- any waiver of dividends by a shareholder; and
- details of any long-term incentive schemes.

Articles of Association

The Articles of Association of Bank of Georgia Group PLC may only be amended by a special resolution at a general meeting of the shareholders. The process for the appointment and removal of Directors is included in the Company's Articles of Association. The Company's Articles of Association are available at: https://www.bankofgeorgiagroup.com/governance/documents.

Share capital and rights attaching to the shares

Details of the movements in share capital during the year are provided in Note 21 to the consolidated financial statements on page 329 of this Annual Report.

As at the date of this Annual Report there was a single class of 49,169,428 ordinary shares of one pence each in issue, each with one vote. The rights and obligations attaching to the Company's ordinary shares are set out in its Articles of Association. Holders of ordinary shares are entitled, subject to any applicable law and the Company's Articles of Association, to:

- have shareholder documents made available to them, including notice of any general meeting;

- attend, speak and exercise voting rights at general meetings, either in person or by proxy; and
- participate in any distribution of income or capital.

Under the terms of a demerger agreement between the Company and Georgia Capital PLC, Georgia Capital PLC has agreed that for so long as its percentage holding in the Company (directly or indirectly) is greater than 9.9% of the voting rights exercisable at the Company's general meetings, these voting rights will be exercised in general meetings of the Company in accordance with votes cast by all other shareholders of the Company. This agreement was put in place to ensure that Georgia Capital PLC will not be able to influence the voting outcomes of the Company's shareholder resolutions at general meetings. Votes will be made in accordance with the following mechanism:

- on a resolution proposed to a general meeting, all shareholders of the Company (other than JSC Georgia Capital and its concert parties) will be entitled to vote at their discretion on a poll vote (each an "Initial Vote"); and
- following the closing of the Initial Vote(s), the poll will as soon as possible thereafter reopen for the sole purpose of enabling the shares held by JSC Georgia Capital (or its concert parties) to be voted in each case proportionally (calculated to two decimal places) in accordance with the votes cast on each resolution on an Initial Vote (the "Proportional Voting Mechanism").

There are no other restrictions on exercising voting rights, except in situations where the Company is legally entitled to impose such a restriction (for example, under the Articles of Association where amounts remain unpaid in the shares after request, or the holder is otherwise in default of an obligation to the Company).

The Company is not aware of any arrangements between shareholders that may result in restrictions on the transfer of securities or voting rights.

The Company is permitted to make market purchases of its own shares provided it is duly authorised by its members in a general meeting and subject to and in accordance with section 701 of the Companies Act 2006. Authority was given by special resolution at the Annual General Meeting (AGM) of the Company on 25 May 2021 for the Group to purchase up to 4,916,943 shares (approximately 10%) of the Group's shares. This authority will expire at the conclusion of the Company's AGM in 2022 or, if earlier, the close of business on 25 June 2022.

A renewal of the authority to make market purchases will be sought from shareholders at each AGM of the Company. Purchases of ordinary shares will be made within guidelines established from time to time by the Board. Any purchase of ordinary shares would be made only out of the available cash resources of the Company. ordinary shares purchased by the Company may be held in treasury or cancelled.

During 2021, Sanne Fiduciary Services Limited, acting as a trustee of the BOG Group Employee Trust, purchased 485,820 shares representing 0.99% of the issued share capital as at 31 December 2021. Sanne Fiduciary Services Limited, acting as a trustee of the Rubicon Executive Equity Compensation Trust, purchased 719,795 shares representing 1.46% of the issued share capital as at 31 December 2021. The trusts hold the shares for the purpose of satisfying awards to be awarded to beneficiaries of the trusts.

At the 2021 AGM, the Directors were given the power to (a) allot shares up to a maximum nominal amount of GBP 163,898.09 representing approximately one third of the Company's issued share capital as at 30 March 2021, and (b) to allot equity securities up to an aggregate nominal amount of GBP 163,898.09, in connection with an offer by way of a rights issue: (i) to holders of shares in proportion (as nearly as may be practicable) to their existing holdings; and (ii) to holders of other equity securities as required by the rights of those securities or, if the Directors consider it necessary, as permitted by the rights of those securities, such amount to be reduced by the aggregate nominal amount of shares allotted or rights to subscribe for or to convert any securities into shares granted under paragraph (a), and subject to the Directors having the right to make such exclusions or other arrangements as they may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or legal, regulatory or practical problems in, or under the laws of, any territory. These authorities will expire at the conclusion of the 2022 AGM (or, if earlier, at the close of business on 25 August 2022) and approval will be sought at that meeting to renew a similar authority for a further year.

None of the ordinary shares carry any special rights with regard to control f the Company.

There are no restrictions on transfers of shares other than:

- certain restrictions which may from time to time be imposed by laws or regulations such as those relating to insider dealing or pursuant to the Company's Inside Information Disclosure Policy;
- pursuant to the Company's Securities Dealing Policy and Code, whereby the Directors and designated employees require approval to deal in the Company's shares or cannot deal at certain times; and
- where a person with an interest in the Company's shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares.

Results and dividends

The Group made a profit before taxation of GEL 801.9 million for the year ended 31 December 2021. The Group's profit after taxation for the year was GEL 727.1 million.

The Company may by ordinary resolution declare dividends provided that no such dividend shall exceed the amount recommended by the Company's Directors. The Directors

Directors' Report continued

may also pay such interim dividends as appear to be justified by the profits of the Group available for distribution. As Bank of Georgia Group PLC is a holding company, the Group relies primarily on dividends and other statutorily (if any) and contractually permissible payments from its subsidiaries to generate the funds necessary to meet its obligations and pay dividends to its shareholders.

On 17 August 2021 the Group announced that the Board declared an interim dividend of GEL 1.48 per ordinary share in respect of the period ended 30 June 2021, payable to ordinary shareholders of the Group on 5 November 2021. The Company revised its dividend and capital distribution policy during the year and increased the targeted payout ratio to 30-50% of the Company's profits on an annual basis, which may be distributed either as dividend or as a Board declared buy back programme, which the Board may consider declaring during 2022.

The Board of Directors intend to recommend a final dividend in respect of the year ended 31 December 2021 of GEL 2.33 per ordinary share.

Equity Settled Option Plan (ESOP)

The Group operates two employee benefit trusts (EBT), one for Executive Management, and the other for employees below the executive level (the ESOPs), which hold ordinary shares on trust for the benefit of employees and former employees of the Group, and their dependents, and which are used in conjunction with the Group's employee share schemes. Whilst ordinary shares are held in the EBT, the voting rights in respect of these ordinary shares may be exercised by the trustees of the EBT.

In accordance with the ESOP documentation, Sanne Fiduciary Services Limited has waived its right to receive any dividends. This waiver will remain in place indefinitely, unless otherwise instructed by the Company. The Company has committed that new shares issued in satisfaction of deferred share compensation from the time of the Company's listing on the premium segment of the London Stock Exchange (LSE) will not exceed 10% of Bank of Georgia Group PLC's ordinary share capital over any ten-year period.

Powers of Directors

The Directors may exercise all powers of the Company subject to applicable legislation and regulations and the Company's Articles of Association.

Conflicts of interest

In accordance with the Companies Act 2006, the Directors have adopted a policy and procedure for the disclosure and authorisation (if appropriate) of conflicts of interest, and these have been followed during 2021. The Company's Articles of Association also contain provisions to allow the Directors to authorise potential conflicts of interest so that a Director is not in breach of their duty under company law.

Directors' remuneration

Directors' fees are determined by the Remuneration Committee from time to time. The remuneration of Directors' must be in accordance with the Directors' Remuneration Policy, which was last approved by shareholders in 2019. The fees paid to the Non-Executive Directors in 2021 pursuant to their letters of appointment are shown on page 234. The fees paid to our sole Executive Director for the period 1 January 2021 to 31 December 2021 pursuant to his service agreements are shown on page 229.

Directors' interests

The Directors' beneficial interests in ordinary shares of Bank of Georgia Group PLC as at 31 December 2021 are shown on page 235 together with any changes in those interests between the financial year-end and the date on which this Directors' Report was approved by the Board.

Company Secretary

The Board appointed Link Company Matters Limited to act as Company Secretary to Bank of Georgia Group PLC in June 2018. Link Company Matters Limited is one of the UK's largest professional services secretarial teams.

Re-election of Directors

In line with the Code's recommendations, all Directors seek re-election every year and accordingly, all Directors who wish to continue on the Board will stand for election or re-election in 2022. The Board has set out in its AGM Notice the qualifications of each Director and support for re-election as applicable.

Annual General Meeting

The AGM Notice is circulated to all shareholders at least 20 working days prior to such meeting. All shareholders are invited to attend the AGM, where there is an opportunity for individual shareholders to question the Chairman and the Chairs of the Board Committees. Shareholders are also invited to submit questions ahead of the AGM by email and responses are provided ahead of the proxy voting deadline where practicable

As recommended by the Code, all resolutions proposed at the 2022 AGM will be voted on separately and the voting results will be announced to the LSE and made available on the Company's website as soon as practicable after the meeting. These will include all votes cast for and against and those withheld, together with all proxies lodged prior to the meeting.

For further Shareholder Information see pages 178 to 183 for further information on shareholder and stakeholder engagement.

Directors' responsibilities

Statements explaining the responsibilities of the Directors for preparing the Annual Report and consolidated and separate financial statements can be found on page 239 of this Annual Report.

A further statement is provided confirming that the Board considers the Annual Report, taken as a whole, to be fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Indemnity

Subject to applicable legislation, every current and former Director or other officer of the Company (other than any person engaged by the Company as auditor) shall be indemnified by Bank of Georgia Group PLC against (broadly) any liability in relation to Bank of Georgia Group PLC, other than (broadly) any liability to the Company or a member of the Group, or any criminal or regulatory fine. In addition, the Company has put in place Directors' and Officers' indemnity insurance.

Significant agreements

Bank of Georgia Group PLC is not party to any significant agreements that take effect, alter or terminate upon a change of control of the Company. The Company is not aware of any agreements between holders of its ordinary shares that may result in restrictions on the transfer of its ordinary shares or on voting rights.

Presence outside of Georgia

We have our registered office in London: see page 264, and additional offices in Budapest, Istanbul, and Tel Aviv, as well as the BNB Bank in Belarus.

Political donations

The Group did not make any political donations or expenditure during 2021. Authority to make political donations and incur political expenditure will be put to shareholder vote at the 2022 AGM.

Code of Conduct and Ethics

The Board has adopted a Code of Conduct relating to the lawful and ethical conduct of the business, supported by the Group's core values. The Code of Conduct has been communicated to all Directors and employees, all of whom are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulators in the communities in which the Group operates. Our Code of Conduct is available on our website: https://www.bankofgeorgiagroup.com/governance/documents.

Independent auditors

A resolution to reappoint Ernst & Young LLP as auditor of Bank of Georgia Group PLC will be put to shareholders at the 2022 AGM.

Major interests in shares

As at 31 December 2021, the following interests in the ordinary share capital of the Company have been notified to the Directors under DTR 5.

Shareholder	Number of voting rights	% of voting rights
JSC Georgia Capital *	9,784,716	19.9%
Fidelity Investments	3,021,627	6.15%
FIL Limited	2,401,740	4.88%
Harding Loevner LP	2,211,577	4.50%
Van Eck Associates Corporation	1,603,181	3.26%
Dimensional Fund Advisors (DFA) Ltd	1,495,870	3.04%

Source: Georgeson, Computershare

* JSC Georgia Capital will exercise its voting rights at the Group's general meetings in accordance with the votes cast by all other Group Shareholders, as long as JSC Georgia Capital's percentage holding in Bank of Georgia Group PLC is greater than 9.9%.

For the period 1 January 2022 up to and including 25 April 2022 (the latest practicable date for inclusion in this report), the Company has received the following notifications pursuant to Rule 5 of the DTRs: the Rubicon Executive Equity Compensation Trust and BOG Group Employee Trust hold a total of 2,096,531 number of voting rights, representing approximately 4.26% of the Group's issued ordinary share capital.

It should be noted that these holdings are likely to have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed. The respective regulatory filings by shareholders are available on the Company's website: https://bankofgeorgiagroup.com/news/regulatory and the LSE website: https://www.londonstockexchange.com.

Post balance sheet events

The Board received an update at its meeting in March 2022 on the situation between Russia and Ukraine together with the ongoing sanctions imposed on Belarus and Russia. Our disclosures relating to post balance sheet events can be found at Note 33 on page 368 of this annual report.

Statement of disclosure of information to the auditor

We confirm that, so far as we are aware, there is no relevant audit information of which the Company's auditor is unaware and we have taken all steps that we reasonably believe should be taken as Directors in order to make ourselves aware of any relevant audit information and to establish that the Company's statutory auditor is aware of such information.

The Directors' Report on pages 240 to 243 was approved by the Board of Directors on 27 April 2022 and signed on its behalf:

By order of the Board

Link Company Matters Limited
Company Secretary
27 April 2022

Financial Statements

Independent auditor's report to the members of Bank of Georgia Group PLC

Opinion

In our opinion:

- Bank of Georgia Group PLC's (the 'Group') group financial statements and the Bank of Georgia Group PLC (the 'Parent Company', 'Bank') financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with UK adopted international accounting standards as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Bank of Georgia Group PLC (the 'parent Company') and its subsidiaries for the year ended 31 December 2021 which comprise:

Group

- Consolidated balance sheet as at 31 December 2021
- Consolidated income statement for the year then ended
- Consolidated statement of comprehensive income for the year then ended
- Consolidated statement of changes in equity for the year then ended
- Consolidated statement of cash flows for the year then ended
- Related notes 1 to 33 to the financial statements, including a summary of significant accounting policies
- Annual Remuneration Report identified as 'audited'

Parent Company

- Balance sheet as at 31 December 2021
- Statement of changes in equity for the year then ended
- Statement of cash flows for the year then ended
- Related notes 1 to 33 to the financial statements including a summary of significant accounting policies

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards and as regards the Parent Company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and Parent in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.

Independent Auditor's Report to the members of Bank of Georgia Group PLC continued

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group and Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating the appropriateness of management's key assumptions made in the group's forecasts. In assessing the reasonableness of management's assumptions, we have considered the principal risks and uncertainties facing the Group including the potential longer-term impacts of the ongoing conflict between Russia and Ukraine, as well as appropriate mitigating factors.
- Assessing the level of liquidity available to the group to support its ongoing needs and projected compliance with capital requirements and external debt covenants for a period of 12 months from the date of authorisation of the financial statements.
- Evaluating the reasonableness of management's adverse forecast scenarios and associated stress testing, and their impact on the group's liquidity and capital positions and compliance with external debt covenants.
- Obtaining the reverse stress test performed by management and assessing the plausibility of management actions available to mitigate the impact of the reverse stress test including the ability to refinance the Group's debt if required.
- Assessing the adequacy of the going concern disclosures provided within the financial statements by evaluating whether they were consistent with management's assessment and in compliance with the relevant reporting requirements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and Parent Company's ability to continue as a going concern for a period of twelve months from when the financial statements are authorised for issue.

In relation to the Group and Parent Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of three components and audit procedures on specific balances for a further three components. • The components where we performed full or specific audit procedures accounted for 98% of adjusted profit before tax and non-recurring items, 98% of Revenue and 99% of Total assets.
Key audit matters	• Allowance for expected credit loss. • Valuation of investment property and real estate assets held for sale.
Materiality	• Overall group materiality of GEL 40m which represents 5% of adjusted profit before tax from continuing operations, calculated by adjusting for non-underlying items.

An overview of the scope of the Parent Company and group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each company.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the twenty-two reporting components of the Group, we selected six components covering entities within the UK, Georgia and Belarus, which represent the principal business units within the Group. By comparison, in the prior year we selected five components with the additional component for 2021 being Georgian Leasing Company LLC.

Of the six components selected, we performed an audit of the complete financial information of three components ("full scope components") which were selected based on their size or risk characteristics. For the remaining three components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The components for which we performed full or specific scope procedures are set out below:

Component	**Scope**	**Location/team**
Bank of Georgia Group PLC	Full	London/primary team
BGEO Group Limited	Full	London/primary team
JSC Bank of Georgia	Full	Georgia/primary team
JSC BGEO Group	Specific	Georgia/primary team
Georgian Leasing Company LLC	Specific	Georgia/component team
JSC Belarusky Narodny Bank	Specific	Belarus/component team

The reporting components where we performed audit procedures accounted for 98% (2020: 96%) of the Group's adjusted profit before tax and non-recurring items used to calculate materiality, 98% (2020: 99%) of the Group's Revenue and 99% (2020: 99%) of the Group's Total assets. For the current year, the full scope components contributed 91% (2020: 93%) of the Group's adjusted profit before tax and non-recurring items used to calculate materiality, 92% (2020: 95%) of the Group's Revenue and 93% (2020: 94%) of the Group's Total assets. The specific scope component contributed 7% (2020: 3%) of the Group's adjusted profit before tax and non-recurring items used to calculate materiality, 6% (2020: 4%) of the Group's Revenue and 6% (2020: 5%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

Of the remaining sixteen components that together represent 2% of the Group's adjusted profit before tax and non-recurring items used to calculate materiality, none are individually greater than 0.6% of the Group's adjusted profit before tax and non-recurring items used to calculate materiality. For these components, we performed other procedures, including analytical review and testing of consolidation journal entries and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

The table below illustrates the coverage obtained from the work we performed:

	2021				2020			
	No.	Revenue	Profit[3]	Total assets	No.	Revenue	Profit[3]	Total assets
Full scope[1]	3	92%	91%	93%	3	95%	93%	94%
Specific scope[2]	3	6%	7%	6%	2	4%	3%	5%
Full and specific scope coverage	6	98%	98%	99%	5	99%	96%	99%
Remaining components[4]	16	2%	2%	1%	17	1%	4%	1%
Total reporting components	22	100%	100%	100%	22	100%	100%	100%

1. We audited the complete financial information.
2. We audited specific account balances within these components. The audit scope of these components may not have included testing of all significant accounts of the components but will have contributed to the coverage of significant accounts tested for the Group.
3. Relative absolute adjusted Profit from continuing operations before non-recurring items and tax.
4. We performed analytical procedures on remaining component entities.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the three full scope components, audit procedures were performed on all three of these directly by the primary audit team. For the three specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

Independent Auditor's Report to the members of Bank of Georgia Group PLC continued

Our programme of planned visits to Georgia was impacted by the current travel restrictions and other imposed government measures as a result of Covid-19. As part of our alternative procedures, during the current year's audit cycle, we undertook regular video call meetings with the Group's management based in Tbilisi and held frequent video calls with the Georgia-based members of our audit team during the key phases of the audit, to discuss our audit approach, results and any issues arising from our work. We also performed a remote review of working papers through the use of our audit software which facilitates the sharing of audit files across the integrated primary team. The UK members of the audit team maintained an open communication with the Georgian members where appropriate during various stages of the audit and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact Bank of Georgia Group plc. The Group has explored the potential adverse impacts of climate-related risks, these are explained on pages 138-149 in the required Task Force for Climate related Financial Disclosures ('TCFD') and on page 93 within the principal risks and uncertainties, which form part of the "Other information," rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

As explained within the climate related disclosures, governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. The degree of certainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations. In note 28 to the financial statements, the Group has identified Climate Risk as an emerging risk, further stating that the potential impacts of climate-related risks are subject to further analysis and as a result of insufficient certainty, the financial statement amounts are not reflective of such impacts.

Our audit effort in considering climate change was focused on ensuring climate-related matters were adequately disclosed and meet the requirements of TCFD. We also challenged the Directors' considerations of climate change in their assessment of going concern and viability and associated disclosures.

Whilst Bank of Georgia has committed to supporting Georgia's climate-related goals, the Group is currently unable to determine the full future economic impact on their business model, operational plans and customers of achieving this and therefore, as set out above, the potential impacts are not fully incorporated in these financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters. Key audit matters identified in the current period remain consistent with the previous year.

Whilst not a key audit matter, the impact of the ongoing situation in Ukraine was considered in relation to the amounts recorded and disclosed within the financial statements and also as regards the post balance sheet event disclosures included within note 33.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Allowance for expected credit loss (ECL) **Expected credit loss allowance of GEL 405m (2020: GEL 444m), Note 9** ECL is calculated using a combination of a collective provisioning model and specific loan provisions based on discounted cash flow analysis and regression-based forward-looking estimates. Covid-19 has introduced new and significant elements of judgement which required to be considered in the current year ECL calculations. Consequently, the allowance for expected credit loss is highly judgemental and changes in assumptions could have a material impact on reported profits. Both collective and specific provisioning depend on a number of assumptions and judgements including: • allocation of loans to stage 1, 2, 3 or Purchased and Originated Credit-Impaired (POCI) using criteria set in accordance with IFRS 9 "Financial Instruments" considering the impact of COVID-19 and related relief measures such as payment deferrals and the identification of significant increase in credit risk (SICR); • accounting interpretations and modelling assumptions used to build and run the models for calculating the expected credit loss (ECL); • inputs and assumptions used to estimate the impact of multiple economic scenarios particularly those influenced by COVID-19, including weightings applied; • appropriateness, completeness and valuation of post model adjustments, including the risk of double-counting the effects of various assumptions; • estimation of probability of default (PD), loss given default (LGD) and exposure at default (EAD), including the valuation of collateral; and • measurement of individually assessed provisions, including expected future cash flows and the valuation of collateral.	• We obtained an understanding, performed walkthroughs and evaluated the design and operating effectiveness of key controls across the processes relevant to the ECL. This included controls over data accuracy and completeness, credit monitoring, allocation of borrowers into their respective impairment stages, individual provisioning and production of journal entries and disclosures. • Using our IFRS 9 specialists, we assessed and challenged the Group's IFRS 9 provisioning methodology to determine that the accounting standard had been complied with consistently and any changes made to the methodology were appropriate. • Using our modelling specialists, we tested the assumptions, inputs and formulae used in the ECL model to confirm that the model was consistent with the stated methodology. This included assessing the appropriateness of the model design and formulae used, and recalculating the PD, LGD and EAD on a sample basis. • We engaged specialists to perform a detailed review and testing of the changes made in the models and perform a recalculation of the ECL, including procedures over staging and underlying risk parameters. We obtained evidence that there had been no double-counting of the effects of the various assumptions that had already been considered within the model. • We assessed the appropriateness of the macroeconomic scenarios used by management and tested that they had been properly applied in the ECL calculations. • We reviewed the Group's backtesting and benchmarking procedures, specifically in regard to the Bank's approach in releasing overlays. • We tested the completeness and accuracy of key data inputs used in the ECL model by reconciling loans and advances between the underlying source systems and the ECL model. • We challenged the criteria used to allocate assets to stage 1, 2, 3 or POCI in accordance with IFRS 9, including any management overlays applied specifically to determine SICR and staging. For a sample of loans, we independently assessed whether they had been allocated to the appropriate stage, considering potential indicators of significant increase in credit risk or default and challenged management as to the rationale for movements between stages.	Although the estimation of the expected credit loss is by nature highly judgemental, especially in light of the complexity of adjusting for COVID-19, based on the results of our audit procedures, we concluded that the ECL provision is appropriate as at 31 December 2021. Specifically, we highlighted the following to the Audit Committee: • We considered the overall valuation and treatment of collateral to be materially reasonable, but noted there is increased judgment regarding the timing of realisation in the current environment. • Post-model adjustments and management overlays applied to the ECL methodology as at year end were reasonable. • Staging, inputs and assumptions are appropriately applied to the ECL calculation. • Financial statements disclosures on loans and receivables and ECL allowance are in compliance with the requirements of IFRS 9. • We agreed with management's view that the impact of the continuing situation in Ukraine was a non-adjusting post balance sheet event.

Independent Auditor's Report to the members of Bank of Georgia Group PLC continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
There are also risks related to: • the accuracy and completeness of underlying loan data used in the ECL model; and • the accuracy and adequacy of financial statement disclosures. As a consequence of the judgement involved in establishing the allowance, there is a greater risk of misstatement in ECL charges, either by fraud or error, including through the potential override of controls by management. As a result, this matter was one of the most significant assessed risks of material mistatement.	• We performed procedures to address the existence and valuation of collateral for loans where expected cash flows from collateral were impacting the estimation of loan losses. Using our IFRS 9 specialists, we assessed the reasonableness of the haircuts applied by management to collateral valuation. We ensured that the Bank has up to date valuations of collateral and, for real estate collateral for individually assessed borrowers, for which the valuation changed by more than 10% compared with the prior year and for new real estate collateral, we reviewed the details of the valuation and validated the reasonableness of the new value by benchmarking major inputs to publicly available market data. • We evaluated the adequacy and appropriateness of disclosures for compliance with the requirements of IFRS.	
Valuation of investment property and real estate assets held for sale **Investment property of GEL 227m (2020: GEL 231m) and real estate classified as held for sale of GEL 47m (2020: GEL 63m)** The Group applies the fair value model for its investment property, which largely comprises real estate assets that were previously held as collateral against loans which have now defaulted. Real estate valuations are inherently uncertain and subject to an estimation process. Furthermore, the Group's real estate is located primarily in Georgia, where the secondary market is relatively illiquid. Although valuations are performed by a combination of internal and external appropriately qualified valuers, there remains a risk that individual assets might be inappropriately valued. As a result, we have concluded that the valuation of the investment property and assets held for sale represents a risk of material misstatement. The COVID-19 pandemic has heightened price uncertainty following a volatile year in the real estate market with fewer transactions and properties closed due to government regulations.	• We have performed an assessment on the skills, experience and competency of Cushman & Wakefield in evaluating property market movements in the relevant markets. • We engaged our own specialists to perform a revaluation of a sample of properties, twelve Investment Properties and six Assets held for sale properties which also include Tbilisi Office spaces. • To test the reasonableness of the work undertaken by management's specialist, we compared the results reached by our specialists to those of C&W and investigated variances. Differences between EY and C&W results were immaterial. Nevertheless, EY specialists have discussed their findings with C&W which were accordingly adjusted in the final valuation reports. • We challenged management's assessment of changes in real estate prices based on the Bank's actual disposals during the year. We obtained the bank's listing of sales transactions and have observed that the average gain on disposal falls within a 10% range of the carrying values for all types of real estate properties except for offices and 'other' types of property. In line with management's assessment, as the sale transactions for office types are limited to three sales transactions during the year, we deem this not representative of the market.	Based on the results of our audit procedures, we concluded that: • The independent valuation reports obtained by management support their conclusion that the valuation of investment properties is within a reasonable range and therefore, Investment Property is stated at fair value, while Assets Held for Sale are stated at the lower of carrying amount and FVLCS for the year ended 31 December 2021. • Based on the results of our testing, the fair values of properties as at 30 September 2020 reasonably approximate to their 31 December 2021 fair values. • The Group has appropriately classified and measured the properties which it started to actively market and for which sales are highly probable.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Management performed a full revaluation of its investment properties in September 2020. For the year ended 31 December 2021, management has analysed market movements, using Cushman & Wakefield (C&W) market research analysis for various market segments. Management determined that changes in market prices are not significant (i.e. less than 10%), except for office space in Tbilisi which is deemed not to be reflective of overall market trends due to the limited volume of transactions covered by the analysis. Additionally, management engaged C&W to perform valuation of top 20 of the Group's investment properties and properties held for sale as at 30 September 2021 selected based on risk and materiality. Based on the results of the revaluation for these 20 properties, some of which are Tbilisi offices, we have assessed the reasonableness of using book values as a proxy to the fair values of investment properties and assets held for sale portfolio. Based on the analysis performed by the independent valuer, management concluded that the real estate property values have moved within an acceptable range since the last full revaluation considering both movement in real estate market prices and the changes in the foreign exchange market. Management concluded that the book values are representative of fair values of investment properties and assets held for sale, thus full revaluation has not been deemed necessary.	• We additionally analysed the impact of C&W's market research results on the overall value of the Bank's investment properties and assets held for sale by extrapolating the percentage change in market prices to the whole portfolio. • We performed testing of the inputs used by C&W in the valuation of the properties such as the location, area and ownership of the properties challenged and performed testing of inputs used by C&W in their valuation process. • We performed substantive procedures over additions and disposals of properties including any transfers of assets in and out of investment properties. We have selected individually significant items and ensured that the accounting treatment of those items is in accordance with relevant international accounting and reporting standards. • On a sample basis, we undertook valuation and existence testing of assets held for sale. For selected items we obtained third party public information and ensured that those assets are listed for sale and at a price that is not materially different compared to the carrying value. We have concluded that Assets held for sale valuation and classification is in accordance with IFRS 5 and that the disclosure is in accordance with IFRS 13 'Fair Value Measurement'. • Based on the results of testing disclosures related to investment property, we concluded that financial statement disclosures in relation to investment property are in compliance with the requirements of IAS 40 and IFRS 13.	• The fair value of Investment properties and assets held for sale as at 31 December 2021 is materially correct. • We agreed with management's view that the impact of the continuing situation in Ukraine was a non-adjusting post balance sheet event. • Financial statements disclosures on Investment property is in compliance with the requirements of IAS 40 and IFRS 13.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be GEL 40 million (2020: GEL 20 million), which is 5% (2020: 5%) of the profit before tax and non-recurring items at the time of the audit. We believe that an adjusted PBT provides us with the most appropriate measure for the users of the financial statements given the Group is profit making; it is consistent with the wider industry and is the standard for listed and regulated entities and we believe it reflects the most useful measure for users of the financial statements.

We determined materiality for the Parent Company to be GEL 40 million (2020: GEL 20 million), which is the lower of GEL 62 million (2% of equity), and the Group materiality. In respect of the Parent Company, we believe equity is the most relevant measure for stakeholders and is most representative of the economic size of the entity given that it is primarily a holding company.

Independent Auditor's Report to the members of Bank of Georgia Group PLC continued

During the course of our audit, we reassessed initial materiality and noted that the Group's actual adjusted PBT and nonrecurring items exceeded the forecast adjusted PBT and nonrecurring items. Consequently, we have revised our planning materiality as a basis for determining the nature, timing and extent of our audit procedures to better address the risks of material misstatements.

Starting basis	• GEL 801.9m • Profit before tax
Adjustments	• GEL 0.6m • Net non-recurring items
Materiality	• GEL 802.5m • Materiality of GEL40m (5% of actual profit before tax and non-recurring items)

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2020: 50%) of our planning materiality, namely GEL 20m (2020: GEL 10m). We have set performance materiality at this percentage (which is at the lowest end of the range of our audit methodology) based on various considerations including the past history of misstatements, the effectiveness of the control environment and other factors affecting the entity and its financial reporting.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the performance materiality allocated to the components was GEL 7.5m (2020: GEL 2m to 10m).

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of GEL 2m (2020: GEL 1m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information
The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report which comprises:

- Strategic Report, including Overview, Strategy and Performance sections set out on pages 4 to 167.
- Governance section, including Directors' Governance Statement, Board of Directors, Management team, Nomination Committee Report, Audit Committee Report, Risk Committee Report, Directors' Remuneration Report, Statement of Directors' Responsibilities and Directors' Report, set out on pages 168 to 243.
- Additional information, including Abbreviations, References, Glossary and Shareholder information, set out on pages 369 to 378.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Corporate Governance Statement

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and Parent Company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on Page 95;
- Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on Page 95;
- Directors' statement on whether it has a reasonable expectation that the Group will be able to continue in operation and meets its liabilities set out on Page 95;
- Directors' statement on fair, balanced and understandable set out on Page 239;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 239;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on Page 68; and;
- The section describing the work of the audit committee set out on Page 200.

Independent Auditor's Report to the members of Bank of Georgia Group PLC continued

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on Page 239, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and Parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Group and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are the relevant regulations of the UK Listing Authority ("UKLA"), as well as the various Georgian legal and regulatory requirements applying to the components of the Group, of which the most material are the regulations of the National Bank of Georgia.
- We understood how Bank of Georgia Group plc is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Group and its regulators; reviewed minutes of the Board and its committees; and gained an understanding of the Group's approach to governance, demonstrated by the Board's approval of the Group's governance framework and the Board's review of the Group's risk management framework ("RMF") and internal control processes.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by considering the controls that the Group has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, complex transactions, performance targets, economic or external pressures and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk which included management, internal audit and legal enquiries, testing of internal control, journal entry testing, analytical procedures, tests of detail and focused testing as referred to in the Key Audit Matters section above. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of Group legal counsel, money laundering reporting officer, internal audit, certain senior management executives and focused testing. We also performed inspection of key regulatory correspondence from the relevant regulatory authorities.
- In regard to component reporting, any instances of non-compliance with laws and regulations were to be immediately communicated to the primary team.
- The Group operates in the banking industry which is a highly regulated environment. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

Following the recommendation from the audit committee, we were appointed by the company on 25 January 2018 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is 5 years, covering the years ending 31 December 2017 to 31 December 2021.

The audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Peter Wallace (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
27 April 2022

Consolidated Statement of Financial Position

As at 31 December 2021 (Thousands of Georgian Lari)

	Notes	2021	2020	2019
Assets				
Cash and cash equivalents	6	1,520,562	1,970,955	2,153,624
Amounts due from credit institutions	7	1,931,390	2,016,005	1,619,072
Investment securities	8	2,595,664	2,544,397	1,786,804
Loans to customers and finance lease receivables	9	16,168,973	14,192,078	11,931,262
Accounts receivable and other loans		3,680	2,420	3,489
Prepayments		40,878	27,593	42,632
Inventories		11,514	10,340	12,297
Right-of-use assets	10	80,186	83,208	96,095
Investment properties	13	226,849	231,241	225,073
Property and equipment	11	378,808	387,851	379,788
Goodwill	14	33,351	33,351	33,351
Intangible assets	12	144,251	125,806	106,290
Income tax assets	15	292	22,033	282
Other assets	16	246,947	325,994	143,154
Assets held for sale		46,731	62,648	36,284
Total assets		**23,430,076**	**22,035,920**	**18,569,497**
Liabilities				
Client deposits and notes	17	14,038,002	14,020,209	10,076,735
Amounts owed to credit institutions	18	4,318,445	3,335,966	3,934,123
Debt securities issued	19	1,518,685	1,585,545	2,120,064
Lease liability	10	87,662	95,635	94,616
Accruals and deferred income		80,157	53,894	52,471
Income tax liabilities	15	110,868	62,434	37,918
Other liabilities	16	183,349	332,322	102,662
Total liabilities		**20,337,168**	**19,486,005**	**16,418,589**
Equity	21			
Share capital		1,618	1,618	1,618
Additional paid-in capital		492,243	526,634	492,072
Treasury shares		(75)	(54)	(64)
Other reserves		(3,223)	71,227	(7,481)
Retained earnings		2,588,463	1,939,122	1,655,256
Total equity attributable to shareholders of the Group		**3,079,026**	**2,538,547**	**2,141,401**
Non-controlling interests		13,882	11,368	9,507
Total equity		3,092,908	2,549,915	2,150,908
Total liabilities and equity		**23,430,076**	**22,035,920**	**18,569,497**

The financial statements on pages 256 to 368 were approved by the Board of Directors on and signed on its behalf by:

27 April 2022

Archil Gachechiladze
Chief Executive Officer
Bank of Georgia Group PLC
Registered No. 10917019

The accompanying Notes on pages 264 to 368 are an integral part of these financial statements.

