Management Report of PASHA Bank Georgia

as per year end

2022

PASHA Bank

New heights. Together.

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

To the Shareholders and Supervisory Board of JSC Pasha Bank Georgia.

We expressed an unmodified audit opinion on the audited financial statements in our report dated 22 February 2023. The audited financial statements do not reflect the effects of events that occurred subsequent to the date our report on the audited financial statements. The effect of events described in the Management Report that occurred after the date of our auditor's report on the audited financial statements were not audited by us.

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The Management Report includes the information required by Article 7 of the Georgian Law on Accounting, Reporting and Auditing and complies with respective regulatory normative acts.

Ana Kusrashvili (SARAS-A-169041)

On behalf of EY LLC (SARAS-F-855308)

Tbilisi, Georgia

22 February 2023

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Management