Consolidated Income Statement

For the year ended 31 December 2021 (Thousands of Georgian Lari)

	Notes	2021	2020	2019
Interest income calculated using EIR method		1,822,307	1,563,362	1,411,359
Other interest income		28,737	32,065	25,802
Interest income		**1,851,044**	**1,595,427**	**1,437,161**
Interest expense		(882,474)	(806,370)	(639,444)
Deposit insurance fees		(14,629)	(11,415)	(8,298)
Net interest income	22	**953,941**	**777,642**	**789,419**
Fee and commission income		390,829	274,458	284,193
Fee and commission expense		(158,398)	(108,955)	(104,179)
Net fee and commission income	23	**232,431**	**165,503**	**180,014**
Net foreign currency gain		109,099	99,040	119,363
Net other income		70,206	48,474	21,474
Operating income		**1,365,677**	**1,090,659**	**1,110,270**
Salaries and other employee benefits	24	(281,087)	(239,607)	(243,855)
Administrative expenses	24	(129,524)	(105,531)	(106,157)
Depreciation, amortisation and impairment	10	(93,618)	(82,937)	(78,118)
Other operating expenses		(3,723)	(4,560)	(4,228)
Operating expenses		**(507,952)**	**(432,635)**	**(432,358)**
Profit/(loss) from associates		(3,781)	782	789
Operating income before cost of risk		**853,944**	**658,806**	**678,701**
Expected credit loss on loans to customers	25	(1,452)	(236,983)	(94,155)
Expected credit loss on finance lease receivables	25	(4,950)	(8,025)	(885)
Other expected credit loss	25	9,899	(23,222)	(119)
Impairment charge on other assets and provisions		(54,909)	(32,767)	(12,425)
Cost of risk		**(51,412)**	**(300,997)**	**(107,584)**
Net operating income before non-recurring items		**802,532**	**357,809**	**571,117**
Net non-recurring items	26	(590)	(41,311)	(14,708)
Profit before income tax expense		**801,942**	**316,498**	**556,409**
Income tax expense	15	(74,824)	(21,555)	(56,458)
Profit for the year		**727,118**	**294,943**	**499,951**
Total profit attributable to:				
– shareholders of the Group		723,806	293,584	497,664
– non-controlling interests		3,312	1,359	2,287
		727,118	**294,943**	**499,951**
Basic earnings per share:	21	15.2240	6.1724	10.4457
Diluted earnings per share:	21	14.8801	6.1707	10.4238

The accompanying Notes on pages 264 to 368 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021 (Thousands of Georgian Lari)

	Notes	2021	2020	2019
Profit for the year		**727,118**	**294,943**	**499,951**
Other comprehensive income (loss)				
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent years:				
– Net change in fair value on investments in debt instruments measured at fair value through other comprehensive income (FVOCI)	8	(39,573)	77,728	(39,277)
– Realised gain on financial assets measured at FVOCI		(30,044)	(3,585)	(5,419)
–Change in allowance for expected credit losses on investments in debt instruments measured at FVOCI reclassified to the consolidated income statement		(1,643)	458	337
– (Loss) gain from currency translation differences		(7,184)	(2,480)	9,875
Income tax impact	15	–	–	–
Net other comprehensive (loss) income to be reclassified to profit or loss in subsequent years		**(78,444)**	**72,121**	**(34,484)**
Other comprehensive loss not to be reclassified to profit or loss in subsequent years:				
– Net loss on investments in equity instruments designated at FVOCI		884	(519)	(54)
Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent years		**884**	**(519)**	**(54)**
Other comprehensive (loss) income for the year, net of tax		**(77,560)**	**71,602**	**(34,538)**
Total comprehensive income for the year		**649,558**	**366,545**	**465,413**
Total comprehensive income attributable to:				
– shareholders of the Group		646,749	364,727	463,244
– non-controlling interests		2,809	1,818	2,169
		649,558	**366,545**	**465,413**

The accompanying Notes on pages 264 to 368 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021 (Thousands of Georgian Lari)

	Attributable to shareholders of the Group								
	Share capital	Additional paid-in capital	Treasury shares	Other reserves	Reserves of disposal group held for sale	Retained earnings	Total	Non-controlling interests	Total equity
31 December 2018	**1,618**	**480,555**	**(51)**	**30,515**	**–**	**1,277,732**	**1,790,369**	**7,904**	**1,798,273**
Profit for the year	–	–	–	–	–	497,664	497,664	2,287	499,951
Other comprehensive income for the year	–	–	–	(37,985)	–	3,565	(34,420)	(118)	(34,538)
Total comprehensive income for the year	**–**	**–**	**–**	**(37,985)**	**–**	**501,229**	**463,244**	**2,169**	**465,413**
Increase in equity arising from share-based payments	–	62,090	12	–	–	–	62,102	–	62,102
Purchase of treasury shares	–	(50,573)	(25)	–	–	–	(50,598)	–	(50,598)
Dividends to shareholders of the Group (Note 19)	–	–	–	–	–	(123,705)	(123,705)	–	(123,705)
Increase in share capital of subsidiaries	–	–	–	(14)	–	–	(14)	14	–
Dividends of subsidiaries to non-controlling shareholders	–	–	–	–	–	–	–	(621)	(621)
Non-controlling interests arising on acquisition	–	–	–	3	–	–	3	41	44
31 December 2019	**1,618**	**492,072**	**(64)**	**(7,481)**	**–**	**1,655,256**	**2,141,401**	**9,507**	**2,150,908**
Profit for the year	–	–	–	–	–	293,584	293,584	1,359	294,943
Other comprehensive income for the year	–	–	–	78,725	–	(7,582)	71,143	459	71,602
Total comprehensive income for the year	**–**	**–**	**–**	**78,725**	**–**	**286,002**	**364,727**	**1,818**	**366,545**
Increase in equity arising from share-based payments	–	53,728	21	–	–	–	53,749	–	53,749
Purchase of treasury shares	–	(19,166)	(11)	–	–	–	(19,177)	–	(19,177)
Dividends to shareholders of the Group (Note 19)	–	–	–	–	–	(2,136)	(2,136)	–	(2,136)
Increase in share capital of subsidiaries	–	–	–	(7)	–	–	(7)	7	–
Non-controlling interests arising on acquisition	–	–	–	(10)	–	–	(10)	36	26
31 December 2020	**1,618**	**526,634**	**(54)**	**71,227**	**–**	**1,939,122**	**2,538,547**	**11,368**	**2,549,915**
Profit for the year	–	–	–	–	–	723,806	723,806	3,312	727,118
Other comprehensive income for the year	–	–	–	(74,430)	–	(2,627)	(77,057)	(503)	(77,560)
Total comprehensive income for the year	**–**	**–**	**–**	**(74,430)**	**–**	**721,179**	**646,749**	**2,809**	**649,558**
Increase in equity arising from share-based payments	–	45,289	18	–	–	–	45,307	–	45,307
Purchase of treasury shares	–	(79,680)	(39)	–	–	–	(79,719)	–	(79,719)
Dividends to shareholders of the Group (Note 19)	–	–	–	–	–	(71,838)	(71,838)	–	(71,838)
Increase in share capital of subsidiaries	–	–	–	(20)	–	–	(20)	20	–
Dividends of subsidiaries to non-controlling shareholders	–	–	–	–	–	–	–	(315)	(315)
31 December 2021	**1,618**	**492,243**	**(75)**	**(3,223)**	**–**	**2,588,463**	**3,079,026**	**13,882**	**3,092,908**

The accompanying Notes on pages 264 to 368 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2021 (Thousands of Georgian Lari)

	Notes	2021	2020	2019
Cash flows from operating activities				
Interest received		1,866,371	1,440,328	1,407,442
Interest paid		(898,342)	(808,336)	(630,661)
Fees and commissions received		380,264	285,867	260,968
Fees and commissions paid		(158,398)	(108,955)	(104,179)
Net cash inflow from real estate		27,677	3,508	5,594
Net realised gain from foreign currencies		134,851	98,392	100,627
Recoveries of loans to customers previously written off	9	81,329	44,472	35,524
Cash received from (paid for) derivatives		(235)	1,601	(11,814)
Other income (expense paid) received		8,651	5,412	(9,122)
Salaries and other employee benefits paid		(235,780)	(185,858)	(186,128)
General and administrative and operating expenses paid		(140,191)	(99,103)	(84,155)
Cash flows from operating activities before changes in operating assets and liabilities		**1,066,197**	**677,328**	**784,096**
Net (increase) decrease in operating assets				
Amounts due from credit institutions		(25,839)	(146,940)	(198,381)
Loans to customers and finance lease receivables		(2,750,486)	(1,269,825)	(2,127,968)
Prepayments and other assets		(25,324)	6,018	(7,893)
Net increase (decrease) in operating liabilities				
Amounts due to credit institutions		1,090,386	(837,711)	820,955
Debt securities issued		91,775	(167,144)	6,519
Client deposits and notes		520,034	2,863,289	1,435,634
Other liabilities		826	(46,587)	18,933
Net cash flows from operating activities before income tax		**(32,431)**	**1,078,428**	**731,895**
Income tax paid		(4,649)	(18,790)	(28,226)
Net cash flows from operating activities		**(37,080)**	**1,059,638**	**703,669**
Cash flows (used in) from investing activities				
Net (purchases) sales of investment securities		(86,789)	(673,284)	184,499
Purchase of investments in associates		–	–	(333)
Proceeds from sale of investment properties and assets held for sale		124,805	75,388	64,665
Proceeds from sale of property and equipment and intangible assets		1,822	760	5,388
Purchase of property and equipment and intangible assets		(97,575)	(108,342)	(125,698)
Dividends received		401	3,299	210
Net cash flows (used in) from investing activities		**(57,345)**	**(702,179)**	**128,731**
Cash flows (used in) from financing activities				
Repurchase of debt securities issued		(28,825)	(120,549)	–
Repayment of the principal portion of the debt securities issued		(46,706)	(440,410)	–
Proceeds from Additional Tier 1 debt securities issued		–	–	268,160
Cash payments for the principal portion of the lease liability		(29,518)	(11,695)	(8,302)
Dividends paid		(71,985)	(2,169)	(124,052)
Purchase of treasury shares		(79,719)	(19,177)	(50,598)
Payments for treasury shares in existing subsidiaries		–	–	(107)
Net cash (used in) from financing activities		**(256,753)**	**(594,000)**	**85,101**
Effect of exchange rates changes on cash and cash equivalents		(99,263)	53,809	20,331
Effect of expected credit losses on cash and cash equivalents		48	63	(7)
Net (decrease) increase in cash and cash equivalents		**(450,393)**	**(182,669)**	**937,825**
Cash and cash equivalents, beginning of the year	6	**1,970,955**	**2,153,624**	**1,215,799**
Cash and cash equivalents, end of the year	6	**1,520,562**	**1,970,955**	**2,153,624**

The accompanying Notes on pages 264 to 368 are an integral part of these financial statements.

Separate Statement of Financial Position

As at 31 December 2021 (Thousands of Georgian Lari)

Bank of Georgia Group PLC has elected exemption not to present the separate income statement in accordance with section 408 of the Companies Act 2006. The Company's individual balance sheet shows the Company's profit and loss for the financial year determined in accordance with this Act.

	Notes	2021	2020	2019
Assets				
Cash and cash equivalents	6	384	199	1,845
Investments in subsidiaries	2	4,981,658	4,981,658	4,981,658
Other assets		104	151	105
Total assets		**4,982,146**	**4,982,008**	**4,983,608**
Liabilities				
Interest-bearing loans and borrowings	18	2,064,708	2,135,330	1,745,954
Other liabilities		46	86	55
Total liabilities		**2,064,754**	**2,135,416**	**1,746,009**
Equity				
Share capital	21	1,618	1,618	1,618
Additional paid-in capital		599,084	599,084	599,084
Retained earnings		2,176,026	2,636,897	2,738,398
Net profit (loss) for the period		140,664	(391,007)	(101,501)
Total equity		**2,917,392**	**2,846,592**	**3,237,599**
Total liabilities and equity		**4,982,146**	**4,982,008**	**4,983,608**

The financial statements on pages 256 to 368 were approved by the Board of Directors on and signed on its behalf by:

27 April 2022

Archil Gachechiladze
Chief Executive Officer
Bank of Georgia Group PLC
Registered No. 10917019

The accompanying Notes on pages 264 to 368 are an integral part of these financial statements.

Separate Statement of Changes in Equity

For the year ended 31 December 2021 (Thousands of Georgian Lari)

	Share capital	Additional paid-in capital	Retained earnings	Total equity
31 December 2018	**1,618**	**599,084**	**2,860,370**	**3,461,072**
Total comprehensive loss	–	–	(101,501)	(101,501)
Dividends to shareholders of the Group (Note 19)	–	–	(121,972)	(121,972)
31 December 2019	**1,618**	**599,084**	**2,636,897**	**3,237,599**
Total comprehensive loss	–	–	(391,007)	(391,007)
31 December 2020	**1,618**	**599,084**	**2,245,890**	**2,846,592**
Total comprehensive income	–	–	140,664	140,664
Dividends to shareholders of the Group (Note 19)	–	–	(69,864)	(69,864)
31 December 2021	**1,618**	**599,084**	**2,316,690**	**2,917,392**

The accompanying Notes on pages 264 to 368 are an integral part of these financial statements.

Separate Statement of Cash Flows

For the year ended 31 December 2021 (Thousands of Georgian Lari)

	Notes	2021	2020	2019
Net cash flows used in operating activities				
Interest income received		156	19	101
Interest paid		–	–	(12)
Fees and commissions paid		(759)	(662)	(758)
Net cash inflow from real estate		–	–	154
Salaries and other employee benefits paid		(3,408)	(2,735)	(2,855)
General and administrative expenses paid		(3,134)	(3,047)	(3,051)
Cash flows used in operating activities before changes in operating assets and liabilities		**(7,145)**	**(6,425)**	**(6,421)**
Net cash flows used in operating activities		**(7,145)**	**(6,425)**	**(6,421)**
Net cash flows from investing activities				
Dividends received		70,185	–	128,531
Net cash flows from investing activities		**70,185**	**–**	**128,531**
Net cash from (used in) financing activities				
Borrowings received		7,128	4,698	–
Dividends paid		(69,864)	–	(121,972)
Net cash flows from (used in) financing activities		**(62,736)**	**4,698**	**(121,972)**
Effect of exchange rates changes on cash and cash equivalents		(119)	81	(41)
Net increase (decrease) in cash and cash equivalents		**185**	**(1,646)**	**97**
Cash and cash equivalents, beginning of the year		**199**	**1,845**	**1,748**
Cash and cash equivalents, end of the year		**384**	**199**	**1,845**

The accompanying Notes on pages 264 to 368 are an integral part of these financial statements.

Notes to Consolidated Financial Statements

(Thousands of Georgian Lari)

1. Principal activities

Bank of Georgia Group PLC ("BOGG") is a public limited liability company incorporated in England and Wales with registered number 10917019. BOGG holds 99.55% of the share capital of JSC Bank of Georgia (the "Bank") as at 31 December 2021, representing the Bank's ultimate parent company. Together with the Bank and other subsidiaries, the Group makes up a group of companies (the "Group") and provides banking, leasing, brokerage and investment management services to corporate and individual customers. The shares of BOGG ("BOGG Shares") are admitted to the premium listing segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange PLC's Main Market for listed securities, effective 21 May 2018. The Bank is the Group's main operating unit and accounts for most of the Group's activities.

JSC Bank of Georgia was established on 21 October 1994 as a joint stock company ("JSC") under the laws of Georgia. The Bank operates under a general banking licence issued by the National Bank of Georgia ("NBG"; the Central Bank of Georgia) on 15 December 1994.

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and internationally, and exchanges currencies. Its main office is in Tbilisi, Georgia. At 31 December 2021, the Bank has 211 operating outlets in all major cities of Georgia (31 December 2020: 211, 31 December 2019: 272). The Bank's registered legal address is 29a Gagarini Street, Tbilisi 0160, Georgia.

On 3 July 2017, BGEO Group PLC ("BGEO"), former ultimate holding company of the Group, announced its intention to demerge BGEO Group PLC into a London-listed banking business (the "Banking Business"), Bank of Georgia Group PLC, and a London-listed investment business (the "Investment Business"), Georgia Capital PLC.

As part of the Demerger, Bank of Georgia Group PLC was incorporated and on 18 May 2018 issued 39,384,712 ordinary shares in exchange for the entire issued capital of BGEO Group PLC and became the parent company of BGEO. On 29 May 2018, the demerger ("Demerger") of the Group's investment business ("Investment Business") to Georgia Capital PLC ("GCAP") become effective. As a result of the Demerger, the Group distributed the investments in the Investment Business with a fair value of GEL 1,441,552 to the shareholders of the Company. In addition, BOGG has issued and allotted a further 9,784,716 BOGG shares (the "Consideration Shares", equivalent to 19.9% of BOGG's issued ordinary share capital) to GCAP in consideration for the transfer to BOGG by GCAP of GCAP's stake in the JSC Bank of Georgia and JSC BG Financial. As set out in the BOGG prospectus dated 26 March 2018, for as long as GCAP's percentage holding in BOGG is greater than 9.9%, GCAP will exercise its voting rights at BOGG general meetings in accordance with the votes cast by all other BOGG shareholders on BOGG votes at general meetings.

BOGG's registered legal address is 84 Brook Street, London, W1K 5EH, England.

As at 31 December 2021, 31 December 2020 and 31 December 2019, the following shareholders owned more than 3% of the total outstanding shares of BOGG. Other shareholders individually owned less than 3% of the outstanding shares.

Shareholder	31 December 2021	31 December 2020	31 December 2019
JSC Georgia Capital**	19.90%	19.90%	19.90%
Fidelity Investments	4.00%	6.15%	0.09%
Harding Loevner LP	4.48%	4.50%	4.78%
Van Eck Associates Corporation	3.46%	3.26%	2.78%
Dimensional Fund Advisors (DFA) LP	3.13%	3.04%	2.90%
JP Morgan Asset Management	1.17%	1.50%	3.52%
Others	63.86%	61.65%	66.03%
Total*	**100.00%**	**100.00%**	**100.00%**

* For the purposes of calculating percentage of shareholding, the denominator includes total number of issued shares, which includes shares held in the trust for the share-based compensation purposes of the Group.

** JSC Georgia Capital will exercise its voting rights at the Group's general meetings in accordance with the votes cast by all other Group Shareholders, as long as JSC Georgia Capital's percentage holding in Bank of Georgia Group PLC is greater than 9.9%.

1. Principal activities continued

As at 31 December 2021, the members of the Board of Directors of BOGG owned 516,116 shares or 1.0% (31 December 2020: 208,146 shares or 0.4%, 31 December 2019: 202,946 shares or 0.4%) of BOGG. Interests of the members of the Board of Directors of BOGG were as follows:

Shareholder	31 December 2021, shares held	31 December 2020, shares held	31 December 2019, shares held
Neil Janin	32,880	32,880	32,880
Archil Gachechiladze	442,234	140,266	140,266
Kaha Kiknavelidze*	N/A	N/A	N/A
Al Breach	30,000	30,000	24,000
Tamaz Georgadze	5,000	5,000	5,000
Hanna Loikkanen	–	–	800
Jonathan Muir	–	–	–
Cecil Quillen	2,900	–	–
Véronique McCarroll	–	–	–
Andreas Wolf**	N/A	N/A	–
Mariam Megvinetukhutsesi	3,102	N/A	N/A
Total	**516,116**	**208,146**	**202,946**

* Stepped down from Board in 2019.
** Stepped down from the Board from 31 January 2020.

2. Basis of preparation

General

In accordance with the exemption permitted under section 408 of the Companies Act 2006, the separate income statement of BOGG is not presented as part of these financial statements. BOGG's income for the year is disclosed within the separate statement of financial position and the separate statement of changes in equity.

The financial statements of Bank of Georgia Group PLC represent continuation of Consolidated Financial Statements of BGEO Group PLC and are prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and prepared in accordance with UK-adopted International Accounting Standards as at 31 December 2021.

These financial statements are prepared under the historical cost convention except for:

- the measurement at fair value of financial assets and investment securities, derivative financial assets and liabilities and investment properties;
- the measurement of inventories at lower of cost and net realisable value; and
- the measurement of non-current assets classified as held for sale at lower of cost and fair value less costs to sell.

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

Going concern

In adopting the going concern basis for preparing the consolidated financial statements, the Directors have considered the Group's business activities, objectives and strategy, principal risks and uncertainties in achieving its objectives, and performance. The Directors have performed a robust assessment of the Group's financial forecasts across a range of scenarios over a 12 months period from the reporting date, by carrying out stress testing, incorporating extreme downside scenario and reverse stress testing, which involved examining the level of disruption that might cause the Group to fail. The assessment specifically incorporated analysis of the COVID-19 pandemic impact implications on the Group's projected performance, liquidity, funding and capital positions. Based on this, the Directors confirm that they have a reasonable expectation that the Company and the Group, as a whole, have adequate resources to continue in operational existence for the 12 months from the date the financial statements are authorised for issue. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern for the foreseeable future. Therefore, the financial statements continue to be prepared on the going concern basis.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

2. Basis of preparation continued

Subsidiaries and associates

The consolidated financial statements as at 31 December 2021, 31 December 2020 and 31 December 2019 include the following subsidiaries and associates:

	Proportion of voting rights and ordinary share capital held							
Subsidiaries	**31 December 2021**	**31 December 2020**	**31 December 2019**	**Country of incorporation**	**Address**	**Industry**	**Date of incorporation**	**Date of acquisition**
BGEO Group Limited	100.00%	100.00%	100.00%	United Kingdom	84 Brook Street, W1K 5EH, London, United Kingdom	Holding Company	14/10/2011	–
JSC BGEO Group	100.00%	100.00%	100.00%	Georgia	29a Gagarini Street, Tbilisi, 0105	Investment	28/5/2015	–
JSC Idea	100.00%	100.00%	100.00%	Georgia	3 Pushkin Street, Tbilisi 0105, Tbilisi, Georgia	Insurance	26/12/2018	–
JSC Bank of Georgia	99.55%	99.55%	99.55%	Georgia	29a Gagarini Street, Tbilisi, 0105	Banking	21/10/1994	–
Bank of Georgia Representative Office UK Limited	100.00%	100.00%	100.00%	United Kingdom	84 Brook Street, London W1K 5EH	Information Sharing and Market Research	17/8/2010	–
Tree of Life Foundation NPO (formerly known as Bank of Georgia Future Foundation, NPO)	100.00%	100.00%	100.00%	Georgia	3 Pushkin Street, Tbilisi 0105	Charitable activities	25/8/2008	–
Bank of Georgia Representative Office Hungary	100.00%	100.00%	100.00%	Hungary	1054 Budapest, Szabadság tér 7; Bank Center	Representative Office	18/6/2012	–
Representative Office of JSC Bank of Georgia in Turkey	100.00%	100.00%	100.00%	Turkey	Süleyman Seba Caddesi No:48 A Blok Daire 82 Akaretler Beşiktaş 34357 Istanbul	Representative Office	25/12/2013	–
Georgia Financial Investments, LLC	100.00%	100.00%	100.00%	Israel	7 Menahem Begin, Ramat Gan 52681, Israel	Information Sharing and Market Research	9/2/2009	–
Teaching University of Georgian Bank, LLC	(a)	(a)	(a)	Georgia	#29 Mitskevichi Street, Tbilisi, 0194	Education	15/10/2013	–
Benderlock Investments Limited	100.00%	100.00%	100.00%	Cyprus	Arch. Makariou III 58, IRIS TOWER, 8th floor, Flat/Office 702 P.C. 1075, Nicosia	Investments	12/5/2009	13/10/2009
JSC Belarusky Narodny Bank*	99.98%	99.98%	99.98%	Belarus	Nezavisimosty Ave. 87A, Minsk, 220012	Banking	16/4/1992	3/6/2008
BNB Leasing, LLC	99.90%	99.90%	99.90%	Belarus	Nezavisimosty Ave. 87A, room 3, Minsk, 220012	Leasing	30/3/2006	3/6/2008
Georgian Leasing Company, LLC	100.00%	100.00%	100.00%	Georgia	3–5 Kazbegi Str., Tbilisi	Leasing	29/10/2001	31/12/2004
Prime Leasing	100.00%	100.00%	100.00%	Georgia	Didube–Chughureti district, №114, Ak. Tsereteli Ave., Tbilisi	Leasing	27/1/2012	21/1/2015
JSC BG Financial	100.00%	100.00%	100.00%	Georgia	79 David Agmashenebeli Ave., 0102, Tbilisi	Investment	7/8/2015	–
JSC Galt & Taggart	100.00%	100.00%	100.00%	Georgia	79 David Agmashenebeli Ave., 0102, Tbilisi	Brokerage and asset management	19/12/1995	28/12/2004

2. Basis of preparation continued
Subsidiaries and associates continued

Subsidiaries	Proportion of voting rights and ordinary share capital held 31 December 2021	31 December 2020	31 December 2019	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
Branch Office of "BG Kapital" JSC in Azerbaijan	100.00%	100.00%	100.00%	Azerbaijan	1C Mikayil Mushvig, Kempinski Hotel Badamdar, 6th floor, Yasamal. AZ1006, Baku	Representative office	28/12/2013	–
Galt and Taggart Holdings Limited	100.00%	100.00%	100.00%	Cyprus	Arch. Makariou III 58, IRIS TOWER, 8th floor, Flat/Office 702 P.C. 1075, Nicosia	Investments	3/7/2006	–
BG Capital (Belarus), LLC	100.00%	100.00%	100.00%	Belarus	5A–3H, K.Chornogo lane, Minsk, 220012	Brokerage	19/2/2008	–
JSC Digital Area (former JSC Polymath Group)	100.00%	100.00%	100.00%	Georgia	79 David Agmashenebeli Ave., 0102, Tbilisi, Georgia	Digital	8/6/2018	–
JSC Extra area	98.68%	97.82%	95.32%	Georgia	79 David Agmashenebeli Ave., 0102, Tbilisi, Georgia	Digital	22/5/2019	–
Easy Box LLC	100.00%	100.00%	–	Georgia	41, Pekini St. Tbilisi, Georgia	Transportation	22/12/2020	–
Solo, LLC	100.00%	100.00%	100.00%	Georgia	79 David Agmashenebeli Ave., 0102, Tbilisi	Trade	22/4/2015	–
JSC United Securities Registrar of Georgia	100.00%	100.00%	100.00%	Georgia	74a Chavchavadze Ave., Tbilisi, 0162	Registrar	29/5/2006	–
JSC Express Technologies	100.00%	100.00%	100.00%	Georgia	1b, Budapest St. Tbilisi, 0160	Investments	29/10/2007	–
JSC Georgian Card	99.41%	99.46%	99.48%	Georgia	221 Nutsubidze Street, Tbilisi, 0168	Card processing	17/1/1997	20/10/2004
Direct Debit Georgia, LLC	100.00%	100.00%	100.00%	Georgia	Luxemburg 25, Tbilisi, 0160	Electronic payment services	7/3/2006	–
LLC Didi Digomi Research Center	100.00%	100.00%	100.00%	Georgia	80–82, D.Agmashenebeli street, Tbilisi, 0102	Communication services	23/4/2007	–
Metro Service +, LLC	100.00%	100.00%	100.00%	Georgia	74a Chavchavadze Ave., Tbilisi, 0162	Business servicing	10/5/2006	–
JSC Agron Group	(b)	(b)	(b)	Georgia	Kazbegi St. 3–5, Tbilisi	Agro Trade	3/11/2014	–
Premium Compliance Advisory, LLC	100.00%	100.00%	100.00%	Georgia	Kazbegi St. 3–5, Tbilisi	Various	17/2/2012	–

Associates	Proportion of voting rights and ordinary share capital held 31 December 2021	31 December 2020	31 December 2019	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
JSC Credit info	21.08%	21.08%	21.08%	Georgia	2 Tarkhnishvili St., Tbilisi, Georgia	Financial intermediation	14/2/2005	14/2/2005
JSC Tbilisi Stock Exchange	24.04%	24.04%	24.04%	Georgia	72 Vazha-Pshavela Avenue, Tbilisi, Georgia	Financial intermediation	8/5/2015	23/12/2016

(a) JSC Bank of Georgia sold its investment in Teaching University Georgian Bank in 2019.
(b) Was liquidated in 2019.

* Following Russia's invasion in Ukraine, the US, UK and EU have introduced sanctions against Russia and Belarus. The Belarus-related sanctions included designating some key banks in Belarus either under sectoral sanctions or under asset freeze and prohibition of transactions. Some Belarusian banks have also been blocked from SWIFT. The scope of sanctions on Belarus is evolving. In line with the Group's zero tolerance policies in respect of the sanctions risk, the Supervisory Board of BNB has instructed the management of BNB to close all relevant relationships with sanctioned entities within applicable international and local laws.

3. Summary of significant accounting policies

Basis of consolidation

The Consolidated Financial Statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2020. The Group consolidates a subsidiary when it controls it. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interests;
- derecognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss;
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair values. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

3. Summary of significant accounting policies continued

Business combinations and goodwill continued

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments: Recognition and Measurement is measured at fair value with changes in fair value recognised either in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed, and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in the consolidated income statement, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Investment in an associate is assessed for impairment at each reporting date and recoverable value is determined if any indicators are identified. Any impairment losses is recorded under Profit (loss) from associate.

Investments in subsidiaries and associates in parent company financial statements

For the purposes of parent company financial statements, investments in subsidiaries and associates are accounted at cost. Investments in subsidiaries and associates are accounted in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations when they are classified as held for sale or distribution. Dividends from a subsidiary or an associate are recognised in the parent company financial statements when the parent's right to receive the dividend is established.

3. Summary of significant accounting policies continued

Fair value measurement

The Group measures financial instruments, such as trading and investment securities, certain loans to customers, derivatives and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 29.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets and liabilities

Classification and measurement for financial assets and liabilities

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- fair value through profit or loss (FVTPL);
- fair value through other comprehensive income (FVOCI) with recycling to profit or loss upon disposal for debt instruments;
- fair value through other comprehensive income (FVOCI) without recycling to profit or loss for equity instruments; or
- amortised cost.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL if they are held for trading.

Embedded derivatives are not separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms.

All derivative instruments are measured at FVTPL.

3. Summary of significant accounting policies continued

Financial assets and liabilities continued

Measurement of financial instruments at initial recognition

When financial instruments are recognised initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Group determines that the fair value at initial recognition differs from the transaction price, then:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Group recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognises that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

Subsequent measurement of financial instruments

Financial instruments measured at amortised cost

The Group measures due from credit institutions, loans to customers and other financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payment of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

Business model

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios per instrument type and is based on the following observable factors:

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).
- How financial assets held within particular business model are evaluated and reported to key management personnel.

There are three business models available under IFRS 9:

- Hold to collect: it is intended to hold the asset to maturity to earn interest, collecting repayments of principal and interest form the counterparty.
- Hold to collect and sell: this model is similar to the hold to collect model, except that the entity may elect to sell some or all of the assets before maturity as circumstances change or to hold the assets for liquidity purposes.
- Other: all those models that do not meet the "hold to collect" or "hold to collect and sell" qualifying criteria.

Solely Payments of Principal and Interest (SPPI)

If a financial asset is held in either to a "hold to collect", or a "hold to collect and sell" business model, then the Group assesses whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding at initial recognition to determine the classification. The SPPI test is performed on an individual instrument basis.

Contractual cash flows that represent solely payments of principal and interest on the principal amount outstanding are consistent with basic lending arrangements. Interest is consideration for the time value of money and the credit risk associated with the principal amount outstanding during a particular period of time. It can also include consideration for other basic lending risks (e.g. liquidity risk) and costs (e.g. administrative costs) associated with holding the financial asset for a particular period of time, and a profit margin that is consistent with a basic lending arrangement.

3. Summary of significant accounting policies continued

Financial assets and liabilities continued

In assessing whether the contractual cash flows are SPPI, the Group considers whether the contractual terms of the financial asset contain a term that could change the timing or amount of contractual cash flows arising over the life of the instrument which could affect whether the instrument is considered to meet the SPPI test.

If the SPPI test is failed, such financial assets are measured at FVTPL with interest earned recognised in other interest income.

Debt instruments at FVOCI

The Group measures debt investment securities at FVOCI when both of the following categories are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows, selling financial assets and holding such financial instruments for liquidity management purposes.
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt investment securities are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Equity instruments at FVOCI – option

Upon initial recognition, the Group may elect to classify irrevocably its equity instruments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument by instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss. Equity instruments at FVOCI are not subject to impairment assessment.

Financial assets at FVTPL

Groups of financial assets for which the business model is other than "hold to collect" and "hold to collect and sell" are measured at FVTPL.

Derivatives recorded at fair value through profit or loss

The Group enters into derivative transactions with various counterparties. These include interest rate swaps, forwards and other similar instruments. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Net changes in the fair value of derivatives are included in net gain/loss from financial instruments measured at FVTPL, excluding gain/loss on foreign exchange derivatives which are presented in net foreign currency gain. From the beginning of 2019, the Group enters into certain cross-currency swap agreements to match its funding costs in certain currencies with the income generated from lending activities in these currencies. As a result, the Group economically hedges the interest rate risk, however no hedge accounting under IFRS 9 is applied. Net changes in the fair value of such derivative financial instruments, which are presented in net foreign currency gain, excludes unwinding of the locked-in interest differential which is presented as part of interest expense to reflect risk management objective of the Group.

Financial guarantees, letters of credit and other financial commitments

The Group enters into the financial guarantee contacts whereby it is required to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due. Financial guarantees, letters of credit and other financial commitments are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised, less cumulative amortisation recognised in the consolidated income statement and an ECL provision.

Non-financial guarantees

The Group enters into non-financial guarantee contracts whereby it is required to compensate to the holder in case another party fails to meet its contractual obligations. Non-financial guarantees are initially recognised in the financial statements at fair value, being the premium received, amortised on a straight-line basis over the life of the contract. Subsequent to initial recognition the Group's liability under non-financial guarantee is measured at the amount that represents the best estimate of the expenditure required to settle the present obligation. The estimate takes into account the probability of another party defaulting on its obligations as well as available collateral under the guarantee contracts and is recognised in the consolidated income statement as part of other expected credit loss and provision for performance guarantees.

3. Summary of significant accounting policies continued

Offsetting
Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents
Cash and cash equivalents consist of cash on hand, amounts due from central banks, excluding obligatory reserves with central banks, and amounts due from credit institutions that mature within 90 days of the date of origination, and are free from contractual encumbrances and readily convertible to known amounts of cash.

Borrowings
Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions and amounts due to customers (including promissory notes issued). These are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost, using the effective interest method. Gains and losses are recognised in the consolidated income statement when the borrowings are derecognised as well as through the amortisation process.

Issued Additional Tier 1 instruments with perpetual maturity and discretionary interest payments are classified as financial liabilities when the instruments are not convertible into equity and the Group does not have the unconditional right to avoid delivering cash upon a predetermined trigger event. Such instruments are measured at amortised cost with respective interest presented as part of interest expense in the consolidated income statement.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated income statement.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Subordinated debt
Subordinated debt represents long-term funds attracted by the Bank on the international financial markets or domestic market. The holders of subordinated debt would be subordinate to all other creditors to receive repayment of debt in case of the Bank's liquidation. Subordinated debt is carried at amortised cost.

Leases (policy applicable as at 1 January 2019)
The Group as a lessee
At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group considers the commencement date of the lease the date on which the lessor makes an underlying asset available for use to the Group. If the lease contract contains several lease components, the Group allocates the consideration in the contact to each lease component on the basis of their relative standalone prices and accounts for them separately.

The Group's main leasing activities include the leases of service centres, ATM spaces and warehouses. A non-cancellable lease period is up to ten years. Lease payments are fixed in most cases. The contacts do not generally carry extension or termination options for the lease term and do not impose any covenants.

Recognition of right-of-use asset and lease liability
The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimated dismantling costs, if any. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term. The Group applies the cost model to right-of-use assets, except for those assets that would meet the definition of investment property, in which case the revaluation model would be applied.

3. Summary of significant accounting policies continued

Leases (policy applicable as at 1 January 2019) continued

The lease liability is initially measured at the present value of the future lease payments excluding payments for VAT, discounted using the Group's incremental borrowing rate (IBR). The lease liability is subsequently measured at amortised cost using the IBR.

Recognition exemptions

The Group applies the recognition exemptions on lease contracts for which the lease term ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Modifications of lease contracts

If the lease contract is modified by either changing the scope of the lease, or the consideration for a lease that was not part of the original terms and conditions of the lease, the Group determines whether the modification results in:

- a separate lease; or
- a change in the accounting for the existing lease.

The Group accounts for a lease modification as a separate lease when both of the following conditions are met:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases commensurate with the standalone price for the increase in scope and any adjustments to that standalone price reflect the circumstances of the particular contract.

For the lease modifications that are not accounted as separate leases, the Group re-measures the lease liability by:

- decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, in which case the Group recognises in profit or loss any gain or loss relating to the partial or full termination of the lease; or
- making a corresponding adjustment to the right-of-use asset for all other lease modifications.

The Group as a lessor

At the inception of the lease, the Group classifies each of its leases as either an operating lease or a finance lease.

Finance lease

Leases that transfer substantially all the risks and benefits incidental to ownership of the lease item to the lessee are classified as finance leases. All other leases are classified as operating leases. The Group recognises finance lease receivables in the consolidated statement of financial position at a value equal to the net investment in the lease, starting from the date of commencement of the lease term. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease. Initial direct costs are included in the initial measurement of the finance lease receivables. Lease payments received are apportioned between the finance income and the reduction of the outstanding lease receivable. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding.

Operating lease

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the consolidated income statement on a straight-line basis over the lease term as net other income. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Impairment of financial assets

Overview of the ECL principles

The Group records an allowance for expected credit loss (ECL) for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts, in this section all referred to as "financial assets". Equity instruments are not subject to impairment under IFRS 9.

The allowance is based on the ECL associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit-impaired, the allowance is based on the change in the lifetime ECL.

3. Summary of significant accounting policies continued

Impairment of financial assets continued

The Group applies the simplified approach for trade, lease and other receivables and contract assets and records lifetime expected losses on them.

In order to calculate ECL, the Group first evaluates individually whether objective evidence of impairment exists for loans that are individually significant. It then collectively assesses loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment available under the individual assessment.

Staged approach to the determination of expected credit losses

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial asset's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Group groups its financial instruments into Stage 1, Stage 2, Stage 3 and POCI, as described below.

- Stage 1: The Group recognises a credit loss allowance at an amount equal to 12-month expected credit losses. This represents the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, assuming that credit risk has not increased significantly after initial recognition. For those financial assets with a remaining maturity of less than 12 months, a probability of default (PD) is used that corresponds to the remaining maturity.
- Stage 2: The Group recognises a credit loss allowance at an amount equal to lifetime expected credit losses (LTECL) for those financial instruments which are considered to have experienced a significant increase in credit risk since initial recognition. This requires the computation of ECL based on lifetime probability of default (LTPD) that represents the probability of default occurring over the remaining lifetime of the financial instrument. Allowance for credit losses are higher in this stage because of an increase in credit risk and the impact of a longer time horizon being considered compared with 12 months in Stage 1. Financial instruments in stage 2 are not yet deemed to be credit-impaired.
- Stage 3: If the financial instrument is credit-impaired, it is then moved to Stage 3. The Group recognises a loss allowance at an amount equal to lifetime expected credit losses, reflecting a PD of 100% for those financial instruments that are credit-impaired.

Financial instruments within the scope of the impairment requirements of IFRS 9 are classified into one of the above three stages. Unless purchased or originated credit-impaired, newly originated assets are classified as Stage 1 and remain in that stage unless there is considered to have been a significant increase in credit risk since initial recognition, at which point the asset is reclassified to Stage 2.

Purchased or originated credit-impaired (POCI) assets are financial instruments that are credit-impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit adjusted EIR (CAEIR). CAEIR takes into account all contractual terms of the financial asset and expected credit losses. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses where ECLs are calculated based on lifetime expected credit loss. Once the financial asset is recognised as POCI, it retains this status until derecognised.

Key judgements and estimates used under IFRS 9 are disclosed in Note 4.

Derecognition of financial assets and liabilities

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

3. Summary of significant accounting policies continued

Derecognition of financial assets and liabilities continued

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Derecognition and modification of financial assets

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of financial assets. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms, based on qualitative and quantitative criteria. The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, except of cases when renegotiation of contractual terms happens due to financial difficulties of the borrower. Once the financial asset is derecognised, the difference is recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to derecognise a financial instrument, the Group considers the following factors:

- Change in currency of the loan.
- Change in interest rate type.
- Introduction of an equity feature.
- Change in counterparty.
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the terms are not substantially different, or the renegotiation is due to the financial difficulties of the borrower, such renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in interest income. The new gross carrying amount is calculated by discounting the modified cash flows at the original effective interest rate.

Forbearance and modified loans

The Group sometimes makes concessions or modifications to the original terms of the loans as a response to the borrower's financial difficulties, rather than taking possession or otherwise enforcing collection of collateral. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. Once the asset has been identified as forborne, the assets are classified in Stage 3. The decision as to how long the asset remains in the forborne category is determined on a case-by-case basis for commercial and SME loans, when a minimum six consecutive payments are required for the rest of the loans to exit from the forbearance category and transfer to Stage 2. Once the loan is transferred to Stage 2, the Group continues to reassess whether there has been a significant increase in credit risk. However, such assets remain in Stage 2 for a minimum 12-month probation period before being transferred to Stage 1.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

3. Summary of significant accounting policies continued

Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification are regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Immediately before the initial classification of the asset as held for sale, the carrying amount of the asset is measured in accordance with applicable IFRSs.

Property and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately from other assets and liabilities in the statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operation;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss. Net cash flows attributable to the operating, investing and financing activities of discontinued operations are presented separately in the consolidated statement of cash flows.

Taxation

The current income tax expense is calculated in accordance with the regulations in force in the respective territories in which BOGG and its subsidiaries operate.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax liabilities are provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Georgia and Belarus also have various operating taxes that are assessed on the Group's activities. These taxes are included as a component of other operating expenses.

3. Summary of significant accounting policies continued

Taxation continued

Uncertain tax positions

The Group reassesses uncertain tax positions at the end of each reporting period. The assessment is based on the interpretation of the tax laws that have been enacted or substantively enacted by the end of reporting period and any known court or other rulings on such issues. Liabilities are recorded for income tax positions that are determined as more likely than not to result in additional tax levied if the positions were to be challenged by the tax authorities. Liabilities for penalties, interest and taxes other than on income are recognised based on the best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Investment properties

Investment property is land or building or a part of a building held to earn rental income or for capital appreciation and which is not used by the Group.

Investment property is initially recognised at cost, including transaction costs, and subsequently re-measured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment property is determined on the basis of various sources including reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category. With regards to certain investment properties with repurchase option granted to previous owners, fair value of the property at the reporting date is capped at repurchase price.

Gains and losses resulting from changes in the fair value of investment property as well as earned rental income are recorded in the income statement within net other income.

If an investment property becomes owner-occupied, it is reclassified to property and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated. If an investment property satisfies asset held for sale criteria, it is reclassified to the assets held for sale category.

If an owner-occupied property becomes an investment property, the difference arising between the carrying amount of owner-occupied property at the date of transfer and the fair value is dealt with as a revaluation under IAS 16.

Property and equipment

Property and equipment is carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of the equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset commences from the date the asset is ready and available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Office buildings and service centres	Up to 100
Furniture and fixtures	3 – 20
Computers and equipment	5 – 10
Motor vehicles	2 – 7

The assets' residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Assets under construction are stated at cost and are not depreciated until the time they are available for use and reclassified to their respective group of property and equipment.

Leasehold improvements are depreciated over the shorter of the life of the related leased asset and the expected lease term.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalisation.

Goodwill impairment

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

3. Summary of significant accounting policies continued

Goodwill impairment continued

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment as defined in IFRS 8 Operating Segments.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses cannot be reversed in future periods.

Intangible assets

The Group's intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The economic lives of intangible assets are assessed to be finite and amortised over four to 15 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programs are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete the asset and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during the development. Other research and software development costs are recognised as an expense as incurred.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Share-based payment transactions

Employees (including senior executives) of the Group receive share-based remuneration, whereby they render services and receive equity instruments of the Group ("equity-settled transactions") as consideration for the services provided.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted.

The cost of equity-settled transactions is recognised together with the corresponding increase in equity as part of additional paid-in capital, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated income statement charge or credit for the period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for the awards that do not ultimately vest except for the awards where vesting is conditional upon market conditions which are treated as vesting irrespective of whether the market condition is satisfied, provided that all other performance conditions are satisfied.

3. Summary of significant accounting policies continued

Share-based payment transactions continued

Where the terms of an equity-settled award are modified, the minimum expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of the modification.

Where a new equity-settled award is designated as a replacement of a cancelled equity-settled award, the replacement of equity instruments are accounted for as a modification.

Where an equity-settled award is cancelled, it is treated as if it has vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as the replacement award on the date that it is granted, the cancelled and the new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Equity

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Treasury shares

Where BOGG or its subsidiaries purchase BOGG's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at par value, with adjustment of premiums against additional paid-in capital.

Dividends

Dividends are recognised as liabilities and deducted from equity at the reporting date only if they are declared before or on the reporting date and do not require further approval. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue. All expenses associated with dividend distribution are added to dividend amount and recorded directly through equity.

Contingencies

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity or a present obligation where an outflow of the economic resources is either not expected to occur or can not be measured reliably.

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed, unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Income and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue and expense are recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest-bearing securities, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts.

The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

3. Summary of significant accounting policies continued

Income and expense recognition continued

For financial instruments in Stage 1 and Stage 2, the Group calculates interest income by applying the effective interest rate (EIR) to the gross carrying amount. Interest income for financial assets in Stage 3 is calculated by applying the EIR to the amortised cost (i.e. the gross carrying amount less credit loss allowance). For financial instruments classified as POCI only, interest income is calculated by applying a credit adjusted EIR to the amortised cost of these POCI assets. As a result of the amendments to International Accounting Standard 1: "Presentation of Financial Statements" (IAS 1) following IFRS 9, the Group presents interest revenue calculated using the EIR method separately in the income statement

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee and commission income is recognised when the Group satisfies a performance obligation. Fee income can be divided into the following categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission incomes and asset management, custody, package services on bundled products and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn-down and other credit-related fees are deferred (together with any incremental costs), and recognised as an adjustment to the effective interest rate on the loan.

Customer loyalty programme

Customer loyalty programme points accumulated in the business are treated as deferred revenue and recognised in revenues gradually as they are earned. The Group recognises gross revenue earned from customer loyalty programmes when the performance obligation is satisfied, i.e. when the customer redeems the points or the points expire, where the Group acts as a principal. Conversely, the Group measures its revenue as the net amount retained on its account representing the difference between the consideration allocated to the award credits and the amount payable to the third party for supplying the awards as soon as the award credits are granted, where the Group acts as an agent. At each reporting date, the Group estimates the portion of accumulated points that is expected to be utilised by customers based on statistical data. These points are treated as a liability in the statement of financial position and are only recognised in revenue when points are earned or expired.

Performance obligations satisfied at a point in time

Fees and commissions earned from providing transaction-type services such as settlement, brokerage, cash and currency conversion operations are recognised when the service has been completed, provided such fees and commissions are not subject to refund or another contingency beyond the control of the Group. Fees from currency conversion operations represent additional commission (other than currency dealing revenue recognised in net foreign currency gain) charged on currency conversion service provided to customers on cards used abroad.

Dividend income

Dividend revenue is recognised when the Group's right to receive the payment is established.

Non-recurring items

The Group separately classifies and discloses those income and expenses that are non-recurring by nature. The Group defines non-recurring income or expense as an income or expense triggered by, or originated from, an economic, business or financial event that is not inherent to the regular and ordinary business course of the Group and is caused by uncertain or unpredictable external factors that cannot be reasonably expected to occur in the future, and thus should not be taken into account when making projections of future results.

Functional and reporting currencies and foreign currency translation

The Consolidated Financial Statements are presented in Georgian Lari, which is the Group's presentation currency. BOGG's and the Bank's functional currency is Georgian Lari. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at functional currency rate of exchange ruling at the reporting date.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

3. Summary of significant accounting policies continued

Functional, reporting currencies and foreign currency translation continued

Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in the income statement.

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing). The official NBG exchange rates at 31 December 2021, 31 December 2020 and 31 December 2019 were:

	Lari to GBP	Lari to USD	Lari to EUR	Lari to BYN
31 December 2021	4.1737	3.0976	3.504	1.2101
31 December 2020	4.4529	3.2766	4.0233	1.2647
31 December 2019	3.7593	2.8677	3.2095	1.3639

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Georgian Lari at the rate of exchange ruling at the reporting date and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in other comprehensive income relating to that particular entity is recognised in the Consolidated Income Statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations, and translated at the rate at the reporting date.

Adoption of new or revised standards and interpretations

Amendments effective from 1 January 2021

Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39 IFRS 7, IFRS 4 and IFRS 16

The UK's Financial Conduct Authority ("FCA") announced on 5 March 2021 that publication of main Libor currency interest rate benchmark settings including EUR LIBOR would cease at the end of 2021, while the publication of the most widely used US Dollar Libor settings will be extended until 30 June 2023. As a result, the Group's transition programme continued its efforts to provide near risk-free rate ("RFR") and alternative rate products and is currently focused on actively transitioning clients away from those contracts that reference IBORs demising at the end of 2021.

In August 2020 the IASB issued Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, (IBOR reform Phase 2) to address the accounting issues which arise upon the replacement of an IBOR with an RFR. The amendments introduce a practical expedient for modifications required by the reform (modifications required as a direct consequence of the IBOR reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current IFRS requirements. The amendments apply for annual periods beginning on or after 1 January 2021. Earlier application is permitted.

The IBOR transition programme is sponsored by the Chief Financial Officer of Bank of Georgia and has senior representation from each division, region and infrastructure functions. The programme has been focused on identifying and quantifying exposures to various interest rate benchmarks, reviewing existing contracts that reference IBORs to make sure contractual fallback language is sufficient to ensure smooth transition. All new contracts are updated for more effective fallback language to facilitate and support later transition. While operational risks could be increased, contractual repapering and rebooking activities will be managed accordingly through bulk transition processes given majority of the loan contracts contain fallback clause. Greater emphasis is placed on engaging with clients who do not have contractual fallback provisions embedded within the loan agreements or are individually significant borrowers. In addition, all major borrowing contracts are updated for fallback clause or the process is in place to facilitate untroubled transition. Bank of Georgia also continues to engage in Banking Association of Georgia-led working groups, which are discussing the mechanisms for an orderly transition of IBOR benchmark rates to chosen replacement rates.

3. Summary of significant accounting policies continued

Adoption of new or revised standards and interpretations continued

Financial instruments impacted by IBOR reform

For benchmarks demising in 2021, the Group transitioned all viable legacy IBOR contracts with effective date commencing from 2022. As a result, all EUR LIBOR were replaced with Euribor on an economically equivalent basis.

As USD Libor continues to exist for most widely used tenors until June 2023, the Group plans to replace USD Libor with SOFR and adjustments spread in legacy loans after June 2023. Meanwhile, new financial instruments issued in 2022 and beyond will be referenced to SOFR instead of Libor.

The below table provides a summary of financial contracts disaggregated by significant interest rate benchmark at the reporting date that are yet to transition to an alternative benchmark rate:

Non-derivative contracts:

	Currency	Balance at 31 December 2021
Financial assets		
Loans to customers and finance lease receivables	USD	3,413,443
	EUR	2,711,457
Financial liabilities		
Amounts owed to credit institutions	USD	989,215
Debt securities issued	USD	172,006

Although the Group has significant exposure to IBORs predominantly in financial instruments, the amendments are not expected to have a material impact on transition on the Group's consolidated financial statements.

COVID-19-Related Rent Concessions beyond 30 June 2021 – Amendments to IFRS 16

In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19-related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective for annual periods beginning on or after 1 April 2021.

The amendment did not have any material effect of the Group's consolidated financial statements.

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IAS 1 Presentation of Financial Statements

In January 2020 and July 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current. They clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. The amendments also clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments will be effective for annual periods beginning on or after January 1, 2023 with early adoption permitted. The Group is assessing the potential effect of the amendment on its consolidated financial statements.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, which sets out the accounting requirements for contractual rights and obligations that arise from insurance contracts issued and reinsurance contracts held. IFRS 17 is effective

3. Summary of significant accounting policies continued

Standards issued but not yet effective continued

from 1 January 2023. The Group is assessing the standard, but does not expect it to have a material effect on its consolidated financial statements.

Narrow-scope amendments

IAS 37 Provisions, Contingent Liabilities and Contingent Assets – In May 2020, the IASB issued amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets to clarify what costs an entity considers in assessing whether a contract is onerous. The amendments specify that the "cost of fulfilling" a contract comprises the "costs that relate directly to the contract". Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The amendments are effective for annual periods beginning on or after 1 January 2022, with early adoption permitted. The amendments will not have a material impact on the Group's consolidated financial statements.

Definition of Accounting Estimates – Amendments to IAS – 8 In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of "accounting estimates". The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Group's consolidated financial statements.

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2 – In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their "significant" accounting policies with a requirement to disclose their "material" accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted.

The amendments are not expected to have a material impact on the Group's consolidated financial statements.

Amendments to IFRS 3, Business combinations update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

Amendments to IAS 16, Property, plant and equipment prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

The Group is assessing the potential effect of the amendment on its consolidated financial statements.

IFRS 9 Financial Instruments – Fees in the "10 per cent" test for derecognition of financial liabilities

As part of its 2018-2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual period in which it will first apply the amendment and does not expect this will result in a material impact on its consolidated financial statements.

4. Significant accounting judgements and estimates

Measurement of fair value of investment properties

The fair value of investment properties is determined by independent, professionally qualified appraisers. Fair value is determined using a combination of the internal capitalisation method (also known as discounted future cash flow method) and the sales comparison method.

The Group performs valuation of its investment properties with a 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. The last valuation was performed in 2020. The results of this valuation are presented in Note 13, while valuation inputs and techniques are presented in Note 28. The Group's properties are spread across the different parts of the country. While the secondary market in Georgia provides adequate market information for fair value measurements for small and medium sized properties, valuation of large properties involves application of various observable and unobservable inputs to determine adjustments to the available comparable sale prices. These estimates and assumptions are based on the best available information, however, actual results could be different.

Allowance for financial assets

IFRS 9 requires management to make a number of judgements, assumptions and estimates based on management's knowledge and historical experience that affect the allowance for ECL. The Group continues to apply number of management overlays to existing methodology to reflect impact of COVID-19 pandemic. A summary of the key judgements made by management is set out below.

Definition of default, credit-impaired and cure (Note 28)

The Group's definition of default is based on quantitative and qualitative criteria. The definition may differ across products. The definition is consistent with the definition used for internal credit risk management purposes and it corresponds with internal financial instrument risk classification rules. A counterparty is classified as defaulted at the latest when payments of interest, principal or fees are overdue for more than 90 days or when bankruptcy, fraud, insolvency proceedings of enforced liquidation have commenced, or there is other evidence that the payment obligations will not be fully met. The determination of whether a financial instrument is credit-impaired focuses on default risk, without taking into consideration the effects of credit risk mitigations such as collateral or guarantees.

An instrument is classified as credit-impaired if the counterparty is defaulted and/or the instrument is POCI. Once the financial asset is classified as credit-impaired (except for POCIs) it remains as such unless all past due amounts have been rectified or there is general evidence of credit recovery. A minimum period of six consecutive months' payment is applied as exit criteria to financial assets restructured due to credit risk other than corporate loan portfolio and debt instruments measured at FVOCI, where exit criteria are determined as exit from bankruptcy or insolvency status, disappearance of liquidity problems or existence of other general evidence of credit recovery assessed on individual basis. For other credit-impaired financial instruments, exit criteria are determined as repayment of the entire overdue amount other than through refinancing or foreclosure.

Once a credit-impaired financial asset meets default exit criteria, it remains in Stage 2 at least for the next 12 consecutive months. In case no default status is assigned during the 12 consecutive months, it is transferred to Stage 1 if its credit risk is not significantly higher than at origination date.

Significant increase in credit risk (SICR)

A significant increase in credit risk is not a defined term per IFRS 9, and is determined by management, based on their experience and judgement. In assessing whether the credit risk has significantly increased, the Group has identified a series of qualitative and quantitative criteria based on undertaking the holistic analysis of various factors including those which are specific to a particular financial instrument or to a borrower as well as those applicable to particular sub-portfolios. These criteria are:

- A significant increase in credit risk, expressed in the relative and/or absolute increase in the risk of default since initial recognition. SICR is determined based on comparison between credit risk ratings (internal or external) as of the origination date and credit risk ratings as of the reporting date for each financial asset individually. Thresholds are determined separately for corporate, retail and SME and other financial instrument portfolios, depending on initial grade assigned at origination.
- Existence of forecast of adverse changes in commercial, financial or economic conditions that adversely affect the creditworthiness of the borrower.

4. Significant accounting judgements and estimates continued

Significant increase in credit risk (SICR) *continued*

- Modification of the contractual terms due to financial problems of the borrower other than default.
- The days past due on individual contract level breached the threshold of 30 days.
- Other qualitative indicators, such as external market indicators of credit risk or general economic conditions, which indicate that the level of risk has been increased significantly since origination.

The above noted SICR indicators are identified at financial instrument level in order to track changes in credit risk since initial recognition date.

Management overlay to SICR

In assessing whether the credit risk of a loan has significantly increased as a result of COVID-19 related payment holiday initiative, the Group continued to apply a series of qualitative and quantitative criteria based on undertaking the holistic analysis of various factors including those which are specific to a particular financial instrument or to a borrower as well as those applicable to particular sub-portfolios. Management continues to believe that such overlays to existing methodology remain relevant given that the time passed since COVID-19 restructurings is not sufficient to adequately capture all risk factors. Details of the overlays are disclosed below.

Retail and Micro portfolio:

Transfer to stage 2 or 3 was made based on analysis of payment-to-income (PTI) ratios or other financial information as available, overdue days, grace period granted and other relevant parameters. If the borrower has made at least three consecutive payments subsequent to the grace period, the loan was not transferred to stage 3 and remained within the same stage unless other stage transfer rules were applicable.

Further, for the borrowers for which the credit risk was considered as significantly increased, Probability of Default (PD) of 100% were assigned in the downside scenario and the ECL was calculated as a weighted average of the scenario results.

Commercial and SME portfolio:

The Group applied individual approach to identify if SICR occurred since loan origination. The loan was transferred to stage 2 only when observable evidence of financial difficulties of the borrower indicated that the level of risk has increased significantly since loan origination.

Measurement of expected credit losses (ECLs)

ECL reflects an unbiased, probability-weighted estimate based on a combination of the following principal factors: probability of default (PD), loss given default (LGD), and exposure at default (EAD), which are further explained below:

PD estimation: The Group estimates PD based on a combination of rating model calibration results and a migration matrices approach which is further adjusted for macroeconomic expectations for a minimum three years onwards for all portfolios, to represent the forward-looking estimators of the PD parameters. The migration matrix is built in a way that reflects the weighted average yearly migration over the historical data period. The risk groups are determined in a way to ensure intra-group homogeneity and differentiation of expected PD levels. For loan portfolios other than corporate loans, PD is further adjusted considering time since financial instrument origination. The models incorporate both qualitative and quantitative information and, where practical, build on information from top rating agencies, Credit Bureau or internal credit rating systems. Since Stage 3 financial instruments are defaulted, the probability of default in this case is equal to 100%.

Exposure at default (EAD): The EAD represents an estimate of the exposure to credit risk at the time of a potential default occurring during the life of a financial asset. It represents the cash flows outstanding at the time of default, considering expected repayments, interest payments and accruals discounted at the EIR. To calculate EAD for a Stage 1 financial instrument, the Group assesses the possible default events within 12 months for the calculation of the 12 months ECL. For Stage 2, Stage 3 and POCI financial instruments, the exposure at default is considered for events over the lifetime of the instruments. The Group determines EAD differently for products with the repayment schedules and those without repayment schedules. For financial instruments with repayment schedules, the Group estimates forward-looking EAD using the contractual cash flow approach with further corrections for expected prepayments and overdue days. For products without the repayment schedules such as credit cards, credit lines and financial guarantees, the Group estimates the forward-looking EAD using the limit utilisation approach. Under the above approach EAD is calculated using the expected utilisation rate based on historical data of actual draw-down amounts.

4. Significant accounting judgements and estimates continued

Measurement of expected credit losses continued

Loss given default (LGD): LGD is defined as the likely loss in case of a counterparty default. It provides an estimation of the exposure that cannot be recovered in a default event and therefore captures the severity of a loss. The determination of the LGD takes into account expected future cash flows from collateral and other credit enhancements, or expected payouts from bankruptcy proceedings for unsecured claims and where applicable time to realisation of collateral and the seniority of claims. The Group segments its financial instruments into homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g. product type, wider range of collateral types). Based on this information, the Group estimates the recovery rate (other than through collateral), cure rate and probability of re-default. Recovery through collateral is further considered in LGD calculations individually for each financial instrument.

Management overlay to LGD

With the purpose to incorporate the uncertainties caused by the COVID-19 pandemic while determination of expected losses, the Group further discounted recovery and cure rates by 20%.

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.

Forward-looking information

Under IFRS 9, the allowance for credit losses is based on reasonable and supportable forward-looking information obtainable without undue cost or effort, which takes into consideration past events, current conditions and forecasts of future economic conditions.

To incorporate forward-looking information into the Group's allowance for credit losses, the Group uses the macroeconomic forecasts provided by the National Bank of Georgia (NBG) for Group companies operating in Georgia, while data used by Belarusky Narodny Bank ("BNB") is provided by a non-governmental research centre operating in Belarus. Macroeconomic variables covered by these forecasts and which the Group incorporated in its ECL assessment model include GDP growth, foreign exchange rate and inflation rate. These forward-looking macroeconomic variables are generally updated on a semi-annual basis for Georgian companies and on a quarterly basis for BNB.

The determination of the probability-weighted ECL requires evaluating a range of diverse and relevant future economic conditions. To accommodate this requirement, the Group uses three different economic scenarios in the ECL calculation: an upside (weight 0.25), a base case (weight 0.50) and a downside (weight 0.25) scenario relevant for each respective portfolio. A weight is calculated for each scenario by using a probabilistic economic model that considers recent information as well as historical data provided by National Bank of Georgia.

The Group considers these forecasts to represent its best estimate of the possible outcomes, based on reliable available information.

Forward-looking variable assumptions

The most significant period end assumptions used for ECL estimate as at 31 December 2021 per geographical segments are set out below. The "base case", "upside" and "downside" scenarios were used for all portfolios.

(Thousands of Georgian Lari)

4. Significant accounting judgements and estimates continued
Forward-looking variable assumptions continued

Georgia

Key drivers	ECL scenario	Assigned weight	As at 31 December 2021			Assigned weight	As at 31 December 2020			Assigned weight	As at 31 December 2019		
			2022	2023	2024		2021	2022	2023		2020	2021	2022
GDP growth in %													
	Upside	25%	6.00%	5.00%	4.50%	25%	-3.00%	6.00%	5.00%	25%	5.50%	6.00%	5.00%
	Base case	50%	5.00%	4.00%	4.50%	50%	-4.00%	4.50%	5.00%	50%	4.50%	5.00%	5.00%
	Downside	25%	2.00%	4.00%	5.00%	25%	-9.00%	2.50%	4.00%	25%	2.50%	3.50%	4.50%
GEL/USD exchange rate													
	Upside	25%	4.00%	2.00%	2.00%	25%	5.00%	5.00%	0.00%	25%	5.00%	5.00%	0.00%
	Base case	50%	0.00%	0.00%	0.00%	50%	0.00%	0.00%	0.00%	50%	0.00%	0.00%	0.00%
	Downside	25%	-10.00%	2.00%	3.00%	25%	-10.00%	-5.00%	5.00%	25%	-10.00%	-5.00%	5.00%
CPI inflation rate in %													
	Upside	25%	5.50%	3.00%	3.00%	25%	5.50%	4.00%	3.00%	25%	4.50%	3.50%	3.00%
	Base case	50%	7.00%	2.50%	3.00%	50%	4.50%	1.50%	2.50%	50%	4.50%	2.50%	3.00%
	Downside	25%	8.00%	4.00%	3.00%	25%	7.00%	2.00%	2.50%	25%	7.00%	5.00%	3.00%

Belarus

Key drivers	ECL scenario	Assigned weight	As at 31 December 2021				Assigned weight	As at 31 December 2020				Assigned weight	As at 31 December 2019			
			2022 Q1	2022 Q2	2022 Q3	2022 Q4		2021 Q1	2021 Q2	2021 Q3	2021 Q4		2020 Q1	2020 Q2	2020 Q3	2020 Q4
GDP growth in %																
	Upside	25%	1.57%	1.38%	3.49%	5.25%	10%	-0.40%	3.30%	1.80%	4.40%	25%	3.44%	2.94%	3.19%	3.65%
	Base case	50%	0.22%	-0.63%	0.77%	1.88%	50%	-1.80%	1.30%	-0.95%	1.20%	50%	1.56%	0.84%	0.96%	1.16%
	Downside	25%	-1.13%	-2.64%	-1.95%	-1.49%	40%	-3.20%	-0.90%	-3.65%	-2.00%	25%	-0.31%	-1.26%	-1.27%	-1.32%
BYN/USD exchange rate %																
	Upside	25%	0.53%	0.21%	0.42%	1.06%	10%	-2.89%	1.95%	0.04%	-1.00%	25%	-5.12%	-5.40%	-4.66%	-3.30%
	Base case	50%	3.84%	2.14%	1.90%	1.87%	50%	1.07%	3.20%	1.12%	0.41%	50%	-0.60%	0.67%	2.69%	2.78%
	Downside	25%	6.79%	3.94%	2.93%	2.51%	40%	5.04%	4.36%	2.10%	1.66%	25%	3.92%	6.69%	10.04%	8.52%
CPI inflation rate in %																
	Upside	25%	1.31%	-0.03%	-0.90%	-0.66%	10%	0.48%	0.73%	0.10%	1.58%	25%	1.49%	0.42%	-0.27%	0.52%
	Base case	50%	3.14%	1.74%	0.74%	1.70%	50%	2.02%	1.20%	0.48%	1.75%	50%	2.06%	0.99%	0.32%	1.63%
	Downside	25%	4.91%	3.40%	2.23%	3.97%	40%	3.56%	1.66%	0.85%	1.90%	25%	2.62%	1.55%	0.88%	2.74%

All other parameters held constant, an increase in GDP growth and decrease in foreign exchange rate and inflation would result in a decrease in ECL, with opposite changes resulting in an ECL increase. GDP growth input has the most significant impact on ECL, followed by foreign exchange rate and inflation. Retail portfolio ECL is less affected by foreign exchange rate inputs due to its larger share of GEL-denominated exposures. However, retail portfolio ECL is affected by inflation, which does not have a significant impact on corporate ECL.

The table below shows the sensitivity of the recognised ECL amounts to the forward-looking assumptions used in the model. For these purposes, 100% weight is assigned to each macroeconomic scenario separately and the respective ECLs are re-calculated.

Sensitivity of ECL to forward-looking assumptions

Key drivers	As at 31 December 2021				
	Reported ECL	Reported ECL coverage	ECL coverage by scenarios		
			Upside	Base case	Downside
Commercial loans	159,215	2.87%	2.82%	2.84%	2.86%
Residential mortgage loans	33,038	0.82%	0.80%	0.81%	0.85%
Micro and SME loans	74,441	1.99%	1.93%	1.96%	2.13%
Consumer loans	136,035	4.56%	4.46%	4.54%	4.70%
Gold – pawn loans	2,075	1.25%	1.25%	1.25%	1.26%

4. Significant accounting judgements and estimates continued

Forward-looking variable assumptions continued

	As at 31 December 2020				
			ECL coverage by scenarios		
Key drivers	Reported ECL	Reported ECL coverage	Upside	Base case	Downside
Commercial loans	178,556	3.49%	3.46%	3.48%	3.53%
Residential mortgage loans	48,609	1.28%	1.05%	1.06%	1.95%
Micro and SME loans	102,352	3.13%	2.79%	2.83%	4.06%
Consumer loans	113,801	5.15%	4.78%	4.82%	6.18%
Gold – pawn loans	228	0.22%	0.21%	0.21%	0.23%

	As at 31 December 2019				
			ECL coverage by scenarios		
Key drivers	Reported ECL	Reported ECL coverage	Upside	Base case	Downside
Commercial loans	98,610	2.40%	2.38%	2.40%	2.43%
Residential mortgage loans	9,017	0.29%	0.29%	0.29%	0.29%
Micro and SME loans	44,545	1.67%	1.63%	1.67%	1.73%
Consumer loans	72,707	3.49%	3.44%	3.47%	3.55%
Gold – pawn loans	254	0.30%	0.30%	0.30%	0.30%

Aggregation of financial instruments for collective assessment

For the purpose of a collective evaluation of impairment, financial instruments are grouped within homogeneous pools as follows: corporate loan portfolio is grouped on the basis of loan repayment source type; and retail loan portfolio is grouped on the basis of credit risk characteristics such as an asset type, collateralisation level, repayment source type and other relevant factors. As for SME and Micro loan portfolios, financial instruments are grouped based on asset type, overdue buckets, collateralisation level and other relevant factors.

Determination of expected life for revolving facilities

For revolving products, the expected life of financial instruments is determined either with reference to the next renewal date or with reference to the behavioural expected life of the financial instrument estimated based on the empirical observation of the lifetime.

Write-offs

The Group writes off financial assets when there is no reasonable expectation of recovery, which is materially unchanged for corporate and unsecured loan portfolios or for loans secured by collateral other than real estate. For mortgages and other loans secured by real estate, the number of overdue days after which the balances are considered to be irrecoverable and are to be written off comprised 1,460 days. If the amount to be written off is greater than the accumulated loan loss allowance, the difference is first treated as an expected credit loss expense. Any subsequent recoveries are credited to expected credit loss expense.

Backtesting of ECL calculation model

In order to monitor the quality and reliability of the Group's ECL calculation model, the Group performs backtesting and benchmarking procedures, whereby model outcomes are compared with actual results, based on internal experience as well as externally observed results. For PD, the Group uses statistical modelling to derive a predicted distribution of the number of defaults. The observed number of defaults is then compared with this distribution, allowing the Group to derive a statistical level of confidence in the model. For LGD, the backtesting compares observed losses with predicted LGDs. If any statistically significant deviations or shortcomings in parameterisations are observed, the relevant models are redefined and recalibrated. Any changes in the model as a result of backtesting procedures are accounted as changes in accounting estimates with prospective application.

Post-model adjustments

Limitations in the Group's impairment model or input data may be identified through the ongoing assessment and validation of the output of the models. If management considers that the impairment models do not sufficiently capture all material risks, appropriate adjustments are made to the ECL. In order to incorporate the changes in economic outlook caused by COVID-19 pandemic into ECL calculated as at the end of the reporting period, post-model adjustments in amount of GEL 32,259 were applied.

(Thousands of Georgian Lari)

4. Significant accounting judgements and estimates continued
Forward-looking variable assumptions continued

	As at 31 December 2021			
	Modelled ECL	Post-model adjustments and management overlays	Total ECL	Adjustments as a % of total ECL
Commercial loans	154,092	5,123	159,215	3.2%
Residential mortgage loans	28,065	4,973	33,038	15.1%
Micro and SME loans	68,636	5,805	74,441	7.8%
Consumer loans	119,743	16,292	136,035	12.0%
Gold – pawn loans	2,009	66	2,075	3.2%
Total	**372,545**	**32,259**	**404,804**	**8.0%**

	As at 31 December 2020			
	Modelled ECL	Post-model adjustments and management overlays	Total ECL	Adjustments as a % of total ECL
Commercial loans	173,946	4,610	178,556	2.6%
Residential mortgage loans	21,810	26,799	48,609	55.1%
Micro and SME loans	75,525	26,827	102,352	26.2%
Consumer loans	86,570	27,231	113,801	23.9%
Gold – pawn loans	174	54	228	23.7%
Total	**358,025**	**85,521**	**443,546**	**19.3%**

5. Segment information

The Group disaggregated revenue from contracts with customers by products and services for each of the segments, as the Group believes it best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

In 2020 the Group allocated holding company operation results to the respective segments, the comparative periods were not restated as the change was not material and the information is still comparable.

For management purposes, the Group is organised into the following operating segments based on products and services as follows:

RB – Retail Banking (excluding Retail Banking of BNB) – principally provides consumer loans, mortgage loans, overdrafts, credit cards and other credit facilities, funds transfers and settlement services, and handling of customers' deposits for both individuals and legal entities. The Retail Banking business targets the emerging retail, mass retail and mass affluent segments, together with small and medium-sized enterprises, and micro businesses.

CIB – Corporate Investment Banking – comprises Corporate Banking and Investment Management operations in Georgia. Corporate Banking principally provides loans and other credit facilities, funds transfers and settlement services, trade finance services, documentary operations support and handles saving and term deposits for corporate and institutional customers. The Investment Management business principally provides private banking services to high-net-worth clients and brokerage services through Galt & Taggart.

BNB – Comprising JSC Belarusky Narodny Bank mainly, principally providing retail and corporate banking services in Belarus.

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured in the same manner as profit or loss in the consolidated income statement.

Transactions between operating segments are on an arm's-length basis in a similar manner to transactions with third parties.

5. Segment information (continued)

The Group's operations are primarily concentrated in Georgia, except for BNB, which operates in Belarus.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's operating income in 2021, 2020 or 2019.

The following table presents the income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2021:

	Retail Banking	Corporate Investment Banking	BNB	Eliminations	Group Total
Net interest income	582,531	331,706	39,676	28	953,941
Net fee and commission income	178,928	47,869	5,476	158	232,431
Net foreign currency gain	58,139	37,619	13,341	–	109,099
Net other income	25,869	43,979	1,242	(884)	70,206
Operating income	**845,467**	**461,173**	**59,735**	**(698)**	**1,365,677**
Operating expenses	(389,915)	(79,060)	(39,675)	698	(507,952)
Profit from associates	(3,781)	–	–	–	(3,781)
Operating income before cost of risk	**451,771**	**382,113**	**20,060**	**–**	**853,944**
Cost of risk	(72,351)	22,662	(1,723)	–	(51,412)
Net operating income before non-recurring items	**379,420**	**404,775**	**18,337**	**–**	**802,532**
Net non-recurring expense/loss	20	(78)	(532)	–	(590)
Profit before income tax	**379,440**	**404,697**	**17,805**	**–**	**801,942**
Income tax expense	(32,956)	(38,473)	(3,395)	–	(74,824)
Profit for the year	**346,484**	**366,224**	**14,410**	**–**	**727,118**
Assets and liabilities					
Total assets	14,865,640	7,683,923	980,920	(100,407)	23,430,076
Total liabilities	13,017,394	6,573,918	846,263	(100,407)	20,337,168
Other segment information					
Property and equipment	48,095	3,103	2,031	–	53,229
Intangible assets	37,144	2,921	4,992	–	45,057
Capital expenditure	**85,239**	**6,024**	**7,023**	**–**	**98,286**
Depreciation, amortisation and impairment	(80,127)	(8,551)	(4,940)	–	(93,618)

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

5. Segment information (continued)

The following table presents the income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2020:

	Retail Banking	Corporate Investment Banking	BNB	Eliminations	Group Total
Net interest income	497,155	244,224	36,249	14	777,642
Net fee and commission income	121,973	37,597	5,678	255	165,503
Net foreign currency gain	59,677	33,161	6,202	–	99,040
Net other income	24,755	22,567	1,812	(660)	48,474
Operating income	**703,560**	**337,549**	**49,941**	**(391)**	**1,090,659**
Operating expenses	(331,029)	(69,047)	(32,950)	391	(432,635)
Profit from associates	782	–	–	–	782
Operating income before cost of risk	**373,313**	**268,502**	**16,991**	**–**	**658,806**
Cost of risk	(183,160)	(113,856)	(3,981)	–	(300,997)
Net operating income before non-recurring items	**190,153**	**154,646**	**13,010**	**–**	**357,809**
Net non-recurring expense/loss	(39,898)	(1,288)	(125)	–	(41,311)
Profit before income tax	**150,255**	**153,358**	**12,885**	**–**	**316,498**
Income tax expense	(6,137)	(12,684)	(2,734)	–	(21,555)
Profit for the year	**144,118**	**140,674**	**10,151**	**–**	**294,943**
Assets and liabilities					
Total assets	13,447,451	7,635,107	1,018,652	(65,290)	22,035,920
Total liabilities	12,002,660	6,662,538	886,097	(65,290)	19,486,005
Other segment information					
Property and equipment	66,707	4,300	616	–	71,623
Intangible assets	36,453	2,681	2,291	–	41,425
Capital expenditure	**103,160**	**6,981**	**2,907**	**–**	**113,048**
Depreciation, amortisation and impairment	(70,151)	(8,539)	(4,247)	–	(82,937)

5. Segment information (continued)

The following table presents the income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2019:

	Retail Banking	Corporate Investment Banking	BNB	Eliminations	Group Total
Net interest income	570,735	189,882	28,779	23	789,419
Net fee and commission income	137,876	34,862	7,169	107	180,014
Net foreign currency gain (loss)	55,715	42,915	20,733	–	119,363
Net other income	8,225	13,556	463	(770)	21,474
Operating income	**772,551**	**281,215**	**57,144**	**(640)**	**1,110,270**
Operating expenses	(309,660)	(87,792)	(35,640)	734	(432,358)
Profit from associates	789	–	–	–	789
Operating income (expense) before cost of risk	**463,680**	**193,423**	**21,504**	**94**	**678,701**
Cost of risk	(89,878)	(15,015)	(2,691)	–	(107,584)
Net operating income (loss) before non-recurring items	**373,802**	**178,408**	**18,813**	**94**	**571,117**
Net non-recurring expense/loss	(3,866)	(10,732)	(110)	–	(14,708)
Profit (loss) before income tax	**369,936**	**167,676**	**18,703**	**94**	**556,409**
Income tax expense	(35,878)	(17,176)	(3,404)	–	(56,458)
Profit (loss) for the year	**334,058**	**150,500**	**15,299**	**94**	**499,951**
Assets and liabilities					
Total assets	11,394,752	6,270,702	947,909	(43,866)	18,569,497
Total liabilities	10,164,015	5,475,767	822,673	(43,866)	16,418,589
Other segment information					
Property and equipment	84,849	7,035	1,150	–	93,034
Intangible assets	34,153	2,458	2,083	–	38,694
Capital expenditure	**119,002**	**9,493**	**3,233**	**–**	**131,728**
Depreciation, amortisation and impairment	(66,886)	(7,689)	(3,543)	–	(78,118)

6. Cash and cash equivalents

	2021	2020	2019
Cash on hand	751,063	703,459	663,580
Current accounts with central banks, excluding obligatory reserves	126,627	158,588	405,560
Current accounts with credit institutions	414,214	590,331	463,498
Time deposits with credit institutions with maturities of up to 90 days	228,683	518,648	621,120
Cash and cash equivalents, gross	**1,520,587**	**1,971,026**	**2,153,758**
Less – Allowance for expected credit loss	(25)	(71)	(134)
Cash and cash equivalents, net	**1,520,562**	**1,970,955**	**2,153,624**

As at 31 December 2021, GEL 419,324 (2020: GEL 985,848, 2019: GEL 845,606) was placed on current and time deposit accounts with internationally recognised OECD banks and central banks that are the counterparties of the Group in performing international settlements. The Group earned up to 0.07% interest per annum on these deposits (2020: up to 0.21%, 2019: up to 2.20%). Management does not expect any losses from non-performance by the counterparties holding cash and cash equivalents, and there are no material differences between their book and fair values.

As at 31 December 2021, cash and cash equivalents held by BOGG of GEL 384 (2020: GEL 199, 2019: GEL 1,845) is represented by placements on current accounts with Georgian and the Organisation for Economic Co-operation and Development ("OECD") banks.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

7. Amounts due from credit institutions

	2021	2020	2019
Obligatory reserves with central banks	1,898,052	1,994,662	1,577,911
Time deposits with maturities of more than 90 days	28,939	8,424	5,404
Deposits pledged as security for open commitments	4,730	1,856	5,691
Inter-bank loan receivables	–	11,463	30,413
Amounts due from credit institutions, gross	**1,931,721**	**2,016,405**	**1,619,419**
Less – Allowance for expected credit loss	(331)	(400)	(347)
Amounts due from credit institutions, net	**1,931,390**	**2,016,005**	**1,619,072**

Obligatory reserves with central banks represent amounts deposited with the NBG and National Bank of the Republic of Belarus (the "NBRB"). Credit institutions are required to maintain cash deposits (obligatory reserve) with the NBG and with the NBRB, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw these deposits is restricted by regulation. The Group earned up to 0.00% interest on obligatory reserves with NBG and NBRB for the years ended 31 December 2021 (2020: 1.25%, 2019: 1.25%).

As at 31 December 2021, inter-bank loan receivables include GEL Nil deposits placed with non-OECD banks (2020: nil, 2019: GEL Nil).

As at 31 December 2021, amounts due from credit institutions of JSC Belarus National Bank comprised GEL 8,719, (31 December 2020: GEL 20,042, 31 December 2019: GEL 12,744).

8. Investment securities

	2021	2020	2019
Investment securities measured at FVOCI – debt instruments	2,586,083	2,539,019	1,783,437
Investment securities designated as at FVOCI – equity investments	9,581	5,378	3,367
Investment securities	**2,595,664**	**2,544,397**	**1,786,804**

	2021	2020	2019
Ministry of Finance of Georgia treasury bonds*	1,312,001	1,344,404	647,886
Ministry of Finance of Georgia treasury bills**	82,196	36,879	120,519
Foreign treasury bonds	79,156	159,537	66,961
Certificates of deposit of central banks	39,410	–	8,912
Other debt instruments***	1,073,320	998,199	939,159
Investment securities measured at FVOCI – debt instruments	**2,586,083**	**2,539,019**	**1,783,437**

* Treasury bonds of GEL 490,592 was pledged for short-term loans from the NBG (2020: GEL 1,044,066, 2019: GEL 576,017), GEL 220,480 was pledged for deposits of Ministry of Finance of Georgia (2020: Nil, 2019: Nil), and GEL 14,720 was pledged as security for cash kept by the NBG at the Group's premises under cash custodian services (2020: GEL 8,188, 2019: Nil).

** No treasury bills were pledged for short-term loans from the NBG (2020: GEL Nil, 2019: Nil), and GEL Nil was pledged as security for cash kept by the NBG at the Group's premises under cash custodian services (2020: GEL 74,564, 2019: Nil).

*** Corporate bonds of GEL Nil was pledged for short-term loans from the NBG (2020: GEL 685,901, 2019: GEL 684,546), and GEL 109,109 was pledged for deposits of Ministry of Finance of Georgia (2020: Nil, 2019: Nil).

Other debt instruments as at 31 December 2021 mainly comprise bonds issued by the European Bank for Reconstruction and Development of GEL 521,394 (2020: GEL 312,144, 2019: GEL 309,351), GEL-denominated bonds issued by International Finance Corporation of GEL 203,351 (2020: GEL 211,250, 2019: GEL 208,948), GEL-denominated bonds issued by The Netherlands Development Finance Company of GEL 163,593 (2020: GEL 162,949, 2019: GEL 156,494), GEL-denominated bonds issued by Black Sea Trade and Development Bank of GEL 65,407 (2020: GEL 151,592, 2019: GEL 150,865), and GEL-denominated bonds issued by Asian Development Bank of GEL 61,609 (2020: GEL 61,350, 2019: GEL 58,863).

Foreign treasury bonds comprise of US Treasury Notes in amount of GEL Nil (2020: GEL 52,992, 2019: Nil), Ministry of Finance of the Republic of Lithuania treasury bonds in amount of GEL 15,992 (2020: GEL 26,982, 2019: Nil) and Ministry of Finance of the Republic of Belarus treasury bonds in amount of GEL 63,164 (2020: GEL 79,563, 2019: GEL 66,961).

For the period ended 31 December 2021 net gains on derecognition of investment securities comprised GEL 30,044 (2020: GEL 3,585, 2019: GEL 5,419) which is included in net other income.

As at 31 December 2021, allowance for expected credit loss on investment securities comprised GEL 3,145 (2020: GEL 4,875, 2019: GEL 5,269).

9. Loans to customers and finance lease receivables

	2021	2020	2019
Commercial loans	5,554,184	5,123,393	4,101,950
Residential mortgage loans	4,022,058	3,796,384	3,066,683
Micro and SME loans	3,731,756	3,269,454	2,660,220
Consumer loans	2,981,305	2,208,013	2,085,108
Gold – pawn loans	165,417	103,384	85,540
Loans to customers at amortised cost, gross	**16,454,720**	**14,500,628**	**11,999,501**
Less – Allowance for expected credit loss	(404,804)	(443,546)	(225,133)
Loans to customers at amortised cost, net	**16,049,916**	**14,057,082**	**11,774,368**
Finance lease receivables, gross	**124,952**	**139,372**	**159,191**
Less – Allowance for expected credit loss	(5,895)	(4,376)	(2,297)
Finance lease receivables, net	**119,057**	**134,996**	**156,894**
Total loans to customers and finance lease receivables	**16,168,973**	**14,192,078**	**11,931,262**

As at 31 December 2021, loans to customers carried at GEL 1,125,955 (2020: GEL 692,052, 2019: GEL 577,246) were pledged for short-term loans from the NBG.

Expected credit loss

Movements of the gross loans and respective allowance for expected credit loss/impairment of loans to customers by class are provided in the table below, within which the new financial asset originated or purchased and the assets repaid during the year include the effects from revolving loans and increase of exposure to clients, where existing loans have been repaid with new contracts issued during the year. All new financial assets are originated either in Stage 1 or POCI category. Utilisation of additional tranches on existing financial assets are reflected in Stage 2 or Stage 3 if the credit risk of the borrower has deteriorated since initiation. Currency translation differences relate to loans issued by the subsidiaries of the Group whose functional currency is different from the presentation currency of the Group, while foreign exchange movement relates to foreign currency denominated loans issued by the Group. Net other changes in gross loan balances includes the effects of changes in accrued interest. Net other measurement of ECL includes the effect of changes in ECL due to post-model adjustments, changes in PDs and other inputs, as well as the effect from ECL attributable to changes in accrued interest.

In 2020 there were significant transfers of loans to Stage 2 and 3 as compared to 2021 and 2019. This was basically driven by the COVID-19 effect on the creditworthiness of borrowers in all sectors and the related ECL model overlays to identify SICR and default cases. For details on the model overlays see Note 4.

Commercial loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	**4,491,078**	**382,118**	**241,821**	**8,376**	**5,123,393**
New financial asset originated or purchased	4,357,093	34,815	3,202	10,032	4,405,142
Transfer to Stage 1	231,287	(229,399)	(1,888)	–	–
Transfer to Stage 2	(373,532)	394,553	(21,021)	–	–
Transfer to Stage 3	(13,813)	(52,529)	66,342	–	–
Assets derecognised due to pass-through arrangement	(28,338)	(2,048)	(124)	–	(30,510)
Assets repaid	(3,479,338)	(159,200)	(102,689)	(144)	(3,741,371)
Resegmentation	109,367	35,325	2,164	–	146,856
Impact of modifications	686	258	152	(22)	1,074
Write-offs	–	–	(4,574)	–	(4,574)
Recoveries of amounts previously written off	–	–	47,192	69	47,261
Unwind of discount	–	–	2,959	4	2,963
Currency translation differences	(12,742)	(358)	(866)	–	(13,966)
Foreign exchange movement	(361,065)	(27,796)	(9,555)	(380)	(398,796)
Net other changes	13,629	(806)	3,810	79	16,712
Balance at 31 December 2021	**4,934,312**	**374,933**	**226,925**	**18,014**	**5,554,184**
Individually assessed	–	–	203,431	9,566	212,997
Collectively assessed	4,934,312	374,933	23,494	8,448	5,341,187
Balance at 31 December 2021	**4,934,312**	**374,933**	**226,925**	**18,014**	**5,554,184**

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Commercial loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	**33,823**	**8,157**	**136,572**	**4**	**178,556**
New financial asset originated or purchased	20,591	1,973	312	3,481	26,357
Transfer to Stage 1	2,934	(2,932)	(2)	–	–
Transfer to Stage 2	(2,904)	11,116	(8,212)	–	–
Transfer to Stage 3	(1,769)	(374)	2,143	–	–
Impact on ECL of exposures transferred between stages during the year	(1,373)	(6,710)	10,153	–	2,070
Assets derecognised due to pass-through arrangement	(138)	(74)	(70)	–	(282)
Assets repaid	(9,412)	(3,694)	(67,366)	(80)	(80,552)
Resegmentation	192	298	–	–	490
Impact of modifications	11	(2)	12	(14)	7
Write-offs	–	–	(4,574)	–	(4,574)
Recoveries of amounts previously written off	–	–	47,192	69	47,261
Unwind of discount	–	–	2,959	4	2,963
Currency translation differences	(132)	(76)	(382)	–	(590)
Foreign exchange movement	(942)	(141)	(5,254)	10	(6,327)
Net other measurement of ECL	(26,543)	(648)	21,578	(551)	(6,164)
Balance at 31 December 2021	**14,338**	**6,893**	**135,061**	**2,923**	**159,215**
Individually assessed	–	–	126,724	2,837	129,561
Collectively assessed	14,338	6,893	8,337	86	29,654
Balance at 31 December 2021	**14,338**	**6,893**	**135,061**	**2,923**	**159,215**

Residential mortgage loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	**3,287,844**	**314,215**	**168,476**	**25,849**	**3,796,384**
New financial asset originated or purchased	1,549,472	238	103	13,615	1,563,428
Transfer to Stage 1	428,840	(407,795)	(21,045)	–	–
Transfer to Stage 2	(344,981)	588,640	(243,659)	–	–
Transfer to Stage 3	(158,425)	(129,954)	288,379	–	–
Assets repaid	(975,730)	(94,131)	(73,544)	(9,287)	(1,152,692)
Resegmentation	5,514	970	–	–	6,484
Impact of modifications	988	670	143	(283)	1,518
Write-offs	–	–	(5,750)	(561)	(6,311)
Recoveries of amounts previously written off	–	–	993	205	1,198
Unwind of discount	–	–	244	17	261
Currency translation differences	(1,910)	(45)	2	(2)	(1,955)
Foreign exchange movement	(155,793)	(11,366)	(9,238)	(1,648)	(178,045)
Net other changes	(6,450)	(1,472)	(590)	300	(8,212)
Balance at 31 December 2021	**3,629,369**	**259,970**	**104,514**	**28,205**	**4,022,058**
Individually assessed	–	–	277	–	277
Collectively assessed	3,629,369	259,970	104,237	28,205	4,021,781
Balance at 31 December 2021	**3,629,369**	**259,970**	**104,514**	**28,205**	**4,022,058**

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Residential mortgage loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	**8,652**	**11,410**	**25,236**	**3,311**	**48,609**
New financial asset originated or purchased	29,065	3	4	887	29,959
Transfer to Stage 1	15,750	(12,962)	(2,788)	–	–
Transfer to Stage 2	(5,679)	46,641	(40,962)	–	–
Transfer to Stage 3	(18,908)	(5,725)	24,633	–	–
Impact on ECL of exposures transferred between stages during the year	(5,562)	(37,935)	22,414	–	(21,083)
Assets repaid	(2,621)	(2,674)	(12,902)	(1,763)	(19,960)
Resegmentation	21	1	–	–	22
Impact of modifications	–	–	438	(198)	240
Write-offs	–	–	(5,750)	(561)	(6,311)
Recoveries of amounts previously written off	–	–	993	205	1,198
Unwind of discount	–	–	244	17	261
Foreign exchange movement	(470)	101	(1,732)	(409)	(2,510)
Net other measurement of ECL	(10,545)	4,943	7,211	1,004	2,613
Balance at 31 December 2021	**9,703**	**3,803**	**17,039**	**2,493**	**33,038**
Individually assessed	–	–	7	–	7
Collectively assessed	9,703	3,803	17,032	2,493	33,031
Balance at 31 December 2021	**9,703**	**3,803**	**17,039**	**2,493**	**33,038**

Micro and SME loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	**2,649,107**	**439,405**	**177,471**	**3,471**	**3,269,454**
New financial asset originated or purchased	3,303,744	17,798	1,152	7,599	3,330,293
Transfer to Stage 1	384,411	(377,752)	(6,659)	–	–
Transfer to Stage 2	(571,845)	678,669	(106,824)	–	–
Transfer to Stage 3	(108,524)	(112,029)	220,553	–	–
Assets repaid	(1,987,068)	(282,948)	(96,106)	(4,718)	(2,370,840)
Resegmentation	(247,911)	(40,492)	(2,790)	(5)	(291,198)
Impact of modifications	319	210	(4,384)	(11)	(3,866)
Write-offs	–	–	(40,195)	(214)	(40,409)
Recoveries of amounts previously written off	–	–	12,628	686	13,314
Unwind of discount	–	–	265	23	288
Currency translation differences	(5,494)	(473)	(386)	2	(6,351)
Foreign exchange movement	(180,781)	(27,138)	(9,910)	(271)	(218,100)
Net other changes	44,191	(1,777)	6,684	73	49,171
Balance at 31 December 2021	**3,280,149**	**293,473**	**151,499**	**6,635**	**3,731,756**
Individually assessed	–	–	23,466	–	23,466
Collectively assessed	3,280,149	293,473	128,033	6,635	3,708,290
Balance at 31 December 2021	**3,280,149**	**293,473**	**151,499**	**6,635**	**3,731,756**

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Micro and SME loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	**26,157**	**20,571**	**55,560**	**64**	**102,352**
New financial asset originated or purchased	58,476	804	92	81	59,453
Transfer to Stage 1	20,352	(18,841)	(1,511)	–	–
Transfer to Stage 2	(14,284)	35,909	(21,625)	–	–
Transfer to Stage 3	(13,914)	(7,459)	21,373	–	–
Impact on ECL of exposures transferred between stages during the year	(4,218)	(18,652)	27,259	–	4,389
Assets repaid	(16,879)	(7,632)	(26,573)	(968)	(52,052)
Resegmentation	(1,280)	(476)	(182)	–	(1,938)
Impact of modifications	2	(7)	(2,180)	1	(2,184)
Write-offs	–	–	(40,195)	(214)	(40,409)
Recoveries of amounts previously written off	–	–	12,628	686	13,314
Unwind of discount	–	–	265	23	288
Currency translation differences	(62)	(34)	(268)	–	(364)
Foreign exchange movement	(1,020)	(184)	(2,826)	(79)	(4,109)
Net other measurement of ECL	(25,153)	2,557	17,767	530	(4,299)
Balance at 31 December 2021	**28,177**	**6,556**	**39,584**	**124**	**74,441**
Individually assessed	–	–	10,613	–	10,613
Collectively assessed	28,177	6,556	28,971	124	63,828
Balance at 31 December 2021	**28,177**	**6,556**	**39,584**	**124**	**74,441**

Consumer loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	**1,904,182**	**194,366**	**100,950**	**8,515**	**2,208,013**
New financial asset originated or purchased	2,747,021	7,001	1,718	19,540	2,775,280
Transfer to Stage 1	270,620	(253,910)	(16,710)	–	–
Transfer to Stage 2	(367,600)	489,718	(122,118)	–	–
Transfer to Stage 3	(134,641)	(123,558)	258,199	–	–
Assets repaid	(1,849,334)	(100,322)	(65,394)	(4,297)	(2,019,347)
Resegmentation	110,449	3,487	706	5	114,647
Impact of modifications	246	82	(9,482)	(46)	(9,200)
Write-offs	–	–	(72,832)	(415)	(73,247)
Recoveries of amounts previously written off	–	–	19,405	148	19,553
Unwind of discount	–	–	397	345	742
Currency translation differences	(6,094)	(33)	(68)	–	(6,195)
Foreign exchange movement	(51,792)	(1,590)	(688)	(223)	(54,293)
Net other changes	12,381	(215)	13,559	(373)	25,352
Balance at 31 December 2021	**2,635,438**	**215,026**	**107,642**	**23,199**	**2,981,305**
Individually assessed	–	–	1,481	–	1,481
Collectively assessed	2,635,438	215,026	106,161	23,199	2,979,824
Balance at 31 December 2021	**2,635,438**	**215,026**	**107,642**	**23,199**	**2,981,305**

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Consumer loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	**40,597**	**25,533**	**46,641**	**1,030**	**113,801**
New financial asset originated or purchased	153,477	1,570	546	251	155,844
Transfer to Stage 1	33,951	(26,256)	(7,695)	–	–
Transfer to Stage 2	(26,684)	75,148	(48,464)	–	–
Transfer to Stage 3	(57,627)	(20,176)	77,803	–	–
Impact on ECL of exposures transferred between stages during the year	(12,239)	(40,279)	53,664	–	1,146
Assets repaid	(47,437)	(11,239)	(36,001)	(1,449)	(96,126)
Resegmentation	548	83	182	–	813
Impact of modifications	(2)	(1)	(5,036)	5	(5,034)
Write-offs	–	–	(72,832)	(415)	(73,247)
Recoveries of amounts previously written off	–	–	19,405	148	19,553
Unwind of discount	–	–	397	345	742
Currency translation differences	(10)	(3)	(15)	–	(28)
Foreign exchange movement	(153)	(37)	(643)	(29)	(862)
Net other measurement of ECL	(27,338)	15,067	30,779	925	19,433
Balance at 31 December 2021	**57,083**	**19,410**	**58,731**	**811**	**136,035**
Individually assessed	–	–	585	–	585
Collectively assessed	57,083	19,410	58,146	811	135,450
Balance at 31 December 2021	**57,083**	**19,410**	**58,731**	**811**	**136,035**

Gold – pawn loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	**97,775**	**3,879**	**1,730**	**–**	**103,384**
New financial asset originated or purchased	170,198	1,117	219	–	171,534
Transfer to Stage 1	10,556	(10,148)	(408)	–	–
Transfer to Stage 2	(21,129)	23,266	(2,137)	–	–
Transfer to Stage 3	(3,856)	(2,531)	6,387	–	–
Assets repaid	(123,964)	(6,222)	(3,071)	–	(133,257)
Resegmentation	22,581	710	(80)	–	23,211
Write-offs	–	–	(253)	–	(253)
Recoveries of amounts previously written off	–	–	3	–	3
Unwind of discount	–	–	(1)	–	(1)
Foreign exchange movement	(18)	(6)	(3)	–	(27)
Net other changes	644	51	128	–	823
Balance at 31 December 2021	**152,787**	**10,116**	**2,514**	**–**	**165,417**
Collectively assessed	152,787	10,116	2,514	–	165,417
Balance at 31 December 2021	**152,787**	**10,116**	**2,514**	**–**	**165,417**

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(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Gold – pawn loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	**40**	**16**	**172**	**–**	**228**
New financial asset originated or purchased	497	138	–	–	635
Transfer to Stage 1	34	(10)	(24)	–	–
Transfer to Stage 2	–	85	(85)	–	–
Transfer to Stage 3	(2)	(4)	6	–	–
Impact on ECL of exposures transferred between stages during the year	(24)	–	–	–	(24)
Assets repaid	(177)	(27)	(24)	–	(228)
Resegmentation	519	94	–	–	613
Write-offs	–	–	(253)	–	(253)
Recoveries of amounts previously written off	–	–	3	–	3
Unwind of discount	–	–	(1)	–	(1)
Net other measurement of ECL	936	(281)	447	–	1,102
Balance at 31 December 2021	**1,823**	**11**	**241**	**–**	**2,075**
Collectively assessed	1,823	11	241	–	2,075
Balance at 31 December 2021	**1,823**	**11**	**241**	**–**	**2,075**

Commercial loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**3,583,051**	**349,494**	**161,744**	**7,661**	**4,101,950**
New financial asset originated or purchased	3,223,279	45,618	2,156	–	3,271,053
Transfer to Stage 1	370,266	(370,266)	–	–	–
Transfer to Stage 2	(578,928)	626,550	(47,622)	–	–
Transfer to Stage 3	(58,408)	(79,014)	137,422	–	–
Assets derecognised due to pass-through arrangement	(30,363)	(10,340)	(52)	–	(40,755)
Assets repaid	(2,637,752)	(218,169)	(61,392)	(575)	(2,917,888)
Resegmentation	21,133	–	–	–	21,133
Impact of modifications	(809)	94	(4)	(7)	(726)
Write-offs	–	–	(6,595)	–	(6,595)
Recoveries of amounts previously written off	–	–	13,531	127	13,658
Unwind of discount	–	–	9,691	6	9,697
Currency translation differences	(19,819)	(471)	(1,455)	–	(21,745)
Foreign exchange movement	634,072	37,831	31,097	928	703,928
Net other changes	(14,644)	791	3,300	236	(10,317)
Balance at 31 December 2020	**4,491,078**	**382,118**	**241,821**	**8,376**	**5,123,393**
Individually assessed	–	–	237,593	–	237,593
Collectively assessed	4,491,078	382,118	4,228	8,376	4,885,800
Balance at 31 December 2020	**4,491,078**	**382,118**	**241,821**	**8,376**	**5,123,393**

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Commercial loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**16,903**	**3,414**	**77,995**	**298**	**98,610**
New financial asset originated or purchased	4,099	1,253	572	–	5,924
Transfer to Stage 1	3,906	(3,906)	–	–	–
Transfer to Stage 2	(2,773)	8,026	(5,253)	–	–
Transfer to Stage 3	(541)	(12,002)	12,543	–	–
Impact on ECL of exposures transferred between stages during the year	(27,165)	(2,523)	24,295	–	(5,393)
Assets derecognised due to pass-through arrangement	(9)	(294)	(12)	–	(315)
Assets repaid	(9,935)	(10,052)	(29,340)	(304)	(49,631)
Resegmentation	140	–	–	–	140
Impact of modifications	1	8	(6)	–	3
Write-offs	–	–	(6,595)	–	(6,595)
Recoveries of amounts previously written off	–	–	13,531	127	13,658
Unwind of discount	–	–	9,691	6	9,697
Currency translation differences	791	335	2,281	–	3,407
Foreign exchange movement	4,407	(782)	12,544	20	16,189
Net other measurement of ECL	43,999	24,680	24,326	(143)	92,862
Balance at 31 December 2020	**33,823**	**8,157**	**136,572**	**4**	**178,556**
Individually assessed	–	–	134,424	–	134,424
Collectively assessed	33,823	8,157	2,148	4	44,132
Balance at 31 December 2020	**33,823**	**8,157**	**136,572**	**4**	**178,556**

Residential mortgage loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**2,764,959**	**160,038**	**109,413**	**32,273**	**3,066,683**
New financial asset originated or purchased	1,239,637	430	259	3,101	1,243,427
Transfer to Stage 1	460,728	(419,122)	(41,606)	–	–
Transfer to Stage 2	(541,668)	600,415	(58,747)	–	–
Transfer to Stage 3	(155,514)	(40,638)	196,152	–	–
Assets repaid	(788,737)	(37,503)	(51,790)	(13,696)	(891,726)
Resegmentation	(945)	–	–	–	(945)
Impact of modifications	(8,730)	954	(134)	(854)	(8,764)
Write-offs	–	–	(5,368)	(215)	(5,583)
Recoveries of amounts previously written off	–	–	734	767	1,501
Unwind of discount	2	–	292	91	385
Currency translation differences	(1,837)	(1)	(3)	–	(1,841)
Foreign exchange movement	287,057	23,746	12,847	3,604	327,254
Net other changes	32,892	25,896	6,427	778	65,993
Balance at 31 December 2020	**3,287,844**	**314,215**	**168,476**	**25,849**	**3,796,384**
Individually assessed	–	–	3,517	–	3,517
Collectively assessed	3,287,844	314,215	164,959	25,849	3,792,867
Balance at 31 December 2020	**3,287,844**	**314,215**	**168,476**	**25,849**	**3,796,384**

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Residential mortgage loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**461**	**160**	**6,588**	**1,808**	**9,017**
New financial asset originated or purchased	848	2	9	162	1,021
Transfer to Stage 1	14,030	(7,452)	(6,578)	–	–
Transfer to Stage 2	(2,420)	10,027	(7,607)	–	–
Transfer to Stage 3	(75)	(856)	931	–	–
Impact on ECL of exposures transferred between stages during the year	(19,497)	(6,049)	2,719	–	(22,827)
Assets repaid	(3,281)	(965)	(8,598)	(3,399)	(16,243)
Resegmentation	(17)	–	–	–	(17)
Impact of modifications	(15)	468	499	(213)	739
Write-offs	–	–	(5,368)	(215)	(5,583)
Recoveries of amounts previously written off	–	–	734	767	1,501
Unwind of discount	2	–	292	91	385
Currency translation differences	(11)	–	–	–	(11)
Foreign exchange movement	136	(63)	1,029	474	1,576
Net other measurement of ECL	18,491	16,138	40,586	3,836	79,051
Balance at 31 December 2020	**8,652**	**11,410**	**25,236**	**3,311**	**48,609**
Individually assessed	–	–	403	–	403
Collectively assessed	8,652	11,410	24,833	3,311	48,206
Balance at 31 December 2020	**8,652**	**11,410**	**25,236**	**3,311**	**48,609**

Micro and SME loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**2,426,866**	**113,130**	**118,475**	**1,749**	**2,660,220**
New financial asset originated or purchased	2,089,047	6,772	887	2,928	2,099,634
Transfer to Stage 1	453,063	(439,267)	(13,796)	–	–
Transfer to Stage 2	(891,350)	925,785	(34,435)	–	–
Transfer to Stage 3	(58,496)	(104,533)	163,029	–	–
Assets repaid	(1,593,656)	(154,459)	(70,067)	(1,224)	(1,819,406)
Resegmentation	(19,958)	–	–	–	(19,958)
Impact of modifications	(6,109)	(786)	(2,560)	(1)	(9,456)
Write-offs	–	–	(30,561)	(976)	(31,537)
Recoveries of amounts previously written off	–	–	7,831	102	7,933
Unwind of discount	–	–	1,319	25	1,344
Currency translation differences	(8,429)	(1,001)	(569)	–	(9,999)
Foreign exchange movement	254,683	35,131	13,036	293	303,143
Net other changes	3,446	58,633	24,882	575	87,536
Balance at 31 December 2020	**2,649,107**	**439,405**	**177,471**	**3,471**	**3,269,454**
Individually assessed	–	–	25,900	–	25,900
Collectively assessed	2,649,107	439,405	151,571	3,471	3,243,554
Balance at 31 December 2020	**2,649,107**	**439,405**	**177,471**	**3,471**	**3,269,454**

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Micro and SME loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**12,890**	**5,803**	**24,976**	**876**	**44,545**
New financial asset originated or purchased	1,636	739	24	50	2,449
Transfer to Stage 1	24,865	(21,624)	(3,241)	–	–
Transfer to Stage 2	(10,906)	17,875	(6,969)	–	–
Transfer to Stage 3	(562)	(9,162)	9,724	–	–
Impact on ECL of exposures transferred between stages during the year	(25,202)	(2,771)	8,310	–	(19,663)
Assets repaid	(13,883)	(9,024)	(21,668)	(270)	(44,845)
Resegmentation	(123)	–	–	–	(123)
Impact of modifications	(158)	(173)	(1,148)	–	(1,479)
Write-offs	–	–	(30,561)	(976)	(31,537)
Recoveries of amounts previously written off	–	–	7,831	102	7,933
Unwind of discount	–	–	1,319	25	1,344
Currency translation differences	368	134	142	–	644
Foreign exchange movement	661	37	2,140	76	2,914
Net other measurement of ECL	36,571	38,737	64,681	181	140,170
Balance at 31 December 2020	**26,157**	**20,571**	**55,560**	**64**	**102,352**
Individually assessed	–	–	12,976	–	12,976
Collectively assessed	26,157	20,571	42,584	64	89,376
Balance at 31 December 2020	**26,157**	**20,571**	**55,560**	**64**	**102,352**

Consumer loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**1,856,795**	**110,158**	**108,414**	**9,741**	**2,085,108**
New financial asset originated or purchased	1,613,372	7,125	2,925	1,016	1,624,438
Transfer to Stage 1	291,916	(245,014)	(46,902)	–	–
Transfer to Stage 2	(394,422)	435,335	(40,913)	–	–
Transfer to Stage 3	(100,329)	(49,583)	149,912	–	–
Assets repaid	(1,412,334)	(80,602)	(70,082)	(3,242)	(1,566,260)
Resegmentation	(230)	–	263	–	33
Impact of modifications	(12,300)	(1,149)	(3,328)	(148)	(16,925)
Write-offs	–	–	(34,940)	(8)	(34,948)
Recoveries of amounts previously written off	–	–	21,309	65	21,374
Unwind of discount	–	–	431	18	449
Currency translation differences	(10,713)	(32)	(57)	–	(10,802)
Foreign exchange movement	16,413	3,656	3,549	419	24,037
Net other changes	56,014	14,472	10,369	654	81,509
Balance at 31 December 2020	**1,904,182**	**194,366**	**100,950**	**8,515**	**2,208,013**
Individually assessed	–	–	1,346	–	1,346
Collectively assessed	1,904,182	194,366	99,604	8,515	2,206,667
Balance at 31 December 2020	**1,904,182**	**194,366**	**100,950**	**8,515**	**2,208,013**

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Consumer loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**16,823**	**6,345**	**49,325**	**214**	**72,707**
New financial asset originated or purchased	15,299	1,736	907	374	18,316
Transfer to Stage 1	45,315	(23,886)	(21,429)	–	–
Transfer to Stage 2	(17,770)	38,726	(20,956)	–	–
Transfer to Stage 3	(577)	(8,973)	9,550	–	–
Impact on ECL of exposures transferred between stages during the year	(39,380)	(13,541)	(5,993)	–	(58,914)
Assets repaid	(29,641)	(10,116)	(44,922)	(439)	(85,118)
Resegmentation	–	–	–	–	–
Impact of modifications	(519)	(171)	(1,704)	(7)	(2,401)
Write-offs	–	–	(34,940)	(8)	(34,948)
Recoveries of amounts previously written off	–	–	21,309	65	21,374
Unwind of discount	–	–	431	18	449
Currency translation differences	(186)	(7)	(49)	–	(242)
Foreign exchange movement	138	46	744	21	949
Net other measurement of ECL	51,095	35,374	94,368	792	181,629
Balance at 31 December 2020	**40,597**	**25,533**	**46,641**	**1,030**	**113,801**
Individually assessed	–	–	354	–	354
Collectively assessed	40,597	25,533	46,287	1,030	113,447
Balance at 31 December 2020	**40,597**	**25,533**	**46,641**	**1,030**	**113,801**

Gold – pawn loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**80,794**	**1,114**	**3,632**	**–**	**85,540**
New financial asset originated or purchased	139,676	–	475	–	140,151
Transfer to Stage 1	6,565	(4,313)	(2,252)	–	–
Transfer to Stage 2	(10,625)	11,552	(927)	–	–
Transfer to Stage 3	(5,331)	(877)	6,208	–	–
Assets repaid	(113,508)	(3,726)	(5,053)	–	(122,287)
Resegmentation	–	–	(263)	–	(263)
Write-offs	–	–	(58)	–	(58)
Recoveries of amounts previously written off	–	–	6	–	6
Unwind of discount	–	–	6	–	6
Foreign exchange movement	148	8	(167)	–	(11)
Net other changes	56	121	123	–	300
Balance at 31 December 2020	**97,775**	**3,879**	**1,730**	**–**	**103,384**
Collectively assessed	97,775	3,879	1,730	–	103,384
Balance at 31 December 2020	**97,775**	**3,879**	**1,730**	**–**	**103,384**

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Gold – pawn loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**9**	**1**	**244**	**–**	**254**
Transfer to Stage 1	79	(6)	(73)	–	–
Transfer to Stage 2	(10)	45	(35)	–	–
Transfer to Stage 3	(1)	(1)	2	–	–
Impact on ECL of exposures transferred between stages during the year	(82)	(1)	–	–	(83)
Assets repaid	(17)	(4)	(227)	–	(248)
Write-offs	–	–	(58)	–	(58)
Recoveries of amounts previously written off	–	–	6	–	6
Unwind of discount	–	–	6	–	6
Foreign exchange movement	(1)	–	1	–	–
Net other measurement of ECL	63	(18)	306	–	351
Balance at 31 December 2020	**40**	**16**	**172**	**–**	**228**
Collectively assessed	40	16	172	–	228
Balance at 31 December 2020	**40**	**16**	**172**	**–**	**228**

Commercial loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**2,379,160**	**327,830**	**242,419**	**7,037**	**2,956,446**
New financial asset originated or purchased	4,157,804	163,280	6,632	–	4,327,716
Transfer to Stage 1	571,826	(571,826)	–	–	–
Transfer to Stage 2	(858,838)	883,222	(24,384)	–	–
Transfer to Stage 3	(10,482)	(47,956)	58,438	–	–
Assets derecognised due to pass-through arrangement	(60,246)	(17,550)	–	–	(77,796)
Assets repaid	(2,929,916)	(437,483)	(60,747)	(257)	(3,428,403)
Resegmentation	190,519	3,134	2,608	–	196,261
Impact of modifications	–	4	(233)	–	(229)
Write-offs	–	–	(97,392)	–	(97,392)
Recoveries of amounts previously written off	–	–	9,980	–	9,980
Unwind of discount	–	–	2,635	(143)	2,492
Currency translation differences	21,456	2,434	1,546	–	25,436
Foreign exchange movement	92,060	27,417	12,033	483	131,993
Net other changes	29,708	16,988	8,209	541	55,446
Balance at 31 December 2019	**3,583,051**	**349,494**	**161,744**	**7,661**	**4,101,950**
Individually assessed	–	–	157,060	–	157,060
Collectively assessed	3,583,051	3,49,494	4,684	7,661	3,944,890
Balance at 31 December 2019	**3,583,051**	**349,494**	**161,744**	**7,661**	**4,101,950**

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Commercial loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**6,119**	**5,552**	**156,384**	**523**	**168,578**
New financial asset originated or purchased	12,672	282	887	–	13,841
Transfer to Stage 1	1,238	(1,238)	–	–	–
Transfer to Stage 2	(2,980)	5,450	(2,470)	–	–
Transfer to Stage 3	(3,491)	(1,691)	5,182	–	–
Impact on ECL of exposures transferred between stages during the year	374	322	9,643	–	10,339
Assets derecognised due to pass-through arrangement	(439)	–	–	–	(439)
Assets repaid	(3,558)	(4,576)	(28,000)	–	(36,134)
Resegmentation	274	6	–	–	280
Impact of modifications	–	–	6	–	6
Write-offs	–	–	(97,392)	–	(97,392)
Recoveries of amounts previously written off	–	–	9,980	–	9,980
Unwind of discount	–	–	2,635	(143)	2,492
Currency translation differences	208	188	509	–	905
Foreign exchange movement	45	18	10,358	49	10,470
Net other measurement of ECL	6,441	(899)	10,273	(131)	15,684
Balance at 31 December 2019	**16,903**	**3,414**	**77,995**	**298**	**98,610**
Individually assessed	–	–	77,632	–	77,632
Collectively assessed	16,903	3,414	363	298	20,978
Balance at 31 December 2019	**16,903**	**3,414**	**77,995**	**298**	**98,610**

Residential mortgage loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**2,351,207**	**86,809**	**88,249**	**23,188**	**2,549,453**
New financial asset originated or purchased	1,425,274	472	7	23,136	1,448,889
Transfer to Stage 1	249,103	(216,701)	(32,402)	–	–
Transfer to Stage 2	(350,322)	378,751	(28,429)	–	–
Transfer to Stage 3	(110,097)	(62,530)	172,627	–	–
Assets repaid	(909,258)	(34,746)	(97,063)	(15,457)	(1,056,524)
Resegmentation	(9,538)	272	(4)	–	(9,270)
Impact of modifications	–	–	(1,372)	(389)	(1,761)
Write-offs	–	–	(4,646)	–	(4,646)
Recoveries of amounts previously written off	–	–	557	–	557
Unwind of discount	–	–	27	76	103
Currency translation differences	221	–	–	–	221
Foreign exchange movement	101,201	6,139	5,236	1,189	113,765
Net other changes	17,168	1,572	6,626	530	25,896
Balance at 31 December 2019	**2,764,959**	**160,038**	**109,413**	**32,273**	**3,066,683**
Individually assessed	–	–	1,374	–	1,374
Collectively assessed	2,764,959	160,038	108,039	32,273	3,065,309
Balance at 31 December 2019	**2,764,959**	**160,038**	**109,413**	**32,273**	**3,066,683**

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Residential mortgage loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**238**	**31**	**5,383**	**1,089**	**6,741**
New financial asset originated or purchased	1,925	–	1	320	2,246
Transfer to Stage 1	598	(254)	(344)	–	–
Transfer to Stage 2	(137)	795	(658)	–	–
Transfer to Stage 3	(1,706)	(60)	1,766	–	–
Impact on ECL of exposures transferred between stages during the year	(440)	(528)	2,005	–	1,037
Assets repaid	(157)	(37)	(3,294)	(1,005)	(4,493)
Impact of modifications	–	–	(43)	(1)	(44)
Write-offs	–	–	(4,646)	–	(4,646)
Recoveries of amounts previously written off	–	–	557	–	557
Unwind of discount	–	–	27	76	103
Currency translation differences	2	–	–	–	2
Foreign exchange movement	15	3	363	88	469
Net other measurement of ECL	123	210	5,471	1,241	7,045
Balance at 31 December 2019	**461**	**160**	**6,588**	**1,808**	**9,017**
Collectively assessed	461	160	6,588	1,808	9,017
Balance at 31 December 2019	**461**	**160**	**6,588**	**1,808**	**9,017**

Micro and SME loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**1,913,964**	**85,311**	**127,705**	**2,235**	**2,129,215**
New financial asset originated or purchased	2,452,219	5,862	1,775	597	2,460,453
Transfer to Stage 1	133,332	(121,808)	(11,524)	–	–
Transfer to Stage 2	(256,554)	267,701	(11,147)	–	–
Transfer to Stage 3	(35,775)	(70,824)	106,599	–	–
Assets repaid	(1,669,000)	(54,135)	(75,885)	(1,715)	(1,800,735)
Resegmentation	(180,881)	(3,134)	(2,605)	–	(186,620)
Impact of modifications	–	(26)	(3,985)	(27)	(4,038)
Write-offs	–	–	(36,746)	–	(36,746)
Recoveries of amounts previously written off	–	–	6,865	–	6,865
Unwind of discount	–	–	1,309	32	1,341
Currency translation differences	9,034	2,026	940	–	12,000
Foreign exchange movement	52,239	1,547	4,634	190	58,610
Net other changes	8,288	610	10,540	437	19,875
Balance at 31 December 2019	**2,426,866**	**113,130**	**118,475**	**1,749**	**2,660,220**
Individually assessed	–	–	11,284	–	11,284
Collectively assessed	2,426,866	113,130	107,191	1,749	2,648,936
Balance at 31 December 2019	**2,426,866**	**113,130**	**118,475**	**1,749**	**2,660,220**

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Micro and SME loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**9,439**	**5,453**	**29,726**	**70**	**44,688**
New financial asset originated or purchased	14,972	616	776	–	16,364
Transfer to Stage 1	7,227	(4,937)	(2,290)	–	–
Transfer to Stage 2	(4,437)	8,484	(4,047)	–	–
Transfer to Stage 3	(2,289)	(5,268)	7,557	–	–
Impact on ECL of exposures transferred between stages during the year	(3,765)	(2,214)	(690)	–	(6,669)
Assets repaid	(9,711)	(2,034)	(15,660)	(358)	(27,763)
Resegmentation	(274)	(6)	–	–	(280)
Impact of modifications	–	–	(1,022)	(1)	(1,023)
Write-offs	–	–	(36,746)	–	(36,746)
Recoveries of amounts previously written off	–	–	6,865	–	6,865
Unwind of discount	–	–	1,309	32	1,341
Currency translation differences	186	293	188	–	667
Foreign exchange movement	12	(27)	462	55	502
Net other measurement of ECL	1,530	5,443	38,548	1,078	46,599
Balance at 31 December 2019	**12,890**	**5,803**	**24,976**	**876**	**44,545**
Individually assessed	–	–	3,894	–	3,894
Collectively assessed	12,890	5,803	21,082	876	40,651
Balance at 31 December 2019	**12,890**	**5,803**	**24,976**	**876**	**44,545**

Consumer loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**1,650,080**	**101,146**	**121,191**	**4,471**	**1,876,888**
New financial asset originated or purchased	2,053,009	9,012	2,534	9,421	2,073,976
Transfer to Stage 1	225,501	(163,946)	(61,555)	–	–
Transfer to Stage 2	(321,349)	359,360	(38,011)	–	–
Transfer to Stage 3	(219,354)	(117,177)	336,531	–	–
Assets repaid	(1,560,409)	(77,936)	(199,564)	(4,323)	(1,842,232)
Resegmentation	(100)	(272)	138	–	(234)
Impact of modifications	–	–	(3,270)	(62)	(3,332)
Write-offs	–	–	(86,364)	–	(86,364)
Recoveries of amounts previously written off	–	–	18,121	–	18,121
Unwind of discount	–	–	3,859	15	3,874
Currency translation differences	6,578	29	32	–	6,639
Foreign exchange movement	16,513	1,232	1,566	86	19,397
Net other changes	6,326	(1,290)	13,206	133	18,375
Balance at 31 December 2019	**1,856,795**	**110,158**	**108,414**	**9,741**	**2,085,108**
Individually assessed	–	–	2,023	–	2,023
Collectively assessed	1,856,795	110,158	106,391	9,741	2,083,085
Balance at 31 December 2019	**1,856,795**	**110,158**	**108,414**	**9,741**	**2,085,108**

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Consumer loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**19,654**	**9,355**	**62,143**	**389**	**91,541**
New financial asset originated or purchased	64,876	1,384	1,337	42	67,639
Transfer to Stage 1	33,555	(9,958)	(23,597)	–	–
Transfer to Stage 2	(9,492)	27,018	(17,526)	–	–
Transfer to Stage 3	(55,580)	(9,651)	65,231	–	–
Impact on ECL of exposures transferred between stages during the year	(25,472)	(13,980)	38,527	–	(925)
Assets repaid	(11,730)	(6,557)	(64,332)	(311)	(82,930)
Impact of modifications	–	–	(895)	(5)	(900)
Write-offs	–	–	(86,364)	–	(86,364)
Recoveries of amounts previously written off	–	–	18,121	–	18,121
Unwind of discount	–	–	3,859	15	3,874
Currency translation differences	17	10	(358)	–	(331)
Foreign exchange movement	53	22	242	17	334
Net other measurement of ECL	942	8,702	52,937	67	62,648
Balance at 31 December 2019	**16,823**	**6,345**	**49,325**	**214**	**72,707**
Individually assessed	–	–	248	–	248
Collectively assessed	16,823	6,345	49,077	214	72,459
Balance at 31 December 2019	**16,823**	**6,345**	**49,325**	**214**	**72,707**

Gold – pawn loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**75,483**	**541**	**4,746**	**–**	**80,770**
New financial asset originated or purchased	106,339	–	154	–	106,493
Transfer to Stage 1	5,671	(1,307)	(4,364)	–	–
Transfer to Stage 2	(2,414)	3,825	(1,411)	–	–
Transfer to Stage 3	(10,459)	(1,333)	11,792	–	–
Assets repaid	(93,933)	(604)	(6,750)	–	(101,287)
Resegmentation	–	–	(137)	–	(137)
Write-offs	–	–	(292)	–	(292)
Recoveries of amounts previously written off	–	–	1	–	1
Unwind of discount	–	–	(2)	–	(2)
Foreign exchange movement	175	2	28	–	205
Net other changes	(68)	(10)	(133)	–	(211)
Balance at 31 December 2019	**80,794**	**1,114**	**3,632**	**–**	**85,540**
Collectively assessed	80,794	1,114	3,632	–	85,540
Balance at 31 December 2019	**80,794**	**1,114**	**3,632**	**–**	**85,540**

Gold – pawn loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**12**	**–**	**283**	**–**	**295**
New financial asset originated or purchased	214	–	–	–	214
Transfer to Stage 1	36	–	(36)	–	–
Transfer to Stage 2	–	61	(61)	–	–
Transfer to Stage 3	(215)	–	215	–	–
Impact on ECL of exposures transferred between stages during the year	(36)	(61)	218	–	121
Assets repaid	(7)	–	(295)	–	(302)
Write-offs	–	–	(292)	–	(292)
Recoveries of amounts previously written off	–	–	1	–	1
Unwind of discount	–	–	(2)	–	(2)
Foreign exchange movement	–	–	2	–	2
Net other measurement of ECL	5	1	211	–	217
Balance at 31 December 2019	**9**	**1**	**244**	**–**	**254**
Collectively assessed	9	1	244	–	254
Balance at 31 December 2019	**9**	**1**	**244**	**–**	**254**

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

The contractual amounts outstanding on loans to customers that have been written off during the reporting period but are still subject to enforcement activity was GEL 95,469 (2020: GEL 50,718, 2019: GEL 58,627).

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, equipment and machinery, corporate shares, inventory, trade receivables, third-party corporate guarantees and personal guarantees of shareholders.
- For retail lending, mortgages over residential properties, cars, gold and jewellery, third-party corporate guarantees and personal guarantees of shareholders.

Management requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for expected credit loss/impairment of loans.

It is the Group's policy to dispose of repossessed properties in an orderly fashion or to hold them for capital appreciation or earning rentals, as appropriate in each case. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

Without taking into account the discounted value of collateral, the ECL for credit-impaired loans would be as follows:

- for commercial loans: GEL 231,968 as at 31 December 2021 (2020: GEL 243,178, 2019: GEL 162,684);
- for residential mortgage loans: GEL 93,804 as at 31 December 2021 (2020: GEL 146,945, 2019: GEL 101,542);
- for micro and SME: GEL 140,929 as at 31 December 2021 (2020: GEL 160,862, 2019: GEL 104,075);
- for consumer loans: GEL 87,891 as at 31 December 2021 (2020: GEL 85,569, 2019: GEL 85,890); and
- gold – pawn loans: GEL 1,802 as at 31 December 2021 (2020: GEL 1,430, 2019: GEL 2,561).

Without taking into account the discounted value of collateral, the allowance for expected credit loss/impairment of loans would be GEL 299,387 higher as at 31 December 2021 (2020: GEL 369,394 higher, 2019: GEL 294,428 higher).

Concentration of loans to customers

As at 31 December 2021, the concentration of loans granted by the Group to the ten largest third-party borrowers comprised GEL 1,375,536 accounting for 8% of the gross loan portfolio of the Group (2020: GEL 1,415,618 and 10% respectively, 2019: GEL 1,199,596 and 10% respectively). An allowance of GEL 2,770 (2020: GEL 13,612, 2019: GEL 9,634) was established against these loans.

As at 31 December 2021, the concentration of loans granted by the Group to the ten largest third-party group of borrowers comprised GEL 2,136,228 accounting for 13% of the gross loan portfolio of the Group (2020: GEL 2,051,055 and 14% respectively, 2019: GEL 1,771,490 and 15% respectively). An allowance of GEL 7,386 (2020: GEL 16,927, 2019: GEL 10,211) was established against these loans.

9. Loans to customers and finance lease receivables continued

Concentration of loans to customers continued

As at 31 December 2021, 31 December 2020 and 31 December 2019, loans were principally issued within Georgia, and their distribution by industry sector was as follows:

	2021	2020	2019
Individuals	9,184,255	7,900,831	6,764,348
Manufacturing	1,377,023	1,338,778	1,032,293
Trade	1,189,036	1,112,910	964,992
Real estate	1,025,298	1,050,823	869,203
Hospitality	946,224	829,635	590,765
Electricity, gas and water supply	384,554	251,829	188,989
Construction	379,813	269,250	189,788
Service	307,602	306,520	220,241
Financial intermediation	244,215	197,409	158,969
Transport & communication	234,512	171,406	149,654
Mining and quarrying	183,270	199,484	194,998
Other	998,918	871,753	675,261
Loans to customers, gross	**16,454,720**	**14,500,628**	**11,999,501**
Less – Allowance for expected credit loss	(404,804)	(443,546)	(225,133)
Loans to customers, net	**16,049,916**	**14,057,082**	**11,774,368**

COVID-19 had affected many areas of the country's economy. However, some of the sectors, such as the hospitality sector, retail and micro businesses were more affected than others.

Loans have been extended to the following types of customers:

	2021	2020	2019
Individuals	9,184,255	7,900,831	6,764,348
Private companies	7,257,993	6,579,663	5,220,551
State-owned entities	12,472	20,134	14,602
Loans to customers, gross	**16,454,720**	**14,500,628**	**11,999,501**
Less – Allowance for expected credit loss	(404,804)	(443,546)	(225,133)
Loans to customers, net	**16,049,916**	**14,057,082**	**11,774,368**

Finance lease receivables

	2021	2020	2019
Minimum lease payments receivable	168,508	189,959	220,543
Less – Unearned finance lease income	(43,556)	(50,587)	(61,352)
	124,952	**139,372**	**159,191**
Less – Allowance for expected credit loss/impairment loss	(5,895)	(4,376)	(2,297)
Finance lease receivables, net	**119,057**	**134,996**	**156,894**

The difference between the minimum lease payments to be received in the future and the finance lease receivables represents unearned finance income.

As at 31 December 2021, finance lease receivables carried at GEL 67,556 were pledged for inter-bank loans received from several credit institutions (2020: GEL 75,134, 2019: 74,489).

As at 31 December 2021, the concentration of investment in the five largest lease receivables comprised GEL 22,417 or 18% of total finance lease receivables (2020: GEL 20,486 or 15%, 2019: GEL 16,249 or 10%) and finance income received from them for the year ended 31 December 2021 comprised GEL 1,706 or 6% of total finance income from lease (2020: GEL 3,161 or 10%, 2019: GEL 2,226 or 9%).

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables continued

Finance lease receivables continued

Future minimum lease payments to be received after 31 December 2021, 31 December 2020 and 31 December 2019 are as follows:

	2021	2020	2019
Within 1 year	76,407	92,391	85,815
From 1 to 5 years	78,474	94,753	130,700
More than 5 years	13,627	2,815	4,028
Minimum lease payment receivables	**168,508**	**189,959**	**220,543**

Movements of the gross finance lease receivables and respective allowance for expected credit loss/impairment of finance lease receivables are as follows:

Finance lease receivables, gross	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	**67,346**	**53,276**	**18,750**	**–**	**139,372**
New financial asset originated or purchased	90,739	–	465	3,107	94,311
Transfer to Stage 1	34,761	(34,715)	(46)	–	–
Transfer to Stage 2	(43,879)	57,480	(13,601)	–	–
Transfer to Stage 3	(3,925)	(33,434)	37,359	–	–
Assets repaid	(60,625)	(23,912)	(4,116)	(122)	(88,775)
Impact of modifications	20	–	–	–	20
Write-offs	–	–	(21,232)	–	(21,232)
Unwind of discount	–	–	10	13	23
Currency translation differences	(2,087)	(1,057)	(931)	–	(4,075)
Foreign exchange movement	(641)	(47)	(66)	(249)	(1,003)
Net other changes	(535)	(7)	20	6,833	6,311
Balance at 31 December 2021	**81,174**	**17,584**	**16,612**	**9,582**	**124,952**
Individually assessed	–	–	2,746	–	2,746
Collectively assessed	81,174	17,584	13,866	9,582	122,206
Balance at 31 December 2021	**81,174**	**17,584**	**16,612**	**9,582**	**124,952**

Finance lease receivables, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2020	**649**	**1,109**	**2,618**	**–**	**4,376**
New financial asset originated or purchased	1,570	–	256	–	1,826
Transfer to Stage 1	684	(683)	(1)	–	–
Transfer to Stage 2	(976)	2,371	(1,395)	–	–
Transfer to Stage 3	(85)	(1,975)	2,060	–	–
Impact on ECL of exposures transferred between stages during the year	(12)	1,036	2,151	–	3,175
Assets repaid	(461)	(467)	(361)	–	(1,289)
Write-offs	–	–	(2,704)	–	(2,704)
Unwind of discount	–	–	10	13	23
Currency translation differences	(36)	(550)	(152)	(12)	(750)
Net other measurement of ECL	(207)	(78)	328	1,195	1,238
Balance at 31 December 2021	**1,126**	**763**	**2,810**	**1,196**	**5,895**
Individually assessed	–	–	1,236	–	1,236
Collectively assessed	1,126	763	1,574	1,196	4,659
Balance at 31 December 2021	**1,126**	**763**	**2,810**	**1,196**	**5,895**

9. Loans to customers and finance lease receivables continued

Finance lease receivables continued

Finance lease receivables, gross	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**130,232**	**12,498**	**16,461**	**–**	**159,191**
New financial asset originated or purchased	77,711	–	2,254	–	79,965
Transfer to Stage 1	53,417	(49,918)	(3,499)	–	–
Transfer to Stage 2	(130,587)	148,126	(17,539)	–	–
Transfer to Stage 3	(12,089)	(55,528)	67,617	–	–
Assets repaid	(57,227)	(6,157)	(13,094)	–	(76,478)
Impact of modifications	–	(973)	(199)	–	(1,172)
Write-offs	–	–	(34,933)	–	(34,933)
Unwind of discount	–	–	(16)	–	(16)
Currency translation differences	(1,402)	(90)	(107)	–	(1,599)
Foreign exchange movement	5,801	5,312	1,891	–	13,004
Net other changes	1,490	6	(86)	–	1,410
Balance at 31 December 2020	**67,346**	**53,276**	**18,750**	**–**	**139,372**
Individually assessed	–	–	3,139	–	3,139
Collectively assessed	67,346	53,276	15,611	–	136,233
Balance at 31 December 2020	**67,346**	**53,276**	**18,750**	**–**	**139,372**

Finance lease receivables, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**759**	**95**	**1,443**	**–**	**2,297**
New financial asset originated or purchased	869	–	945	–	1,814
Transfer to Stage 1	305	(292)	(13)	–	–
Transfer to Stage 2	(1,162)	1,513	(351)	–	–
Transfer to Stage 3	(812)	(4,588)	5,400	–	–
Impact on ECL of exposures transferred between stages during the year	1,396	4,449	1,416	–	7,261
Assets repaid	(528)	(70)	(347)	–	(945)
Impact of modifications	–	(1)	(18)	–	(19)
Write-offs	–	–	(6,161)	–	(6,161)
Unwind of discount	–	–	(16)	–	(16)
Currency translation differences	200	(4)	35	–	231
Foreign exchange movement	5	27	191	–	223
Net other measurement of ECL	(383)	(20)	94	–	(309)
Balance at 31 December 2020	**649**	**1,109**	**2,618**	**–**	**4,376**
Individually assessed	–	–	1,022	–	1,022
Collectively assessed	649	1,109	1,596	–	3,354
Balance at 31 December 2020	**649**	**1,109**	**2,618**	**–**	**4,376**

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables continued

Finance lease receivables continued

Finance lease receivables, gross	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**100,950**	**5,806**	**3,331**	**–**	**110,087**
New financial asset originated or purchased	132,404	–	–	–	132,404
Transfer to Stage 1	25,731	(25,315)	(416)	–	–
Transfer to Stage 2	(64,572)	64,754	(182)	–	–
Transfer to Stage 3	(4,889)	(28,799)	33,688	–	–
Assets repaid	(64,621)	(4,476)	(6,268)	–	(75,365)
Write-offs	–	–	(14,340)	–	(14,340)
Currency translation differences	1,340	46	117	–	1,503
Foreign exchange movement	3,040	485	403	–	3,928
Net other changes	849	(3)	128	–	974
Balance at 31 December 2019	**130,232**	**12,498**	**16,461**	**–**	**159,191**
Collectively assessed	130,232	12,498	16,461	–	159,191
Balance at 31 December 2019	**130,232**	**12,498**	**16,461**	**–**	**159,191**

Finance lease receivables, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**479**	**59**	**1,110**	**–**	**1,648**
New financial asset originated or purchased	939	–	–	–	939
Transfer to Stage 1	207	(194)	(13)	–	–
Transfer to Stage 2	(297)	303	(6)	–	–
Transfer to Stage 3	(64)	(422)	486	–	–
Impact on ECL of exposures transferred between stages during the year	(267)	378	2,038	–	2,149
Assets repaid	(249)	(32)	(1,948)	–	(2,229)
Write-offs	–	–	(345)	–	(345)
Currency translation differences	31	4	74	–	109
Foreign exchange movement	(20)	(1)	(6)	–	(27)
Net other measurement of ECL	–	–	53	–	53
Balance at 31 December 2019	**759**	**95**	**1,443**	**–**	**2,297**
Collectively assessed	759	95	1,443	–	2,297
Balance at 31 December 2019	**759**	**95**	**1,443**	**–**	**2,297**

10. Right-of-use assets and lease liabilities

	2021	2020	2019
Right-of-use assets	80,186	83,208	96,095
Lease liability	87,662	95,635	94,616

Administrative expenses include occupancy and rent expenses on lease contracts where the recognition exemptions have been applied:

	2021	2020	2019
Short-term leases	(3,982)	(4,142)	(7,199)
Leases of low-value assets	(1,908)	(1,835)	(1,107)
	(5,890)	**(5,977)**	**(8,306)**

10. Right-of-use assets and lease liabilities continued

Changes in liabilities arising from financing activities

	Changes in liabilities arising from financing activities
Carrying amount at 01 January 2019	**79,359**
Cash payments for the principal portion of the lease liability	(8,302)
Other movements	23,559
Carrying amount at 31 December 2019	**94,616**
Cash payments for the principal portion of the lease liability	(11,695)
Other movements	12,714
Carrying amount at 31 December 2020	**95,635**
Cash payments for the principal portion of the lease liability	(29,402)
Other movements	21,429
Carrying amount at 31 December 2021	**87,662**

The movements in right-of-use assets were as follows:

	Office buildings & service centres	Computers & equipment	Total
Cost			
31 December 2020	**115,970**	**2,749**	**118,719**
Additions	42,728	–	42,728
Disposals	(31,478)	–	(31,478)
Currency translation differences	(140)	(118)	(258)
31 December 2021	**127,080**	**2,631**	**129,711**
Accumulated impairment			
31 December 2020	**–**	**–**	**–**
31 December 2021	**–**	**–**	**–**
Accumulated depreciation			
31 December 2020	**34,995**	**516**	**35,511**
Depreciation charge	21,628	388	22,016
Disposals	(7,906)	–	(7,906)
Currency translation differences	(56)	(40)	(96)
31 December 2021	**48,661**	**864**	**49,525**
Net book value			
31 December 2020	**80,975**	**2,233**	**83,208**
31 December 2021	**78,419**	**1,767**	**80,186**

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(Thousands of Georgian Lari)

10. Right-of-use assets and lease liabilities continued

	Office buildings & service centres	Computers & equipment	Total
Cost			
31 December 2019	**115,220**	**–**	**115,220**
Additions	11,988	–	11,988
Disposals	(7,794)	–	(7,794)
Transfers	(2,965)	2,965	–
Currency translation differences	(479)	(216)	(695)
31 December 2020	**115,970**	**2,749**	**118,719**
Accumulated impairment			
31 December 2019	**–**	**–**	**–**
31 December 2020	**–**	**–**	**–**
Accumulated depreciation			
31 December 2019	**19,125**	**–**	**19,125**
Depreciation charge	18,466	391	18,857
Disposals	(2,061)	–	(2,061)
Transfers	(139)	139	–
Currency translation differences	(396)	(14)	(410)
31 December 2020	**34,995**	**516**	**35,511**
Net book value			
31 December 2019	**96,095**	**–**	**96,095**
31 December 2020	**80,975**	**2,233**	**83,208**

	Office buildings & service centres	Computers & equipment	Total
Cost			
1 January 2019	**79,359**	**–**	**79,359**
Additions	39,534	–	39,534
Disposals	(3,714)	–	(3,714)
Currency translation differences	41	–	41
31 December 2019	**115,220**	**–**	**115,220**
Accumulated impairment			
1 January 2019	**–**	**–**	**–**
31 December 2019	**–**	**–**	**–**
Accumulated depreciation			
1 January 2019	**–**	**–**	**–**
Depreciation charge	19,837	–	19,837
Disposals	(729)	–	(729)
Currency translation differences	17	–	17
31 December 2019	**19,125**	**–**	**19,125**
Net book value			
1 January 2019	**79,359**	**–**	**79,359**
31 December 2019	**96,095**	**–**	**96,095**

11. Property and equipment

The movements in property and equipment were as follows:

	Office buildings & service centres	Furniture & fixtures	Computers & equipment	Motor vehicles	Leasehold improvements	Assets under construction	Total
Cost							
31 December 2020	**216,795**	**178,481**	**231,436**	**6,768**	**34,275**	**4,732**	**672,487**
Additions	2,056	11,958	31,048	986	10	7,171	53,229
Transfers	6,408	3	976	–	2,493	(9,880)	–
Transfers to investment properties	(9,175)	–	–	–	–	–	(9,175)
Transfers to assets held for sale	2,245	–	–	–	–	–	2,245
Transfers to other assets	–	(998)	(8,647)	–	–	(183)	(9,828)
Disposals	(764)	(433)	(1,719)	(224)	–	(46)	(3,186)
Write-offs	–	(71)	(1)	(602)	(7,416)	–	(8,090)
Currency translation differences	(668)	(50)	(232)	(17)	(34)	(114)	(1,115)
31 December 2021	**216,897**	**188,890**	**252,861**	**6,911**	**29,328**	**1,680**	**696,567**
Accumulated impairment							
31 December 2020	**2,557**	**36**	**98**	**8**	**–**	**–**	**2,699**
31 December 2021	**2,557**	**36**	**98**	**8**	**–**	**–**	**2,699**
Accumulated depreciation							
31 December 2020	**25,216**	**102,137**	**133,958**	**3,833**	**16,793**	**–**	**281,937**
Depreciation charge	4,201	12,916	24,699	931	4,416	–	47,163
Transfers to investment properties	(238)	–	–	–	–	–	(238)
Transfers to other assets	–	(1,224)	(2,643)	–	–	–	(3,867)
Disposals	(51)	(318)	(910)	(85)	–	–	(1,364)
Write-offs	5	(51)	3	(576)	(7,416)	–	(8,035)
Currency translation differences	(274)	(61)	(166)	(8)	(27)	–	(536)
31 December 2021	**28,859**	**113,399**	**154,941**	**4,095**	**13,766**	**–**	**315,060**
Net book value							
31 December 2020	**189,022**	**76,308**	**97,380**	**2,927**	**17,482**	**4,732**	**387,851**
31 December 2021	**185,481**	**75,455**	**97,822**	**2,808**	**15,562**	**1,680**	**378,808**

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(Thousands of Georgian Lari)

11. Property and equipment continued

	Office buildings & service centres	Furniture & fixtures	Computers & equipment	Motor vehicles	Leasehold improvements	Assets under construction	Total
Cost							
31 December 2019	**204,753**	**178,391**	**207,329**	**5,624**	**30,589**	**10,046**	**636,732**
Additions	274	8,908	33,186	1,602	110	27,543	71,623
Transfers	21,600	(439)	4,158	41	6,625	(31,985)	–
Transfers to investment properties	(11,068)	–	–	(22)	–	–	(11,090)
Transfers to assets held for sale	1,333	–	–	(46)	–	–	1,287
Transfers to other assets	(101)	(4,930)	(8,895)	–	–	(867)	(14,793)
Disposals	–	(257)	(476)	(220)	–	–	(953)
Write-offs	(293)	(3,029)	(3,452)	(174)	(2,990)	–	(9,938)
Currency translation differences	297	(163)	(414)	(37)	(59)	(5)	(381)
31 December 2020	**216,795**	**178,481**	**231,436**	**6,768**	**34,275**	**4,732**	**672,487**
Accumulated impairment							
31 December 2019	**2,557**	**36**	**98**	**8**	**–**	**–**	**2,699**
31 December 2020	**2,557**	**36**	**98**	**8**	**–**	**–**	**2,699**
Accumulated depreciation							
31 December 2019	**23,731**	**93,751**	**119,081**	**3,051**	**14,631**	**–**	**254,245**
Depreciation charge	4,085	12,497	22,008	1,072	4,927	–	44,589
Transfers	–	(138)	–	4	134	–	–
Transfers to investment properties	(2,160)	–	–	(20)	–	–	(2,180)
Transfers to assets held for sale	–	–	–	(30)	–	–	(30)
Transfers to other assets	–	(1,111)	(3,077)	–	–	–	(4,188)
Disposals	–	(105)	(274)	(103)	–	–	(482)
Write-offs	(263)	(2,635)	(3,418)	(121)	(2,857)	–	(9,294)
Currency translation differences	(177)	(122)	(362)	(20)	(42)	–	(723)
31 December 2020	**25,216**	**102,137**	**133,958**	**3,833**	**16,793**	**–**	**281,937**
Net book value							
31 December 2019	**178,465**	**84,604**	**88,150**	**2,565**	**15,958**	**10,046**	**379,788**
31 December 2020	**189,022**	**76,308**	**97,380**	**2,927**	**17,482**	**4,732**	**387,851**

11. Property and equipment continued

	Office buildings & service centres	Furniture & fixtures	Computers & equipment	Motor vehicles	Leasehold improvements	Assets under construction	Total
Cost							
31 December 2018	**202,347**	**206,803**	**117,634**	**5,134**	**25,790**	**12,716**	**570,424**
Additions	1,522	27,166	32,317	1,513	550	29,966	93,034
Transfers	13,000	(51,733)	64,467	–	5,463	(31,197)	–
Transfers to investment properties	(3,211)	(3)	–	(47)	–	–	(3,261)
Transfers to assets held for sale	(2,127)	–	–	–	–	–	(2,127)
Transfers to other assets	–	(1,994)	(6,359)	–	–	(1,451)	(9,804)
Disposals	(4,101)	(444)	(604)	(980)	–	–	(6,129)
Write-offs	(4,601)	(1,599)	(635)	(28)	(1,264)	–	(8,127)
Currency translation differences	1,924	195	509	32	50	12	2,722
31 December 2019	**204,753**	**178,391**	**207,329**	**5,624**	**30,589**	**10,046**	**636,732**
Accumulated impairment							
31 December 2018	**2,417**	**32**	**87**	**7**	**–**	**–**	**2,543**
Currency translation differences	140	4	11	1	–	–	156
31 December 2019	**2,557**	**36**	**98**	**8**	**–**	**–**	**2,699**
Accumulated depreciation							
31 December 2018	**20,352**	**115,992**	**73,579**	**2,631**	**11,268**	**–**	**223,822**
Depreciation charge	4,818	11,087	17,986	928	4,552	–	39,371
Transfers	–	(31,200)	31,200	–	–	–	–
Transfers to investment properties	(331)	–	–	(36)	–	–	(367)
Transfers to assets held for sale	(437)	–	–	–	–	–	(437)
Transfers to other assets	–	(1,883)	(3,290)	–	–	–	(5,173)
Disposals	(74)	(273)	(414)	(462)	–	–	(1,223)
Write-offs	(961)	(81)	(239)	(27)	(1,237)	–	(2,545)
Currency translation differences	364	109	259	17	48	–	797
31 December 2019	**23,731**	**93,751**	**119,081**	**3,051**	**14,631**	**–**	**254,245**
Net book value							
31 December 2018	**179,578**	**90,779**	**43,968**	**2,496**	**14,522**	**12,716**	**344,059**
31 December 2019	**178,465**	**84,604**	**88,150**	**2,565**	**15,958**	**10,046**	**379,788**

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

12. Intangible assets

The movements in intangible assets were as follows:

	Software and licence	Other	Total
Cost			
31 December 2020	**177,012**	**26,944**	**203,956**
Additions	44,715	342	45,057
Disposals	(741)	–	(741)
Write-offs	(1,385)	–	(1,385)
Currency translation differences	(528)	–	(528)
31 December 2021	**219,073**	**27,286**	**246,359**
Accumulated impairment			
31 December 2020	**–**	**–**	**–**
31 December 2021	**–**	**–**	**–**
Accumulated amortisation			
31 December 2020	**72,532**	**5,618**	**78,150**
Amortisation charge	26,090	179	26,269
Disposals	(747)	–	(747)
Write-offs	(1,385)	–	(1,385)
Currency translation differences	(179)	–	(179)
31 December 2021	**96,311**	**5,797**	**102,108**
Net book value			
31 December 2020	**104,480**	**21,326**	**125,806**
31 December 2021	**122,762**	**21,489**	**144,251**

	Software and licence	Other	Total
Cost			
31 December 2019	**139,750**	**26,797**	**166,547**
Additions	41,262	163	41,425
Disposals	(235)	–	(235)
Write-offs	(3,329)	(16)	(3,345)
Currency translation differences	(436)	–	(436)
31 December 2020	**177,012**	**26,944**	**203,956**
Accumulated impairment			
31 December 2019	**–**	**–**	**–**
31 December 2020	**–**	**–**	**–**
Accumulated amortisation			
31 December 2019	**56,789**	**3,468**	**60,257**
Amortisation charge	18,985	2,165	21,150
Disposals	(235)	–	(235)
Write-offs	(2,884)	(15)	(2,899)
Currency translation differences	(123)	–	(123)
31 December 2020	**72,532**	**5,618**	**78,150**
Net book value			
31 December 2019	**82,961**	**23,329**	**106,290**
31 December 2020	**104,480**	**21,326**	**125,806**

12. Intangible assets continued

	Software and licence	Other	Total
Cost			
31 December 2018	**102,133**	**26,722**	**128,855**
Additions	38,528	166	38,694
Disposals	(1,223)	–	(1,223)
Write-offs	(2,376)	(91)	(2,467)
Currency translation differences	2,688	–	2,688
31 December 2019	**139,750**	**26,797**	**166,547**
Accumulated impairment			
31 December 2018	**–**	**–**	**–**
31 December 2019	**–**	**–**	**–**
Accumulated amortisation			
31 December 2018	**44,570**	**919**	**45,489**
Amortisation charge	13,189	2,557	15,746
Disposals	(1,223)	–	(1,223)
Write-offs	(2,049)	(10)	(2,059)
Currency translation differences	2,302	2	2,304
31 December 2019	**56,789**	**3,468**	**60,257**
Net book value			
31 December 2018	**57,563**	**25,803**	**83,366**
31 December 2019	**82,961**	**23,329**	**106,290**

13. Investment properties

	2021	2020	2019
At 1 January	**231,241**	**225,073**	**151,446**
Additions	83,912	79,761	109,278
Disposals	(68,713)	(44,908)	(39,223)
Net gains (losses) from revaluation of investment property	437	20,346	12,805
Transfers from (to) assets held for sale	(28,390)	(56,810)	(14,402)
Transfers from (to) property and equipment	8,937	8,910	2,894
Transfers from (to) finance lease receivables	–	532	(29)
Transfers from (to) other assets – inventories	–	(277)	–
Currency translation differences	(575)	(1,386)	2,304
At 31 December	**226,849**	**231,241**	**225,073**

Investment properties are stated at fair value. The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. As at 31 December 2021, the fair values of the properties are based on valuations performed by accredited independent valuers. Refer to Note 29 for details on fair value measurements of investment properties.

(Thousands of Georgian Lari)

14. Goodwill

Movements in goodwill were as follows:

	2021	2020	2019
Cost			
1 January	**57,745**	**57,745**	**57,745**
At 31 December	**57,745**	**57,745**	**57,745**
Accumulated impairment			
1 January	**24,394**	**24,394**	**24,394**
At 31 December	**24,394**	**24,394**	**24,394**
Net book value:			
1 January	**33,351**	**33,351**	**33,351**
At 31 December	**33,351**	**33,351**	**33,351**

Impairment test for goodwill

Goodwill acquired through business combinations with indefinite lives have been allocated to two individual cash-generating units, for impairment testing: Corporate Banking and Retail Banking.

The carrying amount of goodwill allocated to each of the cash-generating units ("CGU") is as follows:

	2021	2020	2019
Retail Banking	23,386	23,386	23,386
Corporate Banking	9,965	9,965	9,965
Total	**33,351**	**33,351**	**33,351**

Key assumptions used in value-in-use calculations

The recoverable amounts of the CGUs have been determined based on a value-in-use calculation, using cash flow projections based on financial budgets approved by senior management covering a one to three-year period. Discount rates were not adjusted for either a constant or a declining growth rate beyond the three-year periods covered in financial budgets. For the purposes of the impairment test, a 3% permanent growth rate has been assumed when assessing the future operating cash flows of the CGU beyond the three-year period covered in financial budgets.

The following discount rates were used by the Group for Corporate Banking and Retail Banking:

	Corporate Banking			Retail Banking		
	2021, %	2020, %	2019, %	2021, %	2020, %	2019, %
Discount rate	3.9%	4.4%	5.0%	8.1%	7.7%	6.7%

Discount rates

Discount rates reflect management's estimate of return required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using pre-tax weighted average cost of capital ("WACC").

For the Retail and Corporate Banking CGUs, the following additional assumptions were made:

- stable, business as usual growth of loans and deposits;
- no material changes in cost/income structure or ratio; and
- stable, business as usual growth of trade finance and other documentary businesses.

Sensitivity to changes in assumptions

Management believes that reasonable possible changes to key assumptions used to determine the recoverable amount for each CGU will not result in an impairment of goodwill. The excess of value-in-use over carrying value is determined by reference to the net book value as at 31 December 2021. Possible change was taken as +/-1% in discount rate and growth rate.

15. Taxation

The corporate income tax expense in income statement comprises:

	2021	2020	2019
Current income benefit (expense)	(111,652)	4,539	(48,341)
Deferred income tax benefit (expense)	36,828	(26,094)	(8,117)
Income tax expense	**(74,824)**	**(21,555)**	**(56,458)**

The income tax rate applicable to most of the Group's income is the income tax rate applicable to subsidiaries' income, which ranges from 15% to 25% (2020: from 15% to 25%, 2019: from 15% to 25%).

On 12 June 2018, an amendment to the current corporate taxation model applicable to financial institutions, including banks and insurance businesses, became effective. The change implies a zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings starting from 1 January 2023, instead of 1 January 2019 as previously enacted in 2016. The change had an immediate impact on deferred tax asset and deferred tax liability balances attributable to previously recognised temporary differences arising from prior periods. As at 30 June 2018, deferred tax assets and liabilities balances have been re-measured, in line with the new date for the change to be implemented. The Group has calculated the portion of deferred taxes that is expected to be realised before 1 January 2023 for financial businesses and has recognised the respective portion of deferred tax assets and liabilities. During the transitional period, the Group will only continue to recognise the portion of deferred tax assets and liabilities arising on items charged or credited to the income statement during the same period, which it expects to be realised before 1 January 2023.

The effective income tax rate differs from the statutory income tax rates. As at 31 December 2021, 31 December 2020 and 31 December 2019, a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows:

	2021	2020	2019
Profit before income tax expense	**801,942**	**316,498**	**556,409**
Average tax rate	15%	15%	15%
Theoretical income tax expense at average tax rate	**(120,291)**	**(47,475)**	**(83,461)**
Non-taxable income	50,671	35,910	29,515
Non-deductible expenses	(2,931)	(6,425)	(2,218)
Correction of prior year declarations	(15)	(3,343)	–
Tax at the domestic rates applicable to profits in each country	(2,401)	(525)	(540)
Other	143	303	246
Income tax expense	**(74,824)**	**(21,555)**	**(56,458)**

Applicable taxes in Georgia and Belarus include corporate income tax (profit tax), individuals' withholding taxes, property tax and value added tax, among others. However, regulations are often unclear or non-existent and few precedents have been established. This creates tax risks in Georgia and Belarus, substantially more significant than typically found in countries with more developed tax systems. Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretative issues.

As at 31 December 2021, 31 December 2020 and 31 December 2019, income tax assets and liabilities consist of the following:

	2021	2020	2019
Current income tax assets	109	21,841	75
Deferred income tax assets	183	192	207
Income tax assets	**292**	**22,033**	**282**
Current income tax liabilities	85,270	–	1,563
Deferred income tax liabilities	25,598	62,434	36,355
Income tax liabilities	**110,868**	**62,434**	**37,918**

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15. Taxation continued

Deferred tax assets and liabilities as at 31 December 2021, 31 December 2020 and 31 December 2019, and their movements for the respective years, are as follows:

		Origination and reversal of temporary differences		Origination and reversal of temporary differences		Origination and reversal of temporary differences	
	2018	In the income statement	2019	In the income statement	2020	In the income statement	2021
Tax effect of deductible temporary differences:							
Amounts due to credit institutions	103	(40)	63	(63)	–	–	–
Investment securities	–	66	66	(66)	–	–	–
Investment properties	205	23	228	(169)	59	108	167
Allowances for impairment and provisions for other losses	617	(617)	–	–	–	–	–
Tax losses carried forward	18	(18)	–	–	–	–	–
Property and equipment	1,977	150	2,127	258	2,385	29	2,414
Intangible assets	–	199	199	(199)	–	–	–
Lease liability	–	8,306	8,306	(2,300)	6,006	(2,236)	3,770
Accruals and deferred income	–	1,691	1,691	5,514	7,205	12,539	19,744
Other assets and liabilities	7,539	(4,780)	2,759	(2,692)	67	368	435
Deferred tax assets	**10,459**	**4,980**	**15,439**	**283**	**15,722**	**10,808**	**26,530**
Tax effect of taxable temporary differences:							
Amounts due to credit institutions	2,585	(635)	1,950	278	2,228	59	2,287
Debt securities issued	2,722	(411)	2,311	(687)	1,624	(932)	692
Cash and cash equivalents	2,669	(599)	2,070	(2,070)	–	–	–
Investment securities	322	(114)	208	(208)	–	–	–
Loans to customers and finance lease receivables	15,271	10,425	25,696	28,370	54,066	(24,192)	29,874
Client deposits and notes	–	35	35	141	176	(176)	–
Property and equipment	10,420	(1,269)	9,151	(130)	9,021	(3,121)	5,900
Right-of-use assets	–	8,465	8,465	(2,955)	5,510	(2,294)	3,216
Investment properties	584	(356)	228	112	340	625	965
Intangible assets	12	9	21	(21)	–	–	–
Assets held for sale	–	1,227	1,227	313	1,540	(1,055)	485
Accruals and deferred income	–	225	225	68	293	(180)	113
Other assets and liabilities	3,905	(3,905)	–	3,166	3,166	5,246	8,412
Deferred tax liabilities	**38,490**	**13,097**	**51,587**	**26,377**	**77,964**	**(26,020)**	**51,944**
Net deferred tax liabilities	**(28,031)**	**(8,117)**	**(36,148)**	**(26,094)**	**(62,242)**	**36,828**	**(25,414)**

16. Other assets and other liabilities

Other assets comprise:

	2021	2020	2019
Derivative financial assets	135,079	9,154	34,559
Receivables from remittance operations	35,041	26,045	33,955
Derivatives margin	18,586	210,816	2,093
Other receivables	17,534	14,174	11,111
Assets purchased for finance lease purposes	13,093	39,742	22,984
Investments in associates	10,079	14,261	14,273
Operating tax assets	8,169	8,398	10,473
Foreclosed assets	3,216	5,989	7,164
Investment securities at fair value through profit or loss	2,146	5,731	7,493
Other	18,487	6,663	7,786
Other assets, gross	**261,430**	**340,973**	**151,891**
Less – Allowance for impairment of other assets	(14,483)	(14,979)	(8,737)
Other assets, net	**246,947**	**325,994**	**143,154**

Other liabilities comprise:

	2021	2020	2019
Derivatives margin	98,844	–	12,532
Creditors	25,814	30,678	23,355
Other taxes payable	12,498	10,045	12,369
Payables for remittance operations	8,457	8,597	19,331
Derivative financial liabilities	7,865	247,520	10,836
Accounts payable	7,708	11,651	4,081
Provisions	6,993	15,325	6,154
Dividends payable to non-controlling shareholders	1,746	1,578	1,611
Advances received	268	731	5,072
Other	13,156	6,197	7,321
Other liabilities	**183,349**	**332,322**	**102,662**

In 2020, the Bank's derivative financial liabilities comprised mainly of USD-EUR contracts, the balance on which has significantly increased as a result of an apparent devaluation of USD as compared to EUR. The Bank was also required to provide respective collateral for the exposure in the form of a derivatives margin.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or liability, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year-end and are not indicative of the credit risk.

	2021		
	Notional amount	Fair value	
		Asset	Liability
Foreign exchange contracts			
Forwards and swaps – domestic	1,065,639	931	3,141
Forwards and swaps – foreign	5,678,727	131,321	3,339
Interest rate contracts			
Forwards and swaps – foreign (IR)	1,129	296	–
Options – foreign (IR)	7,434	2,531	1,385
Total derivative assets/liabilities	**6,752,929**	**135,079**	**7,865**

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16. Other assets and other liabilities continued

	2020			2019		
	Notional amount	Fair value		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
Foreign exchange contracts						
Forwards and swaps – domestic	574,563	6,881	2,908	797,784	5,620	1,242
Forwards and swaps – foreign	7,057,736	724	243,510	5,482,178	26,373	7,680
Interest rate contracts						
Options – foreign (IR)	7,864	1,549	1,102	8,351	2,566	1,914
Total derivative assets/liabilities	**7,640,163**	**9,154**	**247,520**	**6,288,313**	**34,559**	**10,836**

17. Client deposits and notes

The amounts due to customers include the following:

	2021	2020	2019
Time deposits	7,040,056	8,025,100	5,042,851
Current accounts	6,997,946	5,995,109	5,033,884
Client deposits and notes	**14,038,002**	**14,020,209**	**10,076,735**

At 31 December 2021, amounts due to customers of GEL 1,953,107 (14%) were due to the ten largest customers (2020: GEL 2,951,893 (21%), 2019: GEL 828,952 (8%)).

Amounts due to customers include accounts with the following types of customers:

	2021	2020	2019
Individuals	8,501,021	7,836,351	6,493,003
Private enterprises	4,914,845	4,268,313	3,221,723
State and state-owned entities	622,136	1,915,545	362,009
Client deposits and notes	**14,038,002**	**14,020,209**	**10,076,735**

The breakdown of customer accounts by industry sector is as follows:

	2021	2020	2019
Individuals	8,501,021	7,836,351	6,493,003
Financial intermediation	1,280,955	777,786	502,381
Trade	853,307	842,355	521,165
Construction	664,695	587,632	630,995
Government services	613,710	1,866,342	320,445
Manufacturing	444,095	315,192	266,006
Transport & communication	418,243	538,950	425,407
Service	345,130	387,108	282,228
Real estate	214,082	159,038	125,173
Electricity, gas and water supply	112,244	75,197	93,750
Hospitality	70,375	65,042	60,672
Other	520,145	569,216	355,510
Client deposits and notes	**14,038,002**	**14,020,209**	**10,076,735**

18. Amounts owed to credit institutions

Amounts due to credit institutions comprise:

	2021	2020	2019
Borrowings from international credit institutions	1,839,921	1,583,056	1,387,318
Short-term loans from National Bank of Georgia	1,413,333	590,293	1,551,953
Time deposits and inter-bank loans	226,015	258,920	234,962
Correspondent accounts	170,410	196,049	263,974
Other borrowings*	–	–	34,423
	3,649,679	**2,628,318**	**3,472,630**
Non-convertible subordinated debt	668,766	707,648	461,493
Amounts due to credit institutions	**4,318,445**	**3,335,966**	**3,934,123**

* Other borrowings represent borrowings from JSC Georgia Capital on arm's length terms.

During the year ended 31 December 2021, the Group paid up to 4.18% on USD borrowings from international credit institutions (2020: up to 5.49%, 2019: up to 6.50%). During the year ended 31 December 2021, the Group paid up to 7.75% on Dollar subordinated debt (2020: up to 9.39%, 2019: up to 11.13%).

Some long-term borrowings from international credit institutions are received upon certain conditions (the "Lender Covenants") that the Group maintains different limits for capital adequacy, liquidity, currency positions, credit exposures, leverage and others. At 31 December 2021, 31 December 2020 and 31 December 2019, the Group complied with all the Lender Covenants of the significant borrowings from international credit institutions.

In June 2019, the Bank and the European Fund for Southeast Europe ("EFSE") have entered into a USD 10 million subordinated loan agreement with a maturity of ten years. The subordinated loan facility qualifies for Tier II capital under the Basel III framework recently introduced in Georgia.

In September 2019, the Bank and responsAbility Micro and SME Finance Fund have entered into a USD 10 million subordinated loan agreement with a maturity of ten years. The subordinated loan facility qualifies for Tier II capital under the Basel III framework recently introduced in Georgia.

In December 2019, the Bank signed a ten-year USD 107 million subordinated syndicated loan agreement arranged by FMO – Dutch entrepreneurial development bank in collaboration with other participating lenders. The disbursed portion of the facility has been included into the Bank's Tier 2 capital by approval of the National Bank of Georgia under the Basel III framework in the amount of USD 52 million for which the regulatory approval on classification was received in December 2019. The remaining undrawn portions are similarly expected to be included into the Bank's Tier 2 Capital subject to the relevant NBG approvals.

On 2 April 2020, the Bank drew-down the second tranche of the USD 107 million subordinated syndicated loan facility signed in December 2019, in the amount of USD 55 million. The Bank received the NBG's approval on classification of the facility as a Bank Tier 2 capital instrument under the Basel III regulation since April 2020 and will further improve the overall capitalisation of the Bank.

On 13 March 2020, the Bank drew-down EUR 15 million of total EUR 50 million loan facility from European Investment Bank ("EIB") signed in December, 2019. The loan was drawn in Georgian Lari with maturity of five years. Up to 50% of the total facility can be drawn in Georgian Lari, while the remaining amount will be denominated in Euros or US Dollars. The local currency tranche is also supported by the Neighbourhood Investment Facility of the European Union. The purpose of the credit is to finance investment projects promoted by micro, small and medium-sized and mid capitalisation enterprises in Georgia and support the implementation of projects important for the local private sector development.

On 14 April 2020, the Bank drew-down GEL 100 million loan facility from International Finance Corporation ("IFC"), signed in January 2020, with maturity of five years. The facility will support the local currency needs of Georgian micro, small and medium-sized enterprises.

Other borrowings of BOGG were formed as a result of the Demerger, during which BGEO Group limited, former BGEO Group PLC, contributed the entire issued share capital of JSC Georgia Capital, the Investment Business, in exchange for an interest-bearing loan.

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19. Debt securities issued

Debt securities issued comprise:

	2021	2020	2019
Eurobonds and notes issued	932,260	1,019,120	1,406,200
Additional Tier 1 capital notes issued	306,239	323,320	282,407
Local bonds	151,703	102,187	87,921
Certificates of deposit	128,483	140,918	343,536
Debt securities issued	**1,518,685**	**1,585,545**	**2,120,064**

On 21 March 2019, JSC Bank of Georgia successfully issued an inaugural USD 100 million offering of 11.125% Additional Tier 1 Capital Perpetual Subordinated Notes callable after 5.25 years and on every subsequent interest payment date, subject to prior consent of the National Bank of Georgia (the "Notes"). The Notes have been issued in accordance with Regulation S as adopted by the United States SEC and sold at an issue price of 100.00%. The notes qualify as the Bank's Additional Tier 1 Capital under Basel III framework, with the NBG's approval.

On 1 June 2020 the Bank repaid GEL 500 million GEL-denominated 11.00% notes.

Changes in liabilities arising from financing activities

	Eurobonds and notes issued	Additional Tier 1 capital notes issued
Carrying amount at 31 December 2018	**1,349,853**	**–**
Proceeds from debt securities issued	–	268,160
Other movements	56,347	14,247
Carrying amount at 31 December 2019	**1,406,200**	**282,407**
Repurchase of debt securities issued	(120,549)	–
Repayment of the principal portion of the debt securities issued	(440,410)	–
Other movements	173,879	40,913
Carrying amount at 31 December 2020	**1,019,120**	**323,320**
Repurchase of debt securities issued	(28,825)	–
Repayment of the principal portion of the debt securities issued	(46,706)	–
Other movements	(11,329)	(17,081)
Carrying amount at 31 December 2021	**932,260**	**306,239**

20. Commitments and contingencies

Legal

Sai-invest

As at 31 December 2021, the Bank was engaged in litigation with Sai-Invest LLC ("Sai-Invest") in relation to a deposit pledge in the amount of EUR 7 million for the benefit LTD Sport Invest's loans owing to JSC Bank of Georgia. Sai-Invest LLC has challenged the validity of the deposit pledge in the Georgian courts, and its challenge has been substantially sustained in the Court of Appeal, a determination which the Bank believes to be erroneous and without merit, and which the Bank has appealed to the Supreme Court. The matter is currently under review by the Supreme Court, and a decision is expected during 2022. The Bank's management is of the opinion that the probability of incurring material losses on this claim is low, and, accordingly, no provision has been made in these consolidated financial statements.

20. Commitments and contingencies continued

Financial commitments and contingencies

As at 31 December 2021, 31 December 2020 and 31 December 2019, the Group's financial commitments and contingencies comprised the following:

	2021	2020	2019
Credit-related commitments			
Financial and performance guarantees issued*	1,686,913	1,490,028	1,347,841
Letters of credit	71,676	125,031	54,815
Undrawn loan facilities	809,481	685,533	281,615
	2,568,070	**2,300,592**	**1,684,271**
Less – Cash held as security against letters of credit and guarantees (Note 17)	(117,379)	(131,946)	(90,346)
Less – Provisions	(6,993)	(15,325)	(6,154)
Operating lease commitments			
Not later than 1 year	1,875	2,356	2,294
Later than 1 year but not later than 5 years	2,486	2,774	2,117
Later than 5 years	986	1,657	146
	5,347	**6,787**	**4,557**
Capital expenditure commitments	**4,539**	**2,863**	**4,279**

* Out of total guarantees issued as at 31 December 2021 financial and performance guarantees of the Group comprised GEL 1,030,122 (31 December 2020: GEL 888,905 , 31 December 2019: GEL 800,952) and GEL 656,791 (31 December 2020: GEL 601,123 , 31 December 2019: GEL 546,889), respectively.

The Group discloses its undrawn loan facility balances based on the contractual terms and existing practice in regards to disbursement of these amounts. The balances are disclosed as commitments if the Group has an established practice of disbursing undrawn amounts without any subsequent approval. In 2020 the Group has modified its disbursement practice in regards to certain revolving credit facilities resulting in increased commitment balances.

21. Equity

Share capital

As at 31 December 2021, 31 December 2020 and 31 December 2019, issued share capital comprised 49,169,428 common shares of BOGG, all of which were fully paid. Each share has a nominal value of one (1) British penny. Shares issued and outstanding as at 31 December 2021 are described below:

	Number of ordinary shares	Amount of ordinary shares
31 December 2018	**49,169,428**	**1,618**
31 December 2019	**49,169,428**	**1,618**
31 December 2020	**49,169,428**	**1,618**
31 December 2021	**49,169,428**	**1,618**

Treasury shares

Treasury shares are held by the Group solely for the purpose of future employee share-based compensation.

The number of treasury shares held by the Group as at 31 December 2021, comprised 2,268,446 (31 December 2020: 1,638,844, 31 December 2019: 1,958,552), with nominal amount of GEL 75 (31 December 2020: GEL 54, 31 December 2019: GEL 64).

(Thousands of Georgian Lari)

21. Equity continued

Dividends

Shareholders are entitled to dividends in Pounds Sterling.

In 2021, 2020 and 2019 the Group distributed dividends on the shares vested and exercised during 2021, 2020 and 2019, respectively.

On 17 August 2021, the Board of Bank of Georgia Group PLC declared an interim dividend for 2021 of Georgian Lari 1.48 per share. The currency conversion period was set to be 18 to 22 October 2021, with the official GEL:GBP exchange rate of 4.3219, resulting in a GBP-denominated final dividend of 0.3424 per share. Payment of the total GEL 71,838 interim dividends was received by shareholders on 5 November 2021.

No other dividends have been declared by Bank of Georgia Group PLC in 2020.

On 17 May 2019, the shareholders of Bank of Georgia Group PLC declared a final dividend for 2018 of Georgian Lari 2.55 per share. The currency conversion period was set to be 27 to 31 May 2019, with the official GEL:GBP exchange rate of 3.5337, resulting in a GBP-denominated final dividend of 0.7216 per share. Payment of the total GEL 123,705 final dividends was received by shareholders on 28 June 2019.

Nature and purpose of other reserves

Unrealised gains (losses) on investment securities

This reserve records fair value changes on investment securities.

Unrealised gains (losses) from dilution or sale/acquisition of shares in existing subsidiaries

This reserve records unrealised gains (losses) from dilution or sale/acquisition of shares in existing subsidiaries.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of subsidiaries with functional currency other than GEL.

Movements on this account during the years ended 31 December 2021, 31 December 2020 and 31 December 2019, are presented in the statements of other comprehensive income.

Earnings per share

	2021	2020	2019
Basic earnings per share			
Profit for the year attributable to ordinary shareholders of the Group	723,806	293,584	497,664
Weighted average number of ordinary shares outstanding during the year	47,543,881	47,563,734	47,642,789
Basic earnings per share	15.2240	6.1724	10.4457

	2021	2020	2019
Diluted earnings per share			
Effect of dilution on weighted average number of ordinary shares:			
Dilutive unvested share options	1,098,682	13,690	100,222
Weighted average number of ordinary shares adjusted for the effect of dilution	48,642,563	47,577,424	47,743,011
Diluted earnings per share	14.8801	6.1707	10.4238

22. Net interest income

	2021	2020	2019
Interest income calculated using EIR method	1,822,307	1,563,362	1,411,359
From loans to customers	1,614,647	1,371,392	1,252,945
From investment securities	199,802	170,281	140,581
From amounts due from credit institutions	18,312	19,002	27,193
Net gain (loss) on modification of financial assets	(10,454)	2,687	(9,360)
Other interest income	28,737	32,065	25,802
From finance lease receivable	28,727	31,999	25,610
From other assets	10	66	–
From loans and advances to customers measured at FVTPL	–	–	192
Interest income	**1,851,044**	**1,595,427**	**1,437,161**
On client deposits and notes	(497,742)	(443,616)	(289,668)
On amounts owed to credit institutions	(297,953)	(267,306)	(222,567)
On debt securities issued	(112,431)	(142,373)	(165,336)
Interest element of cross-currency swaps	30,632	52,312	43,048
On lease liability	(4,980)	(5,387)	(4,921)
Interest expense	**(882,474)**	**(806,370)**	**(639,444)**
Deposit insurance fees	(14,629)	(11,415)	(8,298)
Net interest income	**953,941**	**777,642**	**789,419**

In 2020, a GEL 39,730 (Note 26) net one-off loss on modification of financial assets was recorded in relation to the three-month payment holidays on principal and interest offered to our Retail Banking clients, as an immediate response to COVID-19 pandemic outbreak, in order to reduce the requirement for customers to physically visit Bank branches and reduce the risk of the virus spread. The net loss incurred as a result of these modifications has been classified as a non-recurring item in the income statement.

23. Net fee and commission income

	2021	2020	2019
Settlements operations	307,471	213,865	218,112
Guarantees and letters of credit	34,402	28,373	25,793
Currency conversion operations	15,783	8,438	10,874
Cash operations	14,439	11,883	17,077
Brokerage service fees	6,912	6,501	3,398
Advisory	5,981	1,463	4,119
Other	5,841	3,935	4,820
Fee and commission income	**390,829**	**274,458**	**284,193**
Settlements operations	(134,390)	(90,357)	(85,476)
Currency conversion operations	(2,571)	(2,256)	(1,948)
Guarantees and letters of credit	(724)	(505)	(1,670)
Cash operations	(9,626)	(8,903)	(8,852)
Insurance brokerage service fees	(4,894)	(3,847)	(2,651)
Advisory	(653)	(63)	(24)
Other	(5,540)	(3,024)	(3,558)
Fee and commission expense	**(158,398)**	**(108,955)**	**(104,179)**
Net fee and commission income	**232,431**	**165,503**	**180,014**

Revenue from customers

In 2021, the Group recognised GEL 341,873 revenue from contracts with customers in the income statement, including fee and commission as well as net other income (2020: GEL 242,238, 2019: GEL 295,320).

(Thousands of Georgian Lari)

23. Net fee and commission income continued

Contract assets and liabilities

As at 31 December 2021, the Group has recognised GEL 40,878 revenue-related contract liabilities (2020: GEL 36,653, 2019: GEL 29,567). Accounts receivable are recognised when the right to consideration becomes unconditional. Deferred revenue is recognised as revenue as we perform under the contract.

The Group does not adjust the promised amount of consideration for the effects of a significant financing component if the Group expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

In 2021, the Group recognised GEL 10,619 revenue (2020: GEL 11,802, 2019: GEL 7,222) that relates to carried-forward contract liabilities and is included in the deferred income.

Transaction price allocated to the remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied at the reporting date:

	In 1 year	In 2 years	In 3 years	In 3 to 5 years	In 5 to 10 years	Total
As at 31 December 2021	39,292	1,119	388	76	3	**40,878**
As at 31 December 2020	12,905	1,544	1,303	2,198	18,703	**36,653**
As at 31 December 2019	21,677	9,427	5,533	2,169	152	**38,958**

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

24. Salaries and other employee benefits, and general and administrative expenses

Salaries and other employee benefits

	2021	2020	2019
Salaries and bonuses	(272,148)	(232,097)	(236,175)
Social security costs	(5,107)	(4,410)	(4,919)
Pension costs	(3,832)	(3,100)	(2,761)
Salaries and other employee benefits	**(281,087)**	**(239,607)**	**(243,855)**

In 2021, salaries and bonuses include GEL 45,307 of the Equity Compensation Plan costs (2020: GEL 53,741, 2019: GEL 58,117), associated with the existing share-based compensation scheme approved in the Group (Note 27).

The average number of staff employed by the Group for the years ended 31 December 2021, 31 December 2020 and 31 December 2019, comprised:

	2021	2020	2019
The Bank	6,012	5,758	5,806
BNB	540	545	621
Other	1,035	960	961
Average total number of staff employed	**7,587**	**7,263**	**7,388**

24. Salaries and other employee benefits, and general and administrative expenses continued

General and administrative expenses

	2021	2020	2019
Repairs and maintenance	(40,257)	(24,320)	(14,150)
Marketing and advertising	(23,264)	(17,394)	(17,310)
Legal and other professional services	(14,682)	(14,508)	(16,953)
Operating taxes	(13,393)	(14,183)	(11,330)
Office supplies	(6,562)	(6,275)	(6,376)
Communication	(6,440)	(5,830)	(6,195)
Occupancy and rent	(5,890)	(5,977)	(8,306)
Travel expenses	(3,808)	(3,231)	(4,095)
Insurance	(3,685)	(3,420)	(3,166)
Security	(3,461)	(2,782)	(1,684)
Corporate hospitality and entertainment	(2,022)	(1,380)	(9,725)
Personnel training and recruitment	(1,895)	(1,726)	(3,234)
Other	(4,165)	(4,505)	(3,633)
General and administrative expenses	**(129,524)**	**(105,531)**	**(106,157)**

Auditor remuneration

Auditor remuneration is included within legal and other professional services expenses above and comprises:

	2021	2020	2019
Fees payable for the audit of the Company's current year Annual Report	635	587	502
Fees payable for other services:			
Audit of the Company's subsidiaries	968	973	849
Total audit fees	**1,603**	**1,560**	**1,351**
Audit related assurance services			
Review of the Company's and subsidiaries' interim accounts	366	339	293
Other assurance services	31	307	315
Total audit related fees	**397**	**646**	**608**
Non-audit services			
Other assurance services	12	–	–
Total other services fees	**12**	**–**	**–**
Total fees	**2,012**	**2,206**	**1,959**

The figures shown in the above table relate to fees paid to Ernst & Young LLP ("EY") and its associates. In 2021, fees paid to other auditors not associated with EY in respect of the audit of the Parent and Group's subsidiaries were GEL 273 (2020: GEL 257, 2019: GEL 554), and in respect of other services of the Group were GEL 823 (2020: GEL 377, 2019: GEL 181).

(Thousands of Georgian Lari)

25. Expected credit loss

The table below shows expected credit loss (ECL) charges on financial instruments and provision for guarantees for the year recorded in the income statement:

	Stage 1		Stage 2	Stage 3			
	Individual	Collective	Collective	Individual	Collective	POCI	Total
Cash and cash equivalents	–	48	–	–	–	–	48
Amounts due from credit institutions	–	66	–	–	–	–	66
Investment securities measured at FVOCI – debt instruments	–	1,090	–	–	–	–	1,090
Loans to customers at amortised cost	–	(2,059)	28,901	4,632	(31,291)	(1,635)	(1,452)
Finance lease receivables	–	(513)	(204)	(264)	(2,774)	(1,195)	(4,950)
Accounts receivable and other loans	(117)	–	–	–	–	–	(117)
Other financial assets	–	(2,621)	–	–	–	–	(2,621)
Financial and performance guarantees	–	6,599	53	3,733	(7)	–	10,378
Letters of credit to customers	–	1,543	–	328	–	–	1,871
Other financial commitments	–	(1,136)	(443)	–	–	–	(1,579)
For the year ended 31 December 2021	**(117)**	**3,780**	**28,307**	**8,429**	**(34,072)**	**(2,830)**	**3,497**

	Stage 1		Stage 2	Stage 3			
	Individual	Collective	Collective	Individual	Collective	POCI	Total
Cash and cash equivalents	–	63	–	–	–	–	63
Amounts due from credit institutions	–	(56)	–	–	–	–	(56)
Investment securities measured at FVOCI – debt instruments	–	(458)	–	–	–	–	(458)
Loans to customers at amortised cost	–	(61,219)	(49,502)	(62,612)	(62,439)	(1,211)	(236,983)
Finance lease receivables	–	310	(1,018)	(967)	(6,350)	–	(8,025)
Financial and performance guarantees	–	(4,091)	(33)	(3,091)	–	–	(7,215)
Letters of credit to customers	–	(1,317)	–	(380)	–	–	(1,697)
Other financial commitments	–	158	(69)	–	–	–	89
For the year ended 31 December 2020	**–**	**(80,558)**	**(50,622)**	**(67,050)**	**(68,789)**	**(1,211)**	**(268,230)**

	Stage 1		Stage 2	Stage 3			
	Individual	Collective	Collective	Individual	Collective	POCI	Total
Cash and cash equivalents	–	(7)	–	–	–	–	(7)
Amounts due from credit institutions	–	424	–	–	–	–	424
Investment securities measured at FVOCI – debt instruments	–	(337)	–	–	–	–	(337)
Loans to customers at amortised cost	–	(11,211)	5,159	72,903	(159,861)	(1,145)	(94,155)
Finance lease receivables	–	(249)	(32)	228	(832)	–	(885)
Accounts receivable and other loans	–	–	–	–	–	–	–
Financial and performance guarantees	–	(378)	(15)	141	138	–	(114)
Letters of credit to customers	–	(207)	117	(13)	–	–	(103)
Other financial commitments	–	55	13	(50)	–	–	18
For the year ended 31 December 2019	**–**	**(11,910)**	**5,242**	**73,209**	**(160,555)**	**(1,145)**	**(95,159)**

26. Net non-recurring items

	2021	2020	2019
Modification loss of financial assets*	–	(39,730)	–
Corporate social responsibility expense**	–	(1,454)	–
Legal fees	–	–	(9,474)
Termination benefits	–	–	(3,985)
Loss from sale of subsidiary	–	–	(224)
Other	(590)	(127)	(1,025)
Net non-recurring expense/loss	**(590)**	**(41,311)**	**(14,708)**

* Modification loss of financial assets: in response to the COVID-19 outbreak, the Group implemented an initiative to grant a three-month grace period to its borrowers with the interest accrued for grace period being deferred and either allocated over the original repayment schedule till maturity on a straight-line basis (i.e. no compounding applied) or in some cases beyond maturity (i.e., maturity extended by 3 months). The payment holiday was intended to reduce customer traffic to branches and thus reduce chances of the rapid spread of the virus in the country. The noted immediate social response to COVID-19 pandemic resulted in modification loss in amount of GEL 39,730. Given the initiative was driven by high social responsibility motives and was similar to a CSR cost with high degree of abnormality and extraordinary nature, such modification losses were presented as non-recurring item in the Group's consolidated financial statements.

** In 2020, corporate social responsibly expense: in order to assist in the fight against the COVID-19 the Group purchased and donated laboratory tests, respiratory equipment, etc. to the Government of Georgia on a one-off basis.

27. Share-based payments

Executives' Equity Compensation Plan ("EECP") and Employees' Equity Compensation Plan ("EECP")

In 2015, the Group set up Executive Equity Compensation Trustee – Sanne Fiduciary Services Limited (the "Trustee") which acts as the trustee of the Group's Executives' Equity Compensation Plan ("EECP"). In 2021, the Trustee has repurchased 699,998 shares (2020: 0 shares and 2019: 299,643 shares).

In 2019, the Group set up the Group's Employee Equity Compensation Trustee – Sanne Fiduciary Services Limited (the "Trustee") which acts as the trustee of Employees' Equity Compensation Plan ("EECP"). In 2021, the Trustee has repurchased 485,820 shares (2020: 234,563 shares and 2019: 439,320 shares).

Following the Demerger, BOGG's Remuneration Committee resolved to amend the contingent share-based compensation of Management Board members using estimated valuation of the relative share prices of BGEO before the Demerger and BOGG after the listing.

In March 2021, BOGG's Remuneration Committee resolved to award 20,100 ordinary shares of Bank of Georgia Group PLC to the members of the Management Board and 176,218 ordinary shares of Bank of Georgia Group PLC to the Group's 46 executives. Shares awarded to the Management Board are subject to three-year vesting period, while those awarded to the other 46 executives are subject to a three-year vesting with continuous employment being the only vesting condition for both awards. The Group considers 11 March 2021 as the grant date. The Group estimates that the fair value of the shares awarded on 11 March 2021 was Georgian Lari 50.12 per share.

In January 2020, BOGG's Remuneration Committee resolved to award 271,460 ordinary shares of Bank of Georgia Group PLC to the members of the Management Board and 315,869 ordinary shares of Bank of Georgia Group PLC to the Group's 49 executives. Shares awarded to the Management Board are subject to two-year vesting and two-year holding periods, while those awarded to the other 49 executives are subject to three-year vesting with continuous employment being the only vesting condition for both awards. The Group considers 31 January 2020 as the grant date. The Group estimates that the fair value of the shares awarded on 31 January 2020 was Georgian Lari 56.98 per share.

In March 2019, BOGG's Remuneration Committee resolved to award 344,000 ordinary shares of Bank of Georgia Group PLC to the members of the Management Board and 185,670 ordinary shares of Bank of Georgia Group PLC to the Group's 33 executives. Shares awarded to the Management Board and the other 33 executives are subject to three-year vesting with continuous employment being the only vesting condition for both awards. The Group considers 10 and 20 March 2019 as the grant date. The Group estimates that the fair value of the shares awarded on 10 and 20 March 2019 was Georgian Lari 56.51 and 59.04 per share, respectively.

In 2021, key executive member signed fixed contingent share-based compensation agreements with the total of 10,000 ordinary shares of BOGG. The award will be subject to a three-year vesting period. The Group considers 1 March 2021 as the grant dates for the awards. The Group estimates that the fair value of the shares on 1 March 2021 were Georgian Lari 45.89.

(Thousands of Georgian Lari)

27. Share-based payments continued

Executives' Equity Compensation Plan ("EECP") and Employees' Equity Compensation Plan ("EECP") continued

In 2021, key executive members signed fixed contingent share-based compensation agreements, with fixed contract value of GEL 2,065. The Group considers 1 May 2021 and 1 October 2021 as the grant dates for the awards. The Group estimated the value of the shares were Georgian Lari 51.57 and 66.12, respectively, based on five working day average share price before the grant dates of 1 May 2021 and 1 October 2021, respectively. The award will be subject to a one-year vesting and three-year holding periods.

In 2020, new Management Board members and one key executive signed new three-year fixed contingent share-based compensation agreements with the total of 120,000 and 30,000 ordinary shares of BOGG, respectively. The total amount of shares fixed to each executive will be awarded in three equal instalments during the three consecutive years, of which each award will be subject to a three-year vesting period. The Group considers 3 June 2020 and 29 December 2020 as the grant dates for the awards. The Group estimates that the fair value of the shares on 3 June 2020 and 29 December 2020 were Georgian Lari 39.91 and 54.61, respectively.

In 2020, existing Management Board members' share-based compensation agreements were amended with the total effect of 33,333 ordinary shares of BOGG. The Group considers 23 December 2020 as the grant date for the awards. The Group estimates that the fair value of the shares on 23 December 2020 was Georgian Lari 53.48.

In 2019, the Management Board members signed new three and five-year fixed contingent share-based compensation agreements with the total of 915,000 ordinary shares of BOGG. The total amount of shares fixed to each executive will be awarded in three and five equal instalments during the three and five consecutive years, of which each award will be subject to a four-year vesting period. The Group considers 9 January 2019, 1 May 2019 and 3 May 2019 as the grant dates for the awards. The Group estimates that the fair value of the shares on 9 January 2019, 1 May 2019 and 3 May 2019 were Georgian Lari 52.04, 60.57 and 60.14, respectively.

The Bank grants share compensation to its non-executive employees. In March 2021, January 2020 and March 2019, the Supervisory Board of the Bank resolved to award 188,694, 252,614 and 273,536 ordinary shares, respectively, to its certain non-executive employees. All these awards are subject to three-year vesting, with continuous employment being the only vesting condition for all awards. The Group considers 11 March 2021, 31 January 2020 and 10 March 2019 as the grant dates of these awards, respectively. The Group estimates that the fair values of the shares awarded on 11 March 2021, 31 January 2020 and 10 March 2019 were Georgian Lari 50.12, 56.98 and 56.51 per share, respectively.

Summary

Fair value of the shares granted at the measurement date is determined based on available market quotations.

The weighted average fair value of share-based awards at the grant date comprised Georgian Lari 50.93 per share in year ended 31 December 2021 (31 December 2020: Georgian Lari 55.91 per share, 31 December 2019: Georgian Lari 56.36).

The Group's total share-based payment expenses for the year ended 31 December 2021 comprised GEL 45,307 (31 December 2020: GEL 53,741, 31 December 2019: GEL 62,102) and are included ßin "salaries and other employee benefits", as "salaries and bonuses". Below is the summary of the share-based payments-related data:

	2021	2020	2019
Total number of equity instruments awarded	434,770	1,023,276	1,718,206
– Among them, to Management Board	30,100	424,793	1,259,000
Weighted average value at grant date, per share (GEL in full amount)	50.93	55.91	56.36
Value at grant date, total (GEL)	**22,143**	**57,211**	**96,832**
Total expense recognised during the year (GEL)*	**(45,307)**	**(53,741)**	**(62,102)**

* 2019 Expense recognised during the year includes GEL 3,985 recorded in non-recurring expenses.

During 2021 BOGG Directors exercised 16,965 shares with fair value of GEL 966. Weighted average share price comprised GEL 17.56 per share. During 2020 and 2019 BOGG Directors did not exercise any shares.

28. Risk management

Introduction

Risk is inherent in the Group's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

Risk management structure

In 2019, the Bank started to develop new Risk Management Framework and Risk Appetite Framework policies, which are based on three lines of defence model and reflect the requirement of the Corporate Governance Code adopted by the NBG. The new framework and policies were fully implemented by the end of 2020. The three lines of defence model enhances the understanding of risk management and control by clarifying roles and responsibilities within the Bank's different risk management bodies and business units in order to increase the effective management of risk and control.

Audit Committee

The Audit Committee assists the Board in relation to the oversight of the Group's financial and reporting processes. It monitors the integrity of the financial statements and is responsible for governance around both the Internal Audit function and external auditor, reporting back to the Board. It reviews the effectiveness of the policies, procedures and systems in place related to, among other operational risks, compliance, IT and Internal Security (including cyber-security), and works closely with the Risk Committee in connection with assessing the effectiveness of the risk management and internal control framework.

Risk Committee

The Risk Committee assists the Board in relation to the oversight of risk. It reviews the Group's risk appetite in line with strategy, identifies and monitors risk exposure and the risk management infrastructure, oversees the implementation of strategy to address risk, and in conjunction with the Audit Committee, assesses the strength and effectiveness of the risk management and internal control framework.

Management Board

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

Credit Committees

The Bank has five credit committees, each responsible for supervising and managing the Bank's credit risks in respect of loans and counterparty credit exposures. Each Credit Committee comprises tiers of subcommittees and approves individual loan transactions. Lower tier subcommittees meet on a daily basis, whereas higher tier ones meet as needed, typically one or two times a week. Each of the subcommittees of the Credit Committees makes its decisions by a majority vote of its members.

Bank Asset and Liability Management Committee

The Bank's Asset and Liability Management Committee ("ALCO") is the core asset liability management (ALM) and risk management body that establishes policies and guidelines with respect to capital adequacy, market risks and respective limits, funding liquidity risk and respective limits, interest rate and prepayment risks and respective limits, money market general terms and credit exposure limits. ALCO designs and implements respective risk management and stress testing models, regularly monitors compliance with the pre-set risk limits, and approves treasury deals with non-standard terms.

Internal Audit

The Internal Audit function is responsible for the annual audit of the Group's risk management, internal control and corporate governance processes, with the aim of reducing the levels of operational and other risks, auditing the Group's internal control systems and detecting any infringements or errors on the part of the Group's departments and divisions. It examines both the adequacy of, and the Group's compliance with, those procedures. The Group's Internal Audit department discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

28. Risk management continued

Introduction continued

Risk measurement and reporting

The Bank applies a variety of risk metrics to measure its exposures, ranging from operational indicators to forward looking/statistical model-based approaches and stress scenarios.

The Bank has established Risk Appetite limits for its principal risks, which are approved by the Supervisory Board. Monitoring and controlling of these risks are performed with reference to these limits. They reflect the business strategy and market environment in which the Bank operates and they set the boundaries for the level of risk the Bank is willing to take in pursuit of its strategic objectives. The Bank continuously monitors the landscape to ensure that any significant changes in the underlying assumptions and/or conditions are identified and adapted in a timely manner.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, and the head of each business division. The reports include aggregate credit exposures, liquidity ratios and changes to the risk profile. Senior management assesses the appropriateness of the expected credit loss on a monthly basis. The Management Board receives a comprehensive credit risk report and ALCO report. These reports are designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, relevant and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall Risk Management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. While these are intended for hedging, they do not qualify for hedge accounting.

The Group actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or these counterparties represent related parties to each other, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations also involve combined, aggregate exposures of large and significant credits compared with the total outstanding balance of the respective financial instrument. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on, maintaining a diversified portfolio of financial assets. Identified concentrations of credit risks or liquidity/repayment risks are controlled and managed accordingly.

28. Risk management continued

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical, industry, product and currency concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision.

The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action. The maximum credit exposure is limited to the carrying value of respective instruments and notional amounts of guarantees and commitments provided.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of the financial position.

Credit-related commitment risks

The Group makes available to its customers guarantees and letters of credit which may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of the guarantee and letter of credit. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group through internal and external credit ratings used in ECL calculations.

For corporate loan portfolios, the Group runs an internal rating model in which its customers are rated from 1 to 7 using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to each borrower, utilising supplemental external information that could affect the borrower's behaviour. It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. Attributable risk ratings are assessed and updated regularly.

For Retail, Micro and SME loans, the Group uses external ratings provided by Credit Bureau.

The Group's treasury, trading and inter-bank relationships and counterparties comprise financial services institutions, banks and broker-dealers. For these, where external ratings provided by rating agencies are available, the Group Credit Risk department uses such external ratings. For those where external ratings are not available internal ratings are assigned.

(Thousands of Georgian Lari)

28. Risk management continued

Credit risk continued

The table below shows internal and external grades used in ECL calculating.

Internal Rating Description*	Internal Rating Grades		External Rating Grades: Credit Bureau	External Rating Grades: Standard & Poor's
High grade				
	Aaa	1	A	AAA
	Aa1	2+	B	AA+
	Aa2	2	C1	AA
	Aa3	2-	C2	AA-
	A1	3+	C3	A+
	A2	3		A
	A3	3-		A-
	Baa1	4+		BBB+
	Baa2	4		BBB
	Baa3	4-		BBB-
Standard grade				
	Ba1	5+	D1	BB+
	Ba2	5	D2	BB
	Ba3	5-	D3	BB-
	B1	6+		B+
	B2	6		B
Low grade				
	B3	6-	E1	B-
	Caa1	7+	E2	CCC+
	Caa2	7	E3	CCC
	Caa3	7-		CCC-
	Ca			CC
				C

* Grades are not supposed to be linked to each other across the rating categories above.

The table below shows the credit quality by class of asset in the statement of financial position, presented in gross amounts, based on the Group's credit rating system.

A defaulted financial asset that is past due more than 90 days is assessed as a non-performing loan or as determined on individual basis based on other available information regarding financial difficulties of the borrower.

Cash and cash equivalents, excluding cash on hand	Stage 1	Total
High grade	480,889	480,889
Standard grade	78,953	78,953
Low grade	134	134
Not rated	209,548	209,548
Balance at 31 December 2021	**769,524**	**769,524**

Amounts due from credit institutions	Stage 1	Total
High grade	–	–
Standard grade	1,903,301	1,903,301
Low grade	–	–
Not rated	28,420	28,420
Balance at 31 December 2021	**1,931,721**	**1,931,721**

Investment securities measured at FVOCI – debt instruments	Stage 1	Total
High grade	1,031,369	1,031,369
Standard grade	1,464,107	1,464,107
Low grade	13,804	13,804
Not rated	79,948	79,948
Balance at 31 December 2021	**2,589,228**	**2,589,228**

28. Risk management continued

Credit risk continued

Commercial loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	2,815,718	11,769	–	–	2,827,487
Standard grade	1,318,613	166,392	–	–	1,485,005
Low grade	369,056	176,236	–	7,131	552,423
Not rated	430,925	20,536	3,524	–	454,985
Defaulted					
Non-performing	–	–	212,134	10,883	223,017
Other	–	–	11,267	–	11,267
Balance at 31 December 2021	**4,934,312**	**374,933**	**226,925**	**18,014**	**5,554,184**

Residential mortgage loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	2,751,165	67,134	–	2,163	2,820,462
Standard grade	616,665	84,564	–	4,284	705,513
Low grade	112,440	106,454	–	5,083	223,977
Not rated	149,099	1,818	–	–	150,917
Defaulted					
Non-performing	–	–	31,140	3,767	34,907
Other	–	–	73,374	12,908	86,282
Balance at 31 December 2021	**3,629,369**	**259,970**	**104,514**	**28,205**	**4,022,058**

Micro and SME loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	1,733,636	103,160	–	308	1,837,104
Standard grade	932,109	90,631	–	1,588	1,024,328
Low grade	108,045	69,942	–	561	178,548
Not rated	506,359	29,740	11	–	536,110
Defaulted					
Non-performing	–	–	115,794	2,125	117,919
Other	–	–	35,694	2,053	37,747
Balance at 31 December 2021	**3,280,149**	**293,473**	**151,499**	**6,635**	**3,731,756**

Consumer loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	1,415,629	23,339	–	858	1,439,826
Standard grade	758,684	54,826	–	1,640	815,150
Low grade	272,104	135,897	–	2,259	410,260
Not rated	189,021	964	267	–	190,252
Defaulted					
Non-performing	–	–	41,757	1,141	42,898
Other	–	–	65,618	17,301	82,919
Balance at 31 December 2021	**2,635,438**	**215,026**	**107,642**	**23,199**	**2,981,305**

Gold – pawn loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	58,481	295	–	–	58,776
Standard grade	41,990	2,606	–	–	44,596
Low grade	19,639	7,215	–	–	26,854
Not rated	32,677	–	–	–	32,677
Defaulted					
Non-performing	–	–	1,003	–	1,003
Other	–	–	1,511	–	1,511
Balance at 31 December 2021	**152,787**	**10,116**	**2,514**		**165,417**

(Thousands of Georgian Lari)

28. Risk management continued

Credit risk continued

Finance lease receivables	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	8,585	3,221	–	–	11,806
Standard grade	8,337	2,733	–	–	11,070
Low grade	8,515	5,850	–	–	14,365
Not rated	55,737	5,780	–	–	61,517
Defaulted					
Non-performing	–	–	605	–	605
Other	–	–	16,007	9,582	25,589
Balance at 31 December 2021	**81,174**	**17,584**	**16,612**	**9,582**	**124,952**

Accounts receivable	Stage 1	Total
Not rated	6,097	6,097
Balance at 31 December 2021	**6,097**	**6,097**

Other financial assets	Stage 1	Total
Not rated	52,575	52,575
Balance at 31 December 2021	**52,575**	**52,575**

Financial and performance guarantees issued	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	307,607	24,337	–	–	331,944
Standard grade	91,528	7,799	–	–	99,327
Low grade	58,376	3,334	–	–	61,710
Not rated	1,193,179	9	–	–	1,193,188
Other	–	–	744	–	744
Balance at 31 December 2021	**1,650,690**	**35,479**	**744**	**–**	**1,686,913**

Letters of credit	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	67,925	–	–	–	67,925
Standard grade	1,743	–	–	–	1,743
Low grade	410	–	–	–	410
Not rated	1,598	–	–	–	1,598
Balance at 31 December 2021	**71,676**	**–**	**–**	**–**	**71,676**

Undrawn loan facilities	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	581,310	1,415	–	–	582,725
Standard grade	121,376	3,011	–	–	124,387
Low grade	12,986	4,561	–	–	17,547
Not rated	83,653	240	9	–	83,902
Defaulted					
Non-performing	–	–	5	–	5
Other	–	–	909	6	915
Balance at 31 December 2021	**799,325**	**9,227**	**923**	**6**	**809,481**

Cash and cash equivalents, excluding cash on hand	Stage 1	Total
High grade	1,077,536	1,077,536
Standard grade	98,062	98,062
Low grade	87,355	87,355
Not rated	4,614	4,614
Balance at 31 December 2020	**1,267,567**	**1,267,567**

28. Risk management continued

Credit risk continued

Amounts due from credit institutions	Stage 1	Total
High grade	–	–
Standard grade	1,986,932	1,986,932
Low grade	–	–
Not rated	29,473	29,473
Balance at 31 December 2020	**2,016,405**	**2,016,405**

Investment securities measured at FVOCI – debt instruments	Stage 1	Total
High grade	1,010,177	1,010,177
Standard grade	1,414,785	1,414,785
Low grade	11,003	11,003
Not rated	107,929	107,929
Balance at 31 December 2020	**2,543,894**	**2,543,894**

Commercial loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	1,801,003	41,693	–	–	1,842,696
Standard grade	1,343,887	110,608	–	–	1,454,495
Low grade	361,573	194,295	–	7,402	563,270
Not rated	984,615	35,522	–	–	1,020,137
Defaulted					
Non-performing	–	–	236,992	974	237,966
Other	–	–	4,829	–	4,829
Balance at 31 December 2020	**4,491,078**	**382,118**	**241,821**	**8,376**	**5,123,393**

Residential mortgage loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	2,521,205	108,883	–	1,283	2,631,371
Standard grade	534,592	102,058	–	4,390	641,040
Low grade	111,250	101,843	–	4,968	218,061
Not rated	120,797	1,431	–	–	122,228
Defaulted					
Non-performing	–	–	110,378	6,056	116,434
Other	–	–	58,098	9,152	67,250
Balance at 31 December 2020	**3,287,844**	**314,215**	**168,476**	**25,849**	**3,796,384**

Micro and SME loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	1,278,947	151,938	–	409	1,431,294
Standard grade	834,885	135,345	–	309	970,539
Low grade	96,053	86,728	–	1,987	184,768
Not rated	439,222	65,394	–	11	504,627
Defaulted					
Non-performing	–	–	144,323	706	145,029
Other	–	–	33,148	49	33,197
Balance at 31 December 2020	**2,649,107**	**439,405**	**177,471**	**3,471**	**3,269,454**

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(Thousands of Georgian Lari)

28. Risk management continued

Credit risk continued

Consumer loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	1,041,103	31,976	–	412	1,073,491
Standard grade	514,395	51,890	–	965	567,250
Low grade	150,067	109,522	–	2,388	261,977
Not rated	198,617	978	–	–	199,595
Defaulted					
Non-performing	–	–	66,765	1,619	68,384
Other	–	–	34,185	3,131	37,316
Balance at 31 December 2020	**1,904,182**	**194,366**	**100,950**	**8,515**	**2,208,013**

Gold – pawn loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	31,764	262	–	–	32,026
Standard grade	42,352	703	–	–	43,055
Low grade	21,929	2,914	–	–	24,843
Not rated	1,730	–	–	–	1,730
Defaulted					
Non-performing	–	–	406	–	406
Other	–	–	1,324	–	1,324
Balance at 31 December 2020	**97,775**	**3,879**	**1,730**	**–**	**103,384**

Finance lease receivables	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	12,756	7,605	–	–	20,361
Standard grade	8,673	17,403	–	–	26,076
Low grade	201	12,767	–	–	12,968
Not rated	45,716	15,501	–	–	61,217
Defaulted					
Non-performing	–	–	3,595	–	3,595
Other	–	–	15,155	–	15,155
Balance at 31 December 2020	**67,346**	**53,276**	**18,750**	**–**	**139,372**

Accounts receivable	Stage 1	Total
Not rated	4,935	4,935
Balance at 31 December 2020	**4,935**	**4,935**

Other financial assets	Stage 1	Total
Not rated	40,219	40,219
Balance at 31 December 2020	**40,219**	**40,219**

Financial and performance guarantees issued	Stage 1	Stage 2	Stage 3	Total
High grade	160,612	7,628	–	168,240
Standard grade	40,554	7,414	–	47,968
Low grade	39,485	5,250	–	44,735
Not rated	1,198,042	6	–	1,198,048
Defaulted				
Non-performing	–	–	–	–
Other	–	–	31,037	31,037
Balance at 31 December 2020	**1,438,693**	**20,298**	**31,037**	**1,490,028**

28. Risk management continued
Credit risk continued

Letters of credit	Stage 1	Stage 2	Stage 3	Total
High grade	49,162	–	–	49,162
Standard grade	10,970	–	–	10,970
Low grade	261	–	–	261
Not rated	58,698	–	–	58,698
Defaulted				
Non-performing	–	–	–	–
Other	–	–	5,940	5,940
Balance at 31 December 2020	**119,091**	**–**	**5,940**	**125,031**

Undrawn loan facilities	Stage 1	Stage 2	Stage 3	Total
High grade	450,119	2,683	–	452,802
Standard grade	62,708	878	–	63,586
Low grade	15,682	14,740	–	30,422
Not rated	136,726	799	–	137,525
Defaulted				
Non-performing	–	–	–	–
Other	–	–	1,198	1,198
Balance at 31 December 2020	**665,235**	**19,100**	**1,198**	**685,533**

Cash and cash equivalents, excluding cash on hand	Stage 1	Total
High grade	936,629	936,629
Standard grade	373,932	373,932
Low grade	174,680	174,680
Not rated	4,937	4,937
Balance at 31 December 2019	**1,490,178**	**1,490,178**

Amounts due from credit institutions	Stage 1	Total
High grade	30,958	30,958
Standard grade	1,570,268	1,570,268
Low grade	–	–
Not rated	18,193	18,193
Balance at 31 December 2019	**1,619,419**	**1,619,419**

Investment securities measured at FVOCI – debt instruments	Stage 1	Total
High grade	884,565	884,565
Standard grade	797,644	797,644
Low grade	11,040	11,040
Not rated	95,457	95,457
Balance at 31 December 2019	**1,788,706**	**1,788,706**

Commercial loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	1,639,447	31,717	–	–	1,671,164
Standard grade	765,159	175,331	–	–	940,490
Low grade	334,032	116,850	–	6,583	457,465
Not rated	844,413	25,596	–	–	870,009
Defaulted					
Non-performing	–	–	134,963	–	134,963
Other	–	–	26,781	1,078	27,859
Balance at 31 December 2019	**3,583,051**	**349,494**	**161,744**	**7,661**	**4,101,950**

(Thousands of Georgian Lari)

28. Risk management continued
Credit risk continued

Residential mortgage loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	2,130,690	52,274	–	731	2,183,695
Standard grade	481,063	33,680	–	1,968	516,711
Low grade	101,978	73,922	–	3,050	178,950
Not rated	51,228	162	–	–	51,390
Defaulted					
Non-performing	–	–	21,005	3,399	24,404
Other	–	–	88,408	23,125	111,533
Balance at 31 December 2019	**2,764,959**	**160,038**	**109,413**	**32,273**	**3,066,683**

Micro and SME loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	1,361,741	13,919	–	–	1,375,660
Standard grade	645,784	31,867	–	9	677,660
Low grade	91,539	45,411	–	99	137,049
Not rated	327,802	21,933	–	–	349,735
Defaulted					
Non-performing	–	–	72,911	950	73,861
Other	–	–	45,564	691	46,255
Balance at 31 December 2019	**2,426,866**	**113,130**	**118,475**	**1,749**	**2,660,220**

Consumer loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	963,492	11,884	–	471	975,847
Standard grade	569,722	15,113	–	206	585,041
Low grade	155,999	82,621	–	1,673	240,293
Not rated	167,582	540	–	–	168,122
Defaulted					
Non-performing	–	–	25,524	548	26,072
Other	–	–	82,890	6,843	89,733
Balance at 31 December 2019	**1,856,795**	**110,158**	**108,414**	**9,741**	**2,085,108**

Gold – pawn loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
Not rated	80,794	1,114	–	–	81,908
Defaulted					
Non-performing	–	–	101	–	101
Other	–	–	3,531	–	3,531
Balance at 31 December 2019	**80,794**	**1,114**	**3,632**	**–**	**85,540**

Finance lease receivables	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	14,680	133	–	–	14,813
Standard grade	6,450	692	–	–	7,142
Low grade	7,664	233	–	–	7,897
Not rated	101,438	11,440	–	–	112,878
Defaulted					
Non-performing	–	–	6,457	–	6,457
Other	–	–	10,004	–	10,004
Balance at 31 December 2019	**130,232**	**12,498**	**16,461**	**–**	**159,191**

Accounts receivable	Stage 1	Total
Not rated	3,489	3,489
Balance at 31 December 2019	**3,489**	**3,489**

Other financial assets	Stage 1	Total
Not rated	45,066	45,066
Balance at 31 December 2019	**45,066**	**45,066**

28. Risk management continued

Credit risk continued

Financial and performance guarantees issued	Stage 1	Stage 2	Stage 3	Total
High grade	178,025	–	–	178,025
Standard grade	36,410	6,220	–	42,630
Low grade	50,215	9,580	–	59,795
Not rated	1,065,866	499	–	1,066,365
Defaulted				
Non-performing	–	–	–	–
Other	–	–	1,026	1,026
Balance at 31 December 2019	**1,330,516**	**16,299**	**1,026**	**1,347,841**

Letters of credit	Stage 1	Stage 2	Stage 3	Total
High grade	24,503	–	–	24,503
Standard grade	21,388	–	–	21,388
Low grade	1,147	–	–	1,147
Not rated	7,165	–	–	7,165
Defaulted				
Non-performing	–	–	–	–
Other	–	–	612	612
Balance at 31 December 2019	**54,203**	**–**	**612**	**54,815**

Undrawn loan facilities	Stage 1	Stage 2	Stage 3	Total
High grade	180,375	201	–	180,576
Standard grade	24,818	372	–	25,190
Low grade	6,496	3,438	–	9,934
Not rated	63,960	613	–	64,573
Defaulted				
Non-performing	–	–	–	–
Other	–	–	1,342	1,342
Balance at 31 December 2019	**275,649**	**4,624**	**1,342**	**281,615**

Types of collateral the Group accepts include real estate, movable properties as well as financial assets (deposits, shares and guarantees) and other registered liens. The measurement and processing of collateral are governed by generally acceptable standards and collateral-specific instructions. These transactions are structured under legally verified standard agreements where the pledges are secured through public registry where eligible. The following table shows the ratio of the loan portfolio to the market value of collateral held by the Group in respect of the portfolio. As at 31 December 2021, up to 76.0% of the collateral held has been revalued within the last two years (2020: 76.2%, 2019: 72.9%). For residential mortgage loans, in cases where the collateral for a loan may not be officially registered until its construction is complete, the relevant loan is shown as unsecured, even though it is usually secured by the corporate guarantee of the construction company.

	As at 31 December 2021									
			Loan-to-value %							
	Total gross carrying amount	Unsecured	Less than 50%	50%–80%	80%–90%	90%–100%	100%–200%	200%–300%	300%–400%	More than 400%
Commercial loans	5,554,184	670,741	474,531	1,396,633	167,960	238,995	1,193,148	814,879	197,306	399,991
ECL coverage	2.87%	1.51%	1.43%	0.69%	1.04%	2.71%	2.50%	10.60%	1.87%	1.17%
Residential mortgage loans	4,022,058	94,513	715,692	1,556,323	651,029	519,179	440,231	11,085	4,739	29,267
ECL coverage	0.82%	4.19%	0.02%	0.09%	0.66%	1.19%	3.41%	9.24%	2.15%	3.32%
Micro and SME loans	3,731,756	429,366	725,310	933,874	272,270	328,758	835,894	90,748	34,841	80,695
ECL coverage	1.99%	5.89%	0.10%	0.27%	0.66%	1.65%	3.11%	4.59%	2.43%	9.47%
Consumer loans	2,981,305	1,560,864	443,343	514,287	178,141	143,989	132,295	3,634	731	4,021
ECL coverage	4.56%	8.07%	0.07%	0.36%	1.02%	1.43%	2.67%	11.23%	2.60%	3.13%
Gold – pawn loans	165,417	1	4,182	37,427	118,095	4,568	1,128	–	–	16
ECL coverage	1.25%	N/A	0.02%	4.83%	0.09%	2.47%	2.48%	N/A	N/A	75.00%
Loans to customers at amortised cost, gross	**16,454,720**	**2,755,485**	**2,363,058**	**4,438,544**	**1,387,495**	**1,235,489**	**2,602,696**	**920,346**	**237,617**	**513,990**

(Thousands of Georgian Lari)

28. Risk management continued

Credit risk continued

	As at 31 December 2020									
			Loan-to-value %							
	Total gross carrying amount	Unsecured	Less than 50%	50%–80%	80%–90%	90%–100%	100%–200%	200%–300%	300%–400%	More than 400%
Commercial loans	5,123,393	499,548	635,950	1,147,875	114,903	146,474	1,018,590	147,898	750,360	661,795
ECL coverage	3.49%	3.10%	0.45%	1.14%	5.01%	8.62%	9.36%	6.17%	2.48%	0.87%
Residential mortgage loans	3,796,384	90,628	972,294	1,896,005	438,750	200,236	129,234	9,315	2,236	57,686
ECL coverage	1.28%	3.19%	0.03%	0.77%	2.59%	3.55%	7.87%	4.64%	3.31%	2.86%
Micro and SME loans	3,269,454	353,143	919,622	938,206	264,999	217,848	494,492	38,622	7,581	34,941
ECL coverage	3.13%	10.74%	0.10%	1.12%	2.08%	5.71%	5.30%	7.79%	13.78%	13.82%
Consumer loans	2,208,013	1,118,714	460,494	436,194	90,076	48,783	49,946	1,055	640	2,111
ECL coverage	5.15%	9.38%	0.13%	1.01%	2.36%	0.71%	2.66%	4.83%	1.72%	1.94%
Gold – pawn loans	103,384	–	3,340	23,313	72,392	1,748	2,576	2	–	13
ECL coverage	0.22%	N/A	0.09%	0.06%	0.20%	2.06%	0.78%	0.00%	N/A	76.92%
Loans to customers at amortised cost, gross	**14,500,628**	**2,062,033**	**2,991,700**	**4,441,593**	**981,120**	**615,089**	**1,694,838**	**196,892**	**760,817**	**756,546**

	As at 31 December 2019									
			Loan-to-value %							
	Total gross carrying amount	Unsecured	Less than 50%	50%–80%	80%–90%	90%–100%	100%–200%	200%–300%	300%–400%	More than 400%
Commercial loans	4,101,950	337,953	517,866	866,246	165,358	432,898	676,067	184,026	231,606	689,930
ECL coverage	2.40%	2.03%	0.51%	0.04%	0.56%	2.81%	9.89%	0.47%	0.46%	1.01%
Residential mortgage loans	3,066,683	49,727	766,251	1,599,275	479,140	86,572	66,568	9,160	821	9,169
ECL coverage	0.29%	2.89%	0.05%	0.04%	0.19%	1.68%	4.97%	6.97%	1.83%	1.91%
Micro and SME loans	2,660,220	327,718	750,020	797,114	181,543	156,002	378,363	36,562	12,762	20,136
ECL coverage	1.67%	7.43%	0.20%	0.26%	0.62%	0.77%	2.78%	4.10%	7.35%	6.64%
Consumer loans	2,085,108	1,159,510	387,116	322,747	93,823	46,122	73,502	547	359	1,382
ECL coverage	3.49%	6.11%	0.02%	0.15%	0.37%	0.63%	0.82%	14.44%	0.56%	1.52%
Gold – pawn loans	85,540	–	2,810	20,994	52,695	2,701	6,284	1	10	45
ECL coverage	0.30%	N/A	0.00%	0.03%	0.29%	0.78%	0.51%	0.00%	80.00%	80.00%
Loans to customers at amortised cost, gross	**11,999,501**	**1,874,908**	**2,424,063**	**3,606,376**	**972,559**	**724,295**	**1,200,784**	**230,296**	**245,558**	**720,662**

Carrying amount per class of financial assets whose terms have been renegotiated

During the year, the Group modified the contractual cash flows on certain loans and advances to customers. All such loans had previously been transferred to at least Stage 2, with a loss allowance measured at an amount equal to lifetime expected credit losses.

28. Risk management continued

Credit risk continued

The following table provides information on financial assets that were modified while they had a loss allowance measured at an amount equal to lifetime ECL:

Financial assets modified during 2021:	Amortised cost before modification	Net gain (loss) arising from modification
Commercial loans	437,979	388
Residential mortgage loans	132,638	530
Micro and SME loans	243,217	(4,185)
Consumer loans	271,896	(9,446)
Gold – pawn loans	–	–
Loans to customers	**1,085,730**	**(12,713)**
Finance lease receivables	–	–
Total loans to customers and finance lease receivables	**1,085,730**	**(12,713)**

Financial assets modified during 2020:	Amortised cost before modification	Net gain (loss) arising from modification
Commercial loans	117,119	83
Residential mortgage loans	364,619	(34)
Micro and SME loans	347,449	(3,347)
Consumer loans	347,562	(4,625)
Gold – pawn loans	–	–
Loans to customers	**1,176,749**	**(7,923)**
Finance lease receivables	52,188	(1,172)
Total loans to customers and finance lease receivables	**1,228,937**	**(9,095)**

Financial assets modified during 2019:	Amortised cost before modification	Net gain (loss) arising from modification
Commercial loans	35,186	(229)
Residential mortgage loans	51,776	(1,761)
Micro and SME loans	77,075	(4,038)
Consumer loans	33,470	(3,332)
Gold – pawn loans	–	–
Loans to customers	**197,507**	**(9,360)**
Finance lease receivables	–	–
Total loans to customers and finance lease receivables	**197,507**	**(9,360)**

The gross carrying values of loans that have previously been modified (when they were in Stage 2 or 3) which are now categorised as Stage 1, with loss allowance measured at an amount equal to 12 months expected losses, are shown in the table below:

Financial assets modified since initial recognition, as at 31 December 2021	Gross carrying amount	Corresponding ECL
Commercial loans	19,521	(121)
Residential mortgage loans	81,892	(231)
Micro and SME loans	35,301	(347)
Consumer loans	25,063	(633)
Loans to customers	**161,777**	**(1,332)**
Finance lease receivables	–	–
Total loans to customers and finance lease receivables	**161,777**	**(1,332)**

(Thousands of Georgian Lari)

28. Risk management continued
Credit risk continued

Financial assets modified since initial recognition, as at 31 December 2020	Gross carrying amount	Corresponding ECL
Commercial loans	14,952	(1)
Residential mortgage loans	100,079	(444)
Micro and SME loans	68,748	(1,023)
Consumer loans	42,408	(1,962)
Loans to customers	**226,187**	**(3,430)**
Finance lease receivables	717	(3)
Total loans to customers and finance lease receivables	**226,904**	**(3,433)**

Financial assets modified since initial recognition, as at 31 December 2019	Gross carrying amount	Corresponding ECL
Residential mortgage loans	8	–
Micro and SME loans	27	–
Loans to customers	**35**	**–**
Finance lease receivables	–	–
Total loans to customers and finance lease receivables	**35**	**–**

The geographical concentration of the Group's assets and liabilities is set out below:

	2021			
	Georgia	OECD	CIS and other foreign countries	Total
Assets:				
Cash and cash equivalents	836,325	419,324	264,913	1,520,562
Amounts due from credit institutions	1,922,671	–	8,719	1,931,390
Investment securities	1,477,367	970,901	147,396	2,595,664
Loans to customers and finance lease receivables	15,524,427	–	644,546	16,168,973
All other assets	977,703	178,765	57,019	1,213,487
	20,738,493	**1,568,990**	**1,122,593**	**23,430,076**
Liabilities:				
Client deposits and notes	11,180,811	894,192	1,962,999	14,038,002
Amounts owed to credit institutions	1,609,565	2,619,885	88,995	4,318,445
Debt securities issued	450,155	1,061,203	7,327	1,518,685
Lease liability	84,875	–	2,787	87,662
All other liabilities	309,068	55,291	10,015	374,374
	13,634,474	**4,630,571**	**2,072,123**	**20,337,168**
Net balance sheet position	**7,104,019**	**(3,061,581)**	**(949,530)**	**3,092,908**

28. Risk management continued
Credit risk continued

	2020				2019			
	Georgia	OECD	CIS and other foreign countries	Total	Georgia	OECD	CIS and other foreign countries	Total
Assets:								
Cash and cash equivalents	742,844	985,848	242,263	1,970,955	1,011,614	845,606	296,404	2,153,624
Amounts due from credit institutions	1,995,963	–	20,042	2,016,005	1,575,895	30,433	12,744	1,619,072
Investment securities	1,421,642	939,964	182,791	2,544,397	803,086	843,282	140,436	1,786,804
Loans to customers and finance lease receivables	13,504,237	–	687,841	14,192,078	11,350,386	–	580,876	11,931,262
All other assets	1,020,701	247,355	44,429	1,312,485	988,660	37,080	52,995	1,078,735
	18,685,387	**2,173,167**	**1,177,366**	**22,035,920**	**15,729,641**	**1,756,401**	**1,083,455**	**18,569,497**
Liabilities:								
Client deposits and notes	11,211,760	875,634	1,932,815	14,020,209	7,410,991	812,529	1,853,215	10,076,735
Amounts owed to credit institutions	872,239	2,393,872	69,855	3,335,966	1,889,624	1,969,269	75,230	3,934,123
Debt securities issued	102,104	1,449,374	34,067	1,585,545	87,692	1,962,934	69,438	2,120,064
Lease liability	91,217	–	4,418	95,635	89,480	–	5,136	94,616
All other liabilities	178,246	246,109	24,295	448,650	176,098	11,034	5,919	193,051
	12,455,566	**4,964,989**	**2,065,450**	**19,486,005**	**9,653,885**	**4,755,766**	**2,008,938**	**16,418,589**
Net balance sheet position	**6,229,821**	**(2,791,822)**	**(888,084)**	**2,549,915**	**6,075,756**	**(2,999,365)**	**(925,483)**	**2,150,908**

Liquidity risk and funding management
Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a regular basis. An assessment is made of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Group primarily on a standalone Bank basis, based on certain liquidity ratios established by the NBG. The banks are required to maintain a liquidity coverage ratio, which is defined as the ratio of high-quality liquid assets to net cash outflow over the next 30 days. The is a requirement that, absent a stress-period, the value of the ratio be no lower than 100%. The liquidity coverage ratio as at 31 December 2021 was 124.0% (2020: 138.6%, 2019: 136.7%).

The Bank holds a comfortable buffer on top of Net Stable Funding Ratio (NSFR) requirement of 100%, which came into effect on 1 September 2019. A solid buffer over NSFR provides stable funding sources over a longer time span. This approach is designed to ensure that the funding framework is sufficiently flexible to secure liquidity under a wide range of market conditions. NSFR as at 31 December 2021 was 132.5%, (2020: 137.5%, 2019: 132.5%), all comfortably above the NBG's minimum regulatory requirements.

The Group also matches the maturity of financial assets and financial liabilities and regularly monitors negative gaps compared with the Bank's standalone total regulatory capital calculated per NBG regulation.

(Thousands of Georgian Lari)

28. Risk management continued

Liquidity risk and funding management continued

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations. Repayments that are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Bank could be required to pay, and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities As at 31 December 2021	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Client deposits and notes	5,301,533	7,317,413	1,657,540	352,824	14,629,310
Amounts owed to credit institutions	1,815,989	628,686	1,870,941	610,949	4,926,565
Debt securities issued	37,678	310,707	1,432,079	–	1,780,464
Lease liability	6,145	16,729	66,981	10,992	100,847
Derivative financial liabilities	3,206	2,972	1,687	–	7,865
Other liabilities	174,322	816	328	18	175,484
Total undiscounted financial liabilities	**7,338,873**	**8,277,323**	**5,029,556**	**974,783**	**21,620,535**

Financial liabilities As at 31 December 2020	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Client deposits and notes	5,974,433	6,593,251	1,651,120	353,414	14,572,218
Amounts owed to credit institutions	982,039	811,129	1,553,898	558,866	3,905,932
Debt securities issued	72,994	143,409	1,408,547	345,886	1,970,836
Lease liability	6,342	19,057	69,248	21,751	116,398
Derivative financial liabilities	92,554	130,785	24,181	–	247,520
Other liabilities	75,519	2,525	6,656	102	84,802
Total undiscounted financial liabilities	**7,203,881**	**7,700,156**	**4,713,650**	**1,280,019**	**20,897,706**

Financial liabilities As at 31 December 2019	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Client deposits and notes	3,881,816	5,340,985	987,334	106,542	10,316,677
Amounts owed to credit institutions	2,150,034	586,685	1,317,431	787,759	4,841,909
Debt securities issued	72,914	777,124	1,417,659	334,625	2,602,322
Lease liability	5,957	16,856	65,707	27,503	116,023
Derivative financial liabilities	4,826	5,823	187	–	10,836
Other liabilities	86,162	2,496	2,845	323	91,826
Total undiscounted financial liabilities	**6,201,709**	**6,729,969**	**3,791,163**	**1,256,752**	**17,979,593**

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies.

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2021	1,010,650	663,865	885,895	17,546	2,577,956
31 December 2020	857,416	492,293	933,097	27,436	2,310,242
31 December 2019	504,272	251,021	791,842	145,972	1,693,107

The Group expects that not all guarantees or commitments will be drawn before expiry of the commitment.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above. Perpetual Tier 1 capital notes are presented in the "Over 5 years" bucket given that the management does not consider them to be covered earlier than that.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. Trading and non-trading positions are managed and monitored using sensitivity analysis.

28. Risk management continued

Market risk continued

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Group's consolidated income statement.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for the year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2021. Changes in basis points are calculated as standard deviations of daily changes in floating rates over the last month multiplied by respective floating rates. During the years ended 31 December 2021, 2020 and 2019, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

Currency	Increase in basis points 2021	Sensitivity of net interest income 2021	Sensitivity of other comprehensive income 2021
GEL	53	6,733	5,516
EUR	2	238	–
USD	5	355	–

Currency	Decrease in basis points 2021	Sensitivity of net interest income 2021	Sensitivity of other comprehensive income 2021
GEL	53	(6,733)	(5,516)
EUR	2	(238)	–
USD	5	(355)	–

Currency	Increase in basis points 2020	Sensitivity of net interest income 2020	Sensitivity of other comprehensive income 2020
GEL	15	1,427	1,452
EUR	2	242	–
USD	3	13	–

Currency	Decrease in basis points 2020	Sensitivity of net interest income 2020	Sensitivity of other comprehensive income 2020
GEL	15	(1,427)	(1,452)
EUR	2	(242)	–
USD	3	(13)	–

Currency	Increase in basis points 2019	Sensitivity of net interest income 2019	Sensitivity of other comprehensive income 2019
GEL	64	4,207	5,806
EUR	2	168	–
USD	7	94	–

Currency	Decrease in basis points 2019	Sensitivity of net interest income 2019	Sensitivity of other comprehensive income 2019
GEL	64	(4,207)	(5,806)
EUR	2	(168)	–
USD	7	(94)	–

(Thousands of Georgian Lari)

28. Risk management continued

Market risk continued

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the NBG regulations. Positions are monitored daily.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2021 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the income statement. The reasonably possible movement of the currency rate against the Georgian Lari is calculated as a standard deviation of daily changes in exchange rates over the 12 months. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. During the year ended 31 December 2021, year ended 31 December 2020 and year ended 31 December 2019, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

	2021		2020		2019	
Currency	**Change in currency rate in %**	**Effect on profit before tax**	**Change in currency rate in %**	**Effect on profit before tax**	**Change in currency rate in %**	**Effect on profit before tax**
EUR	8.6%	209	15.1%	2,527	7.9%	(297)
USD	6.4%	1,027	13.0%	3,049	6.4%	(2,944)

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rates fall, or other credit facilities, for similar reasons.

The Group calculates the effect of early repayments by calculating the weighted average rates of early repayments across each loan product individually, applying these historical rates to the outstanding carrying amount of respective products as at the reporting date and multiplying by the weighted average effective annual interest rates for each product. The model does not make a distinction between different reasons for repayment (e.g. relocation, refinancing and renegotiation) and takes into account the effect of any prepayment penalties on the Group's income.

The estimated effect of prepayment risk on net interest income of the Group for the years ended 31 December 2021, 31 December 2020 and 31 December 2019, is as follows:

	Effect on net interest income
2021	(52,552)
2020	(40,748)
2019	(40,014)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

28. Risk management continued

Operating environment

Most of the Group's business is concentrated in Georgia. As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets (including the risk that the Georgian Lari is not freely convertible outside the country, and undeveloped debt and equity markets). However, over the last few years the Georgian Government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems.

The developments include the adoption of a new body of legislation (including new tax code and procedural laws). In the view of the Board, these steps contribute to mitigating the risks of doing business in Georgia.

The existing tendency towards an overall improvement in the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments, and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

Emerging risks

Information compiled from all the businesses is examined and processed in order to analyse, control and identify emerging risks.

The Group has identified Climate Risk as an emerging risk. Climate risk is the risk of financial loss and/or damage to the Group's reputation as a result of accelerating transition to a lower-carbon economy as well as the materialisation of actual physical damage that may result from acute or chronic weather events from changing climate.

For different scenarios the Bank analysed how the transition and physical effects of climate change can drive credit, liquidity, capital, market, operational and reputational risk for the Bank over "short-term" (i.e. 1 to 2 years) to "very long-term" time horizons (i.e. over 8 years). Climate change can affect the Bank especially through its impact on the lending portfolio. As at 31 December 2021 the Bank conducted a preliminary portfolio-level qualitative analysis at sector-level of the Bank's total corporate and MSME portfolios. This analysis helped us understand hypothetical risks for different sectors, in which our clients are active. Although both strong climate policy (transition risks) and untamed climate change (physical risks) can negatively affect borrowers' repayment capacity and value of collateral in the future, risks over the next years are generally perceived as low for our commercial portfolio and are not likely to affect current expectations of credit loss. Transition and physical risks for retail clients still have to be assessed.

Overall, many of the effects of climate change will be longer term in nature, with an inherent level of uncertainty, and have no effect on accounting judgments and estimates for the current period. As a result, there are no additional notes provided in the financial statements. Potential impacts of climate-related risks will be subject to further analysis in the future.

The Group acknowledges climate change risk as an emerging risk. For further details please refer to page 93 in the Principal Risks and Uncertainties section.

The Group has described climate-related risks in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations in the climate-related disclosures on pages 138 to 148.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

29. Fair value measurements

Fair value hierarchy

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability. The following tables show an analysis of assets and liabilities measured at fair value or for which fair values are disclosed by level of the fair value hierarchy, except for cash and short-term deposits for which fair value approximates to their carrying value:

At 31 December 2021	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Total investment properties	–	–	226,849	226,849
Land	–	–	11,762	11,762
Residential properties	–	–	152,167	152,167
Non-residential properties	–	–	62,920	62,920
Investment securities	5,823	2,586,152	3,689	2,595,664
Other assets – derivative financial assets	–	135,079	–	135,079
Other assets – investment securities at fair value through profit or loss	2,146	–	–	2,146
Assets for which fair values are disclosed				
Amounts due from credit institutions	–	1,931,390	–	1,931,390
Loans to customers and finance lease receivables	–	–	15,787,725	15,787,725
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	–	7,865	–	7,865
Liabilities for which fair values are disclosed				
Client deposits and notes	–	14,013,500	–	14,013,500
Amounts owed to credit institutions	–	3,635,353	683,092	4,318,445
Debt securities issued	–	1,310,806	280,109	1,590,915
Lease liability	35	3,574	90,760	94,369

29. Fair value measurements continued

Fair value hierarchy continued

At 31 December 2020	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Total investment properties	–	–	231,241	231,241
Land	–	–	10,981	10,981
Residential properties	–	–	147,585	147,585
Non-residential properties	–	–	72,675	72,675
Investment securities	3,229	2,539,092	2,076	2,544,397
Other assets – derivative financial assets	–	9,154	–	9,154
Other assets – investment securities at fair value through profit or loss	5,731	–	–	5,731
Assets for which fair values are disclosed				
Amounts due from credit institutions	–	2,016,005	–	2,016,005
Loans to customers and finance lease receivables	–	–	13,896,221	13,896,221
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	–	247,520	–	247,520
Liabilities for which fair values are disclosed				
Client deposits and notes	–	14,007,521	–	14,007,521
Amounts owed to credit institutions	–	2,899,263	436,703	3,335,966
Debt securities issued	–	1,402,958	241,976	1,644,934
Lease liability	–	–	103,012	103,012

At 31 December 2019	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Total investment properties	–	–	225,073	225,073
Land	–	–	56,909	56,909
Residential properties	–	–	75,328	75,328
Non-residential properties	–	–	92,836	92,836
Investment securities	2,316	1,783,515	973	1,786,804
Other assets – derivative financial assets	–	34,559	–	34,559
Other assets – investment securities at fair value through profit or loss	7,493	–	–	7,493
Assets for which fair values are disclosed				
Amounts due from credit institutions	–	1,619,072	–	1,619,072
Loans to customers and finance lease receivables	–	–	12,082,385	12,082,385
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	–	10,836	–	10,836
Liabilities for which fair values are disclosed				
Client deposits and notes	–	10,077,542	–	10,077,542
Amounts owed to credit institutions	–	3,597,035	337,088	3,934,123
Debt securities issued	–	1,746,408	431,940	2,178,348
Lease liability	–	–	95,487	95,487

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivative financial instruments

Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps, forward foreign exchange contracts and option contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations, as well as standard option pricing models. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and implied volatilities.

(Thousands of Georgian Lari)

29. Fair value measurements continued

Fair value hierarchy continued

Trading securities and investment securities

Trading securities and a certain part of investment securities are quoted equity and debt securities. Investment securities valued using a valuation technique or pricing models consist of unquoted equity and debt securities. These securities are valued using models which sometimes incorporate only data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

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

The fair values in Level 2 and Level 3 of the fair value hierarchy are estimated using the discounted cash flows valuation technique. Current interest rates for new instruments with similar credit risk, currency and remaining maturity is used as discount rate in the valuation model.

Movements in Level 3 financial instruments measured at fair value

The following tables show a reconciliation of the opening and closing amounts of Level 3 financial assets which are recorded at fair value:

	At 31 December 2018	Sale of investment securities	At 31 December 2019	Purchase of securities	At 31 December 2020	Purchase of securities	At 31 December 2021
Level 3 financial assets							
Equity investment securities	395	578	973	1,103	2,076	1,613	3,689

Movements in Level 3 non-financial assets measured at fair value

All investment properties are Level 3. Reconciliations of their opening and closing amounts are provided in Note 13.

Impact on fair value of Level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the impact on the fair value of Level 3 instruments of using reasonably possible alternative assumptions:

	2021		2020		2019	
	Carrying amount	Effect of reasonably possible alternative assumptions	Carrying amount	Effect of reasonably possible alternative assumptions	Carrying amount	Effect of reasonably possible alternative assumptions
Level 3 financial assets						
Equity investment securities	3,689	+/- 549	2,076	+/- 309	973	+/- 145

In order to determine reasonably possible alternative assumptions, the Group's adjusted key unobservable model inputs are as follows:

For equities, the Group adjusted the price-over-book-value multiple by increasing and decreasing the ratio by 10%, which is considered by the Group to be within a range of reasonably possible alternatives based on the price-over-book-value multiples used across peers within the same geographic area of the same industry.

29. Fair value measurements continued

Fair value hierarchy continued

Description of significant unobservable inputs to valuations of non-financial assets

The following tables show descriptions of significant unobservable inputs to Level 3 valuations of investment properties:

	2021	Valuation technique	Significant unobservable inputs	MIN	MAX	Weighted average	Other key information	MIN	MAX	Weighted Average
Investment property	**226,849**									
Land	11,762	Market approach	Price per square metre	0.001	2.639	0.742	Square metres, land	32	360,001	8,162
Residential properties	152,167	Market approach	Price per square metre	0.062	3.252	0.983	Square metres, building	15	782	186
Non-residential properties	62,620									
	56,318	Market approach	Price	34.582	2,190.655	885.635	Square metres, land	70	40,000	3,306
							Square metres, building	30	7,059	1,543
	6,185	Income approach	Rent per square metre	0.004	0.051	0.018	Square metres, building	103	2,021	685
			Occupancy rate	50%	85%	77%				
			Land price per square metre	0.638	1.379	1.051	Square metres, land	209	357	274
	417	Cost approach	Depreciated replacement cost per square metre	0.763	0.901	0.840	Square metres, building	298	320	310

* Price, rate and cost of unobservable inputs in this table are presented in Georgian Lari ("GEL"), unless otherwise indicated.

(Thousands of Georgian Lari)

29. Fair value measurements continued

Set out below is an overview of all financial instruments, other than cash and short-term deposits, held by the Group as at 31 December 2021, 31 December 2020 and 31 December 2019:

	At 31 December 2021		
	Amortised cost	Fair value through OCI	Fair value through profit or loss
Financial assets			
Amounts due from credit institutions	1,931,390	–	–
Loans to customers and finance lease receivables	16,168,973	–	–
Accounts receivable and other loans	3,680	–	–
Equity instruments	–	9,581	–
Debt instruments	–	2,586,083	–
Interest rate contracts	–	–	2,827
Foreign currency derivative financial instruments	–	–	132,252
Investment securities at fair value through profit or loss	–	–	2,146
Total	**18,104,043**	**2,595,664**	**137,225**
Financial liabilities			
Client deposits and notes	14,038,002	–	–
Amounts owed to credit institutions	4,318,445	–	–
Debt securities issued	1,518,685	–	–
Lease liability	87,662	–	–
Trade and other payables (in other liabilities)	56,223	–	–
Interest rate contracts	–	–	1,385
Foreign currency derivative financial instruments	–	–	6,480
Total	**20,019,017**	**–**	**7,865**

	At 31 December 2020			At 31 December 2019		
	Amortised cost	Fair value through OCI	Fair value through profit or loss	Amortised cost	Fair value through OCI	Fair value through profit or loss
Financial assets						
Amounts due from credit institutions	2,016,005	–	–	1,619,072	–	–
Loans to customers and finance lease receivables	14,192,078	–	–	11,931,262	–	–
Accounts receivable and other loans	2,420	–	–	3,489	–	–
Equity instruments	–	5,378	–	–	3,367	–
Debt instruments	–	2,539,019	–	–	1,783,437	–
Interest rate contracts	–	–	1,549	–	–	2,566
Foreign currency derivative financial instruments	–	–	7,605	–	–	31,993
Investment securities at fair value through profit or loss	–	–	5,731	–	–	7,493
Total	**16,210,503**	**2,544,397**	**14,885**	**13,553,823**	**1,786,804**	**42,052**
Financial liabilities						
Client deposits and notes	14,020,209	–	–	10,076,735	–	–
Amounts owed to credit institutions	3,335,966	–	–	3,934,123	–	–
Debt securities issued	1,585,545	–	–	2,120,064	–	–
Lease liability	95,635	–	–	94,616	–	–
Trade and other payables (in other liabilities)	53,952	–	–	41,416	–	–
Interest rate contracts	–	–	1,102	–	–	1,914
Foreign currency derivative financial instruments	–	–	246,418	–	–	8,922
Total	**19,091,307**	**–**	**247,520**	**16,266,954**	**–**	**10,836**

29. Fair value measurements continued

Fair value of financial instruments that are carried in the financial statements not at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities, fair values of other smaller financial assets and financial liabilities, or cash and short-term deposits, fair values of which are materially close to their carrying values.

	Carrying value 2021	Fair value 2021	Unrecognised gain (loss) 2021
Financial assets			
Amounts due from credit institutions	1,931,390	1,931,390	–
Loans to customers and finance lease receivables	16,168,973	15,787,725	(381,248)
Financial liabilities			
Client deposits and notes	14,038,002	14,013,500	24,502
Amounts owed to credit institutions	4,318,445	4,318,445	–
Debt securities issued	1,518,685	1,590,915	(72,230)
Lease liability	87,662	94,369	(6,707)
Total unrecognised change in unrealised fair value			**(435,683)**

	Carrying value 2020	Fair value 2020	Unrecognised gain (loss) 2020	Carrying value 2019	Fair value 2019	Unrecognised gain (loss) 2019
Financial assets						
Amounts due from credit institutions	2,016,005	2,016,005	–	1,619,072	1,619,072	–
Loans to customers and finance lease receivables	14,192,078	13,896,221	(295,857)	11,931,262	12,082,385	151,123
Financial liabilities						
Client deposits and notes	14,020,209	14,007,521	12,688	10,076,735	10,077,542	(807)
Amounts owed to credit institutions	3,335,966	3,335,966	–	3,934,123	3,934,123	–
Debt securities issued	1,585,545	1,644,934	(59,389)	2,120,064	2,178,348	(58,284)
Lease liability	95,635	103,012	(7,377)	94,616	95,487	(871)
Total unrecognised change in unrealised fair value			**(349,935)**			**91,161**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the consolidated financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity, and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For financial assets and financial liabilities maturing in less than a year, it is assumed that the carrying amounts approximate to their fair value.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

30. Maturity analysis of financial assets and liabilities

The table below shows an analysis of financial assets and liabilities according to their contractual maturities, except for current accounts and credit card loans as described below. See Note 28 "Risk management" for the Group's contractual undiscounted repayment obligations.

	At 31 December 2021							
	On demand	Up to 3 months	Up to 6 months	Up to 1 year	Up to 3 years	Up to 5 years	Over 5 years	Total
Financial assets								
Cash and cash equivalents	1,291,890	228,672	–	–	–	–	–	1,520,562
Amounts due from credit institutions	1,893,732	8,003	7,744	–	9,652	3,540	8,719	1,931,390
Investment securities	1,162,051	1,282,493	7,478	12,486	39,734	88,776	2,646	2,595,664
Loans to customers and finance lease receivables	2,966	3,046,387	926,061	1,976,611	4,005,985	2,281,105	3,929,858	16,168,973
Total	**4,350,639**	**4,565,555**	**941,283**	**1,989,097**	**4,055,371**	**2,373,421**	**3,941,223**	**22,216,589**
Financial liabilities								
Client deposits and notes	2,455,123	2,783,998	1,177,931	6,048,073	852,196	454,304	266,377	14,038,002
Amounts owed to credit institutions	170,410	1,638,683	221,013	355,637	996,956	526,697	409,049	4,318,445
Debt securities issued	–	37,515	16,364	233,824	1,008,104	222,878	–	1,518,685
Lease liability	–	6,198	5,782	10,355	35,238	22,808	7,281	87,662
Total	**2,625,533**	**4,466,394**	**1,421,090**	**6,647,889**	**2,892,494**	**1,226,687**	**682,707**	**19,962,794**
Net	**1,725,106**	**99,161**	**(479,807)**	**(4,658,792)**	**(1,162,877)**	**1,146,734**	**3,258,516**	**2,253,795**
Accumulated gap	**1,725,106**	**1,824,267**	**1,344,460**	**(3,314,332)**	**(2,151,455)**	**(1,004,721)**	**2,253,795**	

	At 31 December 2020							
	On demand	Up to 3 months	Up to 6 months	Up to 1 year	Up to 3 years	Up to 5 years	Over 5 years	Total
Financial assets								
Cash and cash equivalents	1,452,379	518,576	–	–	–	–	–	1,970,955
Amounts due from credit institutions	1,987,538	12,054	539	1,931	4,161	1,203	8,579	2,016,005
Investment securities	309,234	2,101,428	23,996	11,165	12,013	31,404	55,157	2,544,397
Loans to customers and finance lease receivables	–	2,671,296	842,716	1,594,714	3,482,213	2,189,857	3,411,282	14,192,078
Total	**3,749,151**	**5,303,354**	**867,251**	**1,607,810**	**3,498,387**	**2,222,464**	**3,475,018**	**20,723,435**
Financial liabilities								
Client deposits and notes	2,167,103	3,761,867	1,164,650	5,349,181	971,894	345,709	259,805	14,020,209
Amounts owed to credit institutions	196,049	781,139	225,093	558,857	721,802	501,080	351,946	3,335,966
Debt securities issued	–	72,550	36,352	98,412	1,144,567	46,258	187,406	1,585,545
Lease liability	–	6,229	6,234	11,846	34,630	22,802	13,894	95,635
Total	**2,363,152**	**4,621,785**	**1,432,329**	**6,018,296**	**2,872,893**	**915,849**	**813,051**	**19,037,355**
Net	**1,385,999**	**681,569**	**(565,078)**	**(4,410,486)**	**625,494**	**1,306,615**	**2,661,967**	**1,686,080**
Accumulated gap	**1,385,999**	**2,067,568**	**1,502,490**	**(2,907,996)**	**(2,282,502)**	**(975,887)**	**1,686,080**	

30. Maturity analysis of financial assets and liabilities continued

	At 31 December 2019							
	On demand	Up to 3 months	Up to 6 months	Up to 1 year	Up to 3 years	Up to 5 years	Over 5 years	Total
Financial assets								
Cash and cash equivalents	1,532,542	621,082	–	–	–	–	–	2,153,624
Amounts due from credit institutions	1,570,495	30,858	720	880	2,860	750	12,509	1,619,072
Investment securities	299,242	1,235,995	4,840	4,632	64,495	129,861	47,739	1,786,804
Loans to customers and finance lease receivables	–	1,671,794	804,885	1,577,849	3,334,464	1,855,284	2,686,986	11,931,262
Total	**3,402,279**	**3,559,729**	**810,445**	**1,583,361**	**3,401,819**	**1,985,895**	**2,747,234**	**17,490,762**
Financial liabilities								
Client deposits and notes	2,082,989	1,761,206	860,222	4,406,906	832,150	86,038	47,224	10,076,735
Amounts owed to credit institutions	263,974	1,768,062	134,427	403,354	603,096	411,165	350,045	3,934,123
Debt securities issued	–	71,714	638,293	102,763	299,807	843,903	163,584	2,120,064
Lease liability	–	5,899	5,703	10,496	33,592	21,438	17,488	94,616
Total	**2,346,963**	**3,606,881**	**1,638,645**	**4,923,519**	**1,768,645**	**1,362,544**	**578,341**	**16,225,538**
Net	**1,055,316**	**(47,152)**	**(828,200)**	**(3,340,158)**	**1,633,174**	**623,351**	**2,168,893**	**1,265,224**
Accumulated gap	**1,055,316**	**1,008,164**	**179,964**	**(3,160,194)**	**(1,527,020)**	**(903,669)**	**1,265,224**	

The Group's capability to discharge its liabilities relies on its ability to realise equivalent assets within the same period of time. In the Georgian marketplace, where most of the Group's business is concentrated, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. To reflect the historical stability of current accounts, the Group calculates the minimal daily balance of current accounts over the past two years and includes the amount in the "Up to 1 year" category in the table above. The remaining current accounts are included in the "On demand" category. To match the coverage of short-term borrowings from the NBG with the investment securities pledged to secure it, those securities are included in the "On demand" category. Because credit cards have no contractual maturities, the above allocation per category is based on the statistical coverage rates observed.

The Group's principal sources of liquidity are as follows:

- deposits;
- borrowings from international credit institutions;
- inter-bank deposit agreements;
- debt issues;
- proceeds from sale of securities;
- principal repayments on loans;
- interest income; and
- fees and commissions income.

As at 31 December 2021, client deposits and notes amounted to GEL 14,038,002 (2020: GEL 14,020,209, 2019: GEL 10,076,735) and represented 69% (2020: 72%, 2019: 61%) of the Group's total liabilities. These funds continue to provide a majority of the Group's funding and represent a diversified and stable source of funds. As at 31 December 2021, amounts owed to credit institutions amounted to GEL 4,318,445 (2020: GEL 3,335,966, 2019: GEL 3,934,123) and represented 21% (2020: 17%, 2019: 24%) of total liabilities. As at 31 December 2021, debt securities issued amounted to GEL 1,518,685 (2020: GEL 1,585,545, 2019: GEL 2,120,064) and represented 7% (2020: 8%, 2019: 13%) of total liabilities.

In the Board's opinion, liquidity is sufficient to meet the Group's present requirements.

(Thousands of Georgian Lari)

30. Maturity analysis of financial assets and liabilities continued

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled, except for current accounts which are included in up to 1 year time bucket, noting that respective contractual maturity may expand over significantly longer periods:

	At 31 December 2021		
	Less than 1 year	More than 1 year	Total
Cash and cash equivalents	1,520,562	–	1,520,562
Amounts due from credit institutions	1,909,479	21,911	1,931,390
Investment securities	2,464,508	131,156	2,595,664
Loans to customers and finance lease receivables	5,952,025	10,216,948	16,168,973
Accounts receivable and other loans	3,680	–	3,680
Prepayments	39,276	1,602	40,878
Inventories	11,514	–	11,514
Right-of-use assets	–	80,186	80,186
Investment properties	–	226,849	226,849
Property and equipment	–	378,808	378,808
Goodwill	–	33,351	33,351
Intangible assets	–	144,251	144,251
Income tax assets	109	183	292
Other assets	235,049	11,898	246,947
Assets held for sale	46,731	–	46,731
Total assets	**12,182,933**	**11,247,143**	**23,430,076**
Client deposits and notes	12,465,125	1,572,877	14,038,002
Amounts owed to credit institutions	2,385,743	1,932,702	4,318,445
Debt securities issued	287,703	1,230,982	1,518,685
Lease liability	22,335	65,327	87,662
Accruals and deferred income	53,346	26,811	80,157
Income tax liabilities	85,270	25,598	110,868
Other liabilities	182,070	1,279	183,349
Total liabilities	**15,481,592**	**4,855,576**	**20,337,168**
Net	**(3,298,659)**	**6,391,567**	**3,092,908**

30. Maturity analysis of financial assets and liabilities continued

	At 31 December 2020			At 31 December 2019		
	Less than 1 year	More than 1 year	Total	Less than 1 year	More than 1 year	Total
Cash and cash equivalents	1,970,955	–	1,970,955	2,153,624	–	2,153,624
Amounts due from credit institutions	2,002,062	13,943	2,016,005	1,602,953	16,119	1,619,072
Investment securities	2,445,823	98,574	2,544,397	1,544,709	242,095	1,786,804
Loans to customers and finance lease receivables	5,108,726	9,083,352	14,192,078	4,054,528	7,876,734	11,931,262
Accounts receivable and other loans	2,420	–	2,420	3,489	–	3,489
Prepayments	26,467	1,126	27,593	40,906	1,726	42,632
Inventories	10,340	–	10,340	12,297	–	12,297
Right-of-use assets	–	83,208	83,208	–	96,095	96,095
Investment properties	–	231,241	231,241	–	225,073	225,073
Property and equipment	–	387,851	387,851	–	379,788	379,788
Goodwill	–	33,351	33,351	–	33,351	33,351
Intangible assets	–	125,806	125,806	–	106,290	106,290
Income tax assets	21,841	192	22,033	75	207	282
Other assets	288,602	37,392	325,994	128,267	14,887	143,154
Assets held for sale	62,648	–	62,648	36,284	–	36,284
Total assets	**11,939,884**	**10,096,036**	**22,035,920**	**9,577,132**	**8,992,365**	**18,569,497**
Client deposits and notes	12,442,801	1,577,408	14,020,209	9,111,323	965,412	10,076,735
Amounts owed to credit institutions	1,761,138	1,574,828	3,335,966	2,569,817	1,364,306	3,934,123
Debt securities issued	207,314	1,378,231	1,585,545	812,770	1,307,294	2,120,064
Lease liability	24,309	71,326	95,635	22,098	72,518	94,616
Accruals and deferred income	30,536	23,358	53,894	42,223	10,248	52,471
Income tax liabilities	–	62,434	62,434	1,563	36,355	37,918
Other liabilities	306,299	26,023	332,322	102,662	–	102,662
Total liabilities	**14,772,397**	**4,713,608**	**19,486,005**	**12,662,456**	**3,756,133**	**16,418,589**
Net	**(2,832,513)**	**5,382,428**	**2,549,915**	**(3,085,324)**	**5,236,232**	**2,150,908**

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

31. Related party disclosures

In accordance with IAS 24 Related Party Disclosures, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be affected on the same terms, conditions and amounts as transactions between unrelated parties. All transactions with related parties disclosed below have been conducted on an arm's-length basis.

The volumes of related party transactions, outstanding balances at the year-end, and related expenses and income for the year are as follows:

	At 31 December 2021		At 31 December 2020		At 31 December 2019	
	Associates	Key management personnel*	Associates	Key management personnel*	Associates	Key management personnel*
Loans outstanding at 1 January, gross	**–**	**10,646**	**–**	**6,718**	**–**	**1,756**
Loans issued during the year	–	8,944	–	7,798	–	6,347
Loan repayments during the year	–	(6,531)	–	(5,322)	–	(3,500)
Other movements**	–	(1,009)	–	1,452	–	2,115
Loans outstanding at 31 December, gross	**–**	**12,050**	**–**	**10,646**	**–**	**6,718**
Less: allowance for impairment at 31 December	–	(27)	–	(9)	–	(12)
Loans outstanding at 31 December, net	**–**	**12,023**	**–**	**10,637**	**–**	**6,706**
Interest income on loans	–	(644)	–	424	–	304
Expected credit loss	–	–	–	(69)	–	(30)
Deposits at 1 January	**166**	**32,619**	**3**	**30,475**	**809**	**14,748**
Deposits received during the year	36	21,490	163	23,211	–	21,222
Deposits repaid during the year	–	(32,337)	–	(19,565)	(103)	(14,402)
Other movements**	–	9,355	–	(1,502)	(703)	8,907
Deposits at 31 December	**202**	**31,127**	**166**	**32,619**	**3**	**30,475**
Interest expense on deposits	–	1,368	–	(1,249)	–	(1,117)

* Key management personnel includes members of BOGG's Board of Directors and key executives of the Group.
** In 2019, other movements for the key management personnel accounts mainly relate to the net effect of the change of the key management members.

Details of Directors' emoluments are included in the Remuneration Report on pages 210 to 238. Compensation of key management personnel comprised the following:

	2021	2020	2019
Salaries and other benefits	12,915	11,932	15,896
Share-based payments compensation*	25,048	27,188	39,553
Social security costs	–	–	–
Total key management compensation	**37,963**	**39,120**	**55,449**

* In 2019, share-based compensation included GEL 3,985 for key management personnel reflected in the non-recurring items.

Key management personnel do not receive cash-settled compensation, except for fixed salaries. The major part of the total compensation is share-based (Note 27). The number of key management personnel at 31 December 2021 was 21 (31 December 2020: 20, 31 December 2019: 22).

32. Capital adequacy

The Group maintains an actively managed capital base to cover risks inherent to the business. The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the NBG in supervising the Bank.

During the year ended 31 December 2021, the Bank and the Group complied in full with all its externally imposed capital requirements.

The primary objectives of the Group's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

NBG (Basel III) capital adequacy ratio

In December 2017, the NBG adopted amendments to the regulations relating to capital adequacy requirements, including amendments to the regulation on capital adequacy requirements for commercial banks, and introduced new requirements on the determination of the countercyclical buffer rate, on the identification of systematically important banks, on determining systemic buffer requirements and on additional capital buffer requirements for commercial banks within Pillar 2. The NBG requires the Bank to maintain a minimum total capital adequacy ratio of risk-weighted assets, computed based on the Bank's standalone special-purpose financial statements prepared in accordance with NBG regulations and pronouncements, based on Basel III requirements.

At the end of March 2020, NBG introduced an updated supervisory plan for the Georgian banking sector, aimed at alleviating the negative financial and economic challenges created by the global COVID-19 pandemic in Georgia.

The following capital adequacy initiatives were introduced:

- Combined buffer – the conservation buffer requirement of 2.5% of risk-weighted assets has been reduced to 0%.
- Pillar 2 requirements:
  - Currency induced credit risk buffer (CICR) requirement reduced by two-thirds.
  - The phase-in of additional credit portfolio concentration risk buffer (HHI) and net GRAPE buffer requirements on Common Equity Tier 1 (CET1) and Tier 1 capital, planned at the end of March 2020, has been postponed indefinitely; however, the phase-in of additional HHI and GRAPE buffer requirements were postponed till end of March 2021 as subsequently instructed by the NBG.
  - The possibility of fully or partially releasing the remaining requirements of Pillar 2 buffers (HHI, CICR, net GRAPE), if necessary, remains open.
- During the period the banks are allowed to partially or fully use the Pillar 2 and conservation buffers, the banks are restricted to make capital distribution in any form.

NBG requested the Georgian banks to create general provisions under the local accounting basis in the first quarter of 2020, the accounting basis is that used for calculation of capital adequacy ratios. The specific quantum of the provision reflects the NBG's current expectation of estimated credit losses on the lending book of the banking system for the entire economic cycle, given current economic expectations. The NBG considers the banking system capital ratios to be sufficiently in excess of the expected minimum capital requirements, to be able to absorb this upfront general provision, whilst maintaining sufficiently comfortable buffers over the required minimum capital ratios.

Subsequently, the NBG has announced a released capital buffers rebuild plan and has updated the timeline for the phase-in of additional Basel III capital requirements for the banking sector. As a result, considering the Bank's strong capital position, to ensure flexibility on capital distribution to shareholders, the Bank has confirmed to the NBG that it is no longer utilising, or expecting to utilise, any of the Pillar 2 or conservation buffers that were waived in 2020.

(Thousands of Georgian Lari)

32. Capital adequacy continued

NBG (Basel III) capital adequacy ratio continued

As at 31 December 2021, 31 December 2020 and 31 December 2019, the Bank's capital adequacy ratio on this basis was as follows:

	2021	2020	2019
Tier 1 capital	2,691,000	1,989,190	1,887,571
Tier 2 capital	784,800	830,145	616,113
Total capital	**3,475,800**	**2,819,335**	**2,503,684**
Risk-weighted assets	**17,977,949**	**16,040,094**	**13,868,169**
Tier 1 capital ratio	**15.0%**	**12.4%**	**13.6%**
Total capital ratio	**19.3%**	**17.6%**	**18.1%**
Min. requirement for Tier 1 capital ratio	**13.6%**	**9.2%**	**12.2%**
Min. requirement for Total capital ratio	**17.7%**	**13.8%**	**17.1%**

33. Events after the reporting period

On 24 February 2022 Russia invaded Ukraine. In response to the Russia-Ukraine war, international government sanctions have been imposed against Russia, including blocking some key Russian banks' access to the SWIFT financial messaging system. The National Bank of Georgia (NBG) has instructed the Georgian financial sector to comply with the applicable requirements of the US, UK, and EU sanctions regimes. The scope of sanctions against Russia has been evolving daily, impacting strategic sectors of the Russian economy and being particularly robust on the financial sector. The Group has long adopted a zero tolerance policy with regard to sanctions risk, which has been robustly followed.

As at 31 December 2021, the Group owned 99.98% of JSC Belarusky Narodny Bank (BNB), a commercial bank incorporated in Belarus. In line with the Group's zero tolerance policies with respect to the sanctions risk, the Supervisory Board of BNB has instructed the management of BNB to close all relevant relationships with sanctioned entities within applicable international and local laws. The Group is currently assessing a need for potential impairment of its assets in BNB. As at 28 February 2022, net assets of BNB stood at GEL 117.8 mln, which is maximum estimated impairment amount.

As at 31 December 2021, our exposures to wine producer clients in the Corporate Banking segment as well as individual borrowers in the Retail Banking segment who had significant income streams from Russia and Ukraine were GEL 367.3 mln and GEL 32.1 mln, respectively (7.0% of total Corporate Banking gross loan book and 0.3% of total Retail Banking gross loan book). The expected credit losses on these exposures were GEL 1 mln and GEL 0.5 mln, respectively, at 31 December 2021. Subsequently, we have performed an analysis of the financial standing of these clients, and we do not expect a significant impact on ECL as a result of the Russia-Ukraine war.

As at 25 April 2022, our exposure (stemming from pre-sanctions period correspondent banking accounts) to the Russian banks impacted by the US, UK or EU sanctions was GEL 1.4 mln. In addition, we had a total exposure of GEL 32.5 mln to the Russian financial institutions that were not directly impacted by the sanctions.

Customer deposits or other assets under management (AUM) of the Wealth Management clients who are Russian residents stood at GEL 64mln as at 25 April 2022, accounting for 3.8% in total WM AUM.

The Bank has not experienced a significant deposit outflow in the subsequent events period and complies with the applicable requirements of the sanctions regimes. The Bank's capital, liquidity and funding positions have remained robust, comfortably above the minimum regulatory requirements.

Additional Information

Global Reporting Initiative (GRI) Content Index

Bank of Georgia Group PLC has reported the information cited in this GRI content index for the period (1 January 2021 -31 December 2021) with reference to the GRI Standards.

GRI 1 used	GRI 1: Foundation 2021

GRI indicator	Description	Report section or other documentation
GRI 2: General Disclosures 2021		
The organization and its reporting practices		
2-1	Organizational details	About Us (page 01)
2-2	Entities included in the organization's sustainability reporting	Sustainable Business (page 97) Notes to Consolidated Financial Statements (pages 265 to 267)
2-3	Reporting period, frequency and contact point	Sustainable Business (page 97)
2-4	Restatements of information	Sustainable Business (pages 145 to 147)
2-5	External assurance	We have not sought external assurance for sustainability reporting
Activities and workers		
2-6	Activities, value chain, and other business relationships	About Us (page 01; page 07)
2-7	Employees	Sustainable Business (page 113)
2-8	Workers who are not employees	Sustainable Business (page 116)
Governance		
2-9	Governance structure and composition	Directors' Governance Statement (pages 169 to 177) Board of Directors (pages 184 to 187)
2-10	Nomination and selection of the highest governance body	Nomination Committee Report (pages 192 to 198)
2-11	Chair of the highest governance body	Directors' Governance Statement (page 169) Board of Directors (page 184)
2-12	Role of the highest governance body in overseeing the management of impacts	Directors' Governance Statement (pages 170 to 172; pages 176 to 183)
2-13	Delegation of responsibility for managing impacts	Sustainable Business (page 99) Directors' Governance Statement (pages 169 to 171; pages 176 to 177)
2-14	Role of the highest governance body in sustainability reporting	Sustainable Business (pages 98 to 99) Directors' Governance Statement (page 172) Audit Committee Report (page 201)
2-15	Conflicts of interest	Audit Committee Report (page 203) Directors' Remuneration Report (page 219; page 226) Directors' Report (page 242)
2-16	Communication of critical concerns	Audit Committee Report (page 203)
2-17	Collective knowledge of the highest governance body	Nomination Committee Report (page 193)

GRI indicator	Description	Report section or other documentation
2-18	Evaluation of the performance of the highest governance body	Directors' Governance Statement (pages 176 to 177)
2-19	Remuneration policies	Directors' Remuneration Report (pages 210 to 238)
2-20	Process to determine remuneration	Directors' Remuneration Report (pages 210 to 238)
2-21	Annual total compensation ratio	Directors' Remuneration Report (page 233; page 235)
Strategy, Policies and Practices		
2-22	Statement on sustainable development strategy	Chairman's Statement (page 09) Chief Executive Officer's Statement (page 11) Sustainable Business (page 97)
2-23	Policy commitments	https://bankofgeorgiagroup.com/governance/documents Sustainable Business (pages 97 to 149)
2-24	Embedding policy commitments	Risk Management (pages 67 to 73) Principal Risks and Uncertainties (pages 75 to 93) Sustainable Business (pages 97 to 148) Directors' Governance Statement (pages 169 to 177)
2-25	Processes to remediate negative impacts	Principal Risks and Uncertainties (pages 75 to 93) Sustainable Business (page 112; pages 125 to 126; page 137)
2-26	Mechanisms for seeking advice and raising concerns	Sustainable Business (page 112; pages 125 to 126; page 137) https://bankofgeorgiagroup.com/governance/documents
2-27	Compliance with laws and regulations	Principal Risks and Uncertainties (pages 83 to 84) Sustainable Business (pages 127 to 128)
2-28	Membership associations	Sustainable Business (page 100)
Stakeholder Engagement		
2-29	Approach to stakeholder engagement	Sustainable Business (page 98; pages 107 to 108; pages 119 to 120) Directors' Governance Statement (pages 178 to 183)
2-30	Collective bargaining agreements	Not applicable Sustainable Business (page 111)
GRI 3: Material Topics		
GRI 3: Material Topics		
3-1	Process to determine material topics	Sustainable Business (pages 97 to 98)
3-2	List of material topics	Sustainable Business (page 98)

Topic-specific disclosures

GRI indicator	Description	Report section or other documentation
GRI 200: Economic		
GRI 201: Economic Performance 2016		
GRI 3: Material topics 2021	3-3 Management of material topics	Business Model and Strategy (page 19) Delivering on Our Strategy (pages 35 to 59) Sustainable Business (pages 97 to 149)
201-1	Direct economic value generated and distributed	Overview of Financial Results (pages 151 to 167)
201-2	Financial implications and other risks and opportunities due to climate change	Sustainable Business (pages 138 to 143)
GRI 203: Indirect Economic Performance 2016		
GRI 3: Material topics 2021	3-3 Management of material topics	Sustainable Business (pages 101 to 110; pages 122 to 124)
203-2	Significant indirect economic impacts	Sustainable Business (pages 101 to 110; pages 122 to 124)
GRI 205: Anti-corruption 2016		
GRI 3: Material topics 2021	3-3 Management of material topics	Principal Risks and Uncertainties (pages 84 to 85) Sustainable Business (page 127)
205-3	Confirmed incidents of corruption and actions taken	Principal Risks and Uncertainties (page 85) Sustainable Business (page 127)
GRI 400: Social		
GRI 401: Employment 2016		
GRI 3: Material topics 2021	3-3 Management of material topics	Sustainable Business (pages 111 to 121)
401-1	New employee hires and employee turnover	Sustainable Business (page 113; page 116)
401-3	Parental leave	Sustainable Business (page 115)
GRI 404: Training and Education 2016		
GRI 3: Material topics 2021	3-3 Management of material topics	Sustainable Business (pages 117 to 120)
404-1	Average hours of training per year per employee	Sustainable Business (page 119)
404-3	Percentage of employees receiving regular performance and career development reviews	Sustainable Business (page 117)
GRI 405: Diversity and Equal Opportunity 2016		
GRI 3: Material topics 2021	3-3 Management of material topics	Sustainable Business (page 112-113) https://bankofgeorgiagroup.com/governance/documents
405-1	Diversity of governance bodies and employees	Sustainable Business (page 113) Nomination Committee Report (page 194)
405-2	Ratio of the basic salary and remuneration of women to men	Sustainable Business (page 114)

GRI indicator	Description	Report section or other documentation
GRI 418: Customer Privacy 2016		
GRI 3: Material topics 2021	3-3 Management of material topics	Principal Risks and Uncertainties (pages 86 to 88) Sustainable Business (pages 129 to 131)
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Sustainable Business (page 131)
Non-GRI Disclosures		
Customer protection		
GRI 3: Material topics 2021	3-3 Management of material topics	Sustainable Business (pages 105 to 106)
Topic-specific indicator	NPS	Sustainable Business (page 108)
Customer experience		
GRI 3: Material topics 2021	3-3 Management of material topics	Sustainable Business (pages 107 to 108)
Topic-specific indicator	NPS	Sustainable Business (page 108)
Financial inclusion and empowerment		
GRI 3: Material topics 2021	3-3 Management of material topics	Sustainable Business (pages 101 to 110)
Topic-specific indicator	Digital MAU Payments MAU	Sustainable Business (page 101; page 104)
Product innovation		
GRI 3: Material topics 2021	3-3 Management of material topics	Business Model and Strategy (pages 19 to 28)
Topic-specific indicator	Number of active digital users; Number of mBank/iBank transactions; Offloading rate	Business Model and Strategy (pages 20 to 21)
Ethical business		
GRI 3: Material topics 2021	3-3 Management of material topics	Sustainable Business (pages 125 to 126)
Topic-specific indicator	Number of ethics-related concerns received	Sustainable Business (page 126)
Climate, environmental, and social management of loan portfolio		
GRI 3: Material topics 2021	3-3 Management of material topics	Sustainable Business (pages 134 to 148)
Topic-specific indicator	% exposure to carbon-related assets in loan portfolio; % exposure to fossil fuel and coal-related assets in loan portfolio	Sustainable Business (page 143)
Human rights		
GRI 3: Material topics 2021	3-3 Management of material topics	Sustainable Business (pages 111 to 112) Sustainable Business (pages 134 to 137)
Topic-specific indicator	eNPS	Sustainable Business (page 120)
Risk management		
GRI 3: Material topics 2021	3-3 Management of material topics	Risk Management (pages 67 to 73)
Topic-specific indicator	Risk indicators	Principal Risks and Uncertainties (pages 75 to 93)

Abbreviations

ADB	Asian Development Bank
AGM	Annual General Meeting
ALCO	Asset and Liability Committee
AML	Anti-money laundering
AT1	Additional Tier 1
ATMs	Automated teller machines
AUM	Assets under management
BCP	Business Continuity Plan
BNB	Belarusky Narodny Bank
BOMF	BlueOrchard Microfinance Fund
BSTDB	Black Sea Trade and Development Bank
B2B	Business-to-business
B2C	Business-to-consumer
C2C	Consumer-to-consumer
CAGR	Compounded annual growth rate
CET1	Common Equity Tier 1
CIB	Corporate and Investment Banking
CIG	JSC Credit Information Bureau Credit Info Georgia
CIS	Commonwealth of Independent States
CSAT	Customer satisfaction
CSR	Corporate social responsibility
DCFTA	Deep and Comprehensive Free Trade Agreement
DEG	Deutsche Investitions – und Entwicklungsgesellschaft – German Investment and Development Corporation
DFI	Development finance institution
DTR	Disclosure, Guidance and Transparency Rules
E&S	Environmental and Social
EBRD	European Bank for Reconstruction and Development
EBT	Employee Benefit Trust
ECL	Expected credit loss
EECP	Executives' Equity Compensation Plan
ENPS	Employee Net Promoter Score
EFTA	European Free Trade Association
EIB	European Investment Bank
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
ESG	Environmental, Social and Governance
ESMS	Environmental and Social Risk Management Procedures
ESOP	Equity-Settled Option Plan
ESRM	Environmental and Social Risk Management
EU	European Union
EUR	Euro
EY	Ernst & Young
FATF	Financial Action Task Force
FDI	Foreign direct investment
FGCRMC	Financial and Governmental Counterparty Risk Management Committee
FMO	Financierings-Maatschappij voor Ontwikkelingslanden: The Netherlands Development Bank
FRC	Financial Reporting Council

GBP	Great British Pound, national currency of the UK
GDP	Gross domestic product
GEL	Georgian Lari or Lari, national currency of Georgia
GEOSTAT	National Statistics Office of Georgia
GGF	Green for Growth Fund
GLC	Georgian Leasing Company
HCM	Human Capital Management
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICMA	International Capital Market Association
IFC	International Finance Corporation
IFI	International financial institution
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
JICA	Japan International Cooperation Agency
JSC	Joint stock company
KPIs	Key performance indicators
KYC	Know Your Customer
LCR	Liquidity coverage ratio
LSE	London Stock Exchange
LTV	Loan-to-value ratio
ML/FT	Money laundering or financing of terrorism
MOF	Ministry of Finance of Georgia
MSME	Micro, small and medium size enterprises
NBG	National Bank of Georgia
NBRB	National Bank of the Republic of Belarus
NGO	Non-governmental organisation
NIM	Net interest margin
NMF	Not meaningful to present
NPLs	Non-performing loans
NPS	Net Promoter Score
OECD	Organisation for Economic Co-operation and Development
OFAC	Office of Foreign Assets Control
PLC	Public limited company
POS	Point of sale
PTI	Payment-to-income ratio
ROAA	Return on average assets
ROAE	Return on average equity
RB	Retail Banking
SME	Small and medium size enterprises
UK	United Kingdom
UN	United Nations
US$	US Dollar national currency of the United States of America
VAR	Value at risk
WM	Wealth Management

References

The Bank	JSC Bank of Georgia
BOGG or the Company	Bank of Georgia Group PLC
The Board	The Board of Directors of Bank of Georgia Group PLC
The Code	The UK Corporate Governance Code published in 2018
The Directors	Members of the BOGG Board of Directors
Supervisory Board	Supervisory Board of the Bank
Management Board/Executive Management	Management Board of the Bank (CEO and Deputy CEOs)
CFO or Chief Finance Officer	Chief Finance Officer of the Bank
CRO or Chief Risk Officer	Chief Risk Officer of the Bank
We/Our/Us	References to "we", "our" or "us" are primarily references to the Group throughout this Report. However, the Group comprises and operates through its subsidiaries which are legal entities with their own relevant management and governance structure (as set out in relevant parts of this Report). In that regard, when using "we", "our" or 'us" in the context of banking business in Georgia, we refer to JSC Bank of Georgia. Likewise, "we", "our" or "us" in the context of the banking business in Belarus refer to BNB, and "we", "our" or "us" in the context of Georgian capital markets and investment banking activities refer to JSC Galt & Taggart, unless otherwise specifically indicated in this Annual Report.

Glossary

Alternative performance measures (APMs) In this announcement the management uses various APMs, which they believe provide additional useful information for understanding the financial performance of the Group. These APMs are not defined by International Financial Reporting Standards, and also may not be directly comparable with other companies who use similar measures. We believe that these APMs provide the best representation of our financial performance as these measures are used by management to evaluate the Group's operating performance and make day-to-day operating decisions;

Basic earnings per share Profit for the year attributable to shareholders of the Group divided by the weighted average number of outstanding ordinary shares over the same year;

Book value per share Total equity attributable to shareholders of the Group divided by ordinary shares outstanding at year end; net ordinary shares outstanding equals total number of ordinary shares outstanding at year end less number of treasury shares at year end;

Constant currency basis Changes assuming constant exchange rate;

Cost of funds Interest expense of the year divided by monthly average interest-bearing liabilities;

Cost of credit risk Expected loss/ impairment charge for loans to customers and finance lease receivables for the year divided by monthly average gross loans to customers and finance lease receivables over the same year;

Cost to income ratio Operating expenses divided by operating income;

Gross loans to customers throughout this Annual Report are presented net of ECL on contractually accrued interest income;

Interest-bearing liabilities Amounts owed to credit institutions, client deposits and notes, and debt securities issued;

Interest earning assets (excluding cash) Amounts due from credit institutions, investment securities (but excluding corporate shares) and net loans to customers and finance lease receivables;

Leverage (times) Total liabilities divided by total equity;

Liquid assets Cash and cash equivalents, amounts due from credit institutions and investment securities;

Liquidity coverage ratio (LCR) High-quality liquid assets (as defined by NBG) divided by net cash outflow over the next 30 days (as defined by NBG);

Loan yield Interest income from loans to customers and finance lease receivables divided by monthly average gross loans to customers and finance lease receivables;

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

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

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

Net interest margin (NIM) Net interest income for the year divided by monthly average interest earning assets excluding cash for the same year;

Net stable funding ratio (NSFR) Available amount of stable funding (as defined by NBG) divided by the required amount of stable funding (as defined by NBG);

Net loans In all sections of the Annual Report, except for the consolidated audited financial statements, net loans are defined as gross loans to customers and finance lease receivables less allowance for expected credit loss;

Non-performing loans (NPLs) The principal and interest on loans overdue for more than 90 days and any additional potential losses estimated by management;

NPL coverage ratio Allowance for expected credit loss of loans to customers and finance lease receivables divided by NPLs;

NPL coverage ratio adjusted for discounted value of collateral Allowance for expected credit loss of loans to customers and finance lease receivables plus discounted value of collateral, divided by NPLs;

Operating leverage Percentage change in operating income less percentage change in operating expenses;

Return on average total assets (ROAA) Profit for the year divided by monthly average total assets for the same year;

Return on average total equity (ROAE) Profit for the year attributable to shareholders of BOGG divided by monthly average equity attributable to shareholders of BOGG for the same year;

Weighted average number of ordinary shares Average of daily outstanding number of shares less daily outstanding number of treasury shares;

Weighted average diluted number of ordinary shares weighted average number of ordinary shares plus weighted average dilutive number of shares known to management during the same year.

NMF Not meaningful

Shareholder Information

Our website

All shareholders and potential shareholders can gain access to the Annual Report, presentations to investors, key financial information, regulatory news, share and dividend data, AGM documentation and other significant information about Bank of Georgia Group PLC at http://www.bankofgeorgiagroup.com.

Our registered address

Bank of Georgia Group PLC
42 Brook Street
London W1K 5DB
United Kingdom

Annual General Meeting

The Annual General Meeting of Bank of Georgia Group PLC (the "AGM") will be held at Baker McKenzie LLP, 100 New Bridge Street, London EC4V 6JA. Details of the date, time and business to be conducted at the AGM is contained in the Notice of AGM, which will be available on BOGG's website: https://www.bankofgeorgiagroup.com/information/meetings.

Shareholder enquiries

Bank of Georgia Group's share register is maintained by Computershare Investor Services PLC. Any queries about the administration of holdings of ordinary shares, such as change of address or change of ownership, should be directed to the address or telephone number immediately below. Holders of ordinary shares may also check details of their shareholding, subject to passing an identity check, by visiting the Registrar's website: www.investorcentre.co.uk or by calling the Shareholder Helpline on +44 (0)370 873 5866.

Computershare Investor Services PLC
The Pavilions, Bridgwater Road
Bristol BS13 8AE
United Kingdom

Contact information

Bank of Georgia Group PLC Investor Relations
Email: ir@bog.ge

Forward-looking statements

Certain statements in this Annual Report and Accounts contain forward-looking statements, including, but not limited to, statements concerning expectations, projections, objectives, targets, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, competitive strengths and weaknesses, plans or goals relating to financial position and future operations and development. Although Bank of Georgia Group PLC believes that the expectations and opinions reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations and opinions will prove to have been correct. By their nature, these forward-looking statements are subject to a number of known and unknown risks, uncertainties and contingencies, and actual results and events could differ materially from those currently being anticipated as reflected in such statements. Important factors that could cause actual results to differ materially from those expressed or implied in forward-looking statements, certain of which are beyond our control, and certain of which include, among other things, those described in "Principal risks and uncertainties" included in this Annual Report and Accounts, see pages 75 to 93. No part of these results or report constitutes, or shall be taken to constitute, an invitation or inducement to invest in Bank of Georgia Group PLC or any other entity and must not be relied upon in any way in connection with any investment decision. Bank of Georgia Group PLC undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required. Nothing in this document should be construed as a profit forecast.

Notes

Notes

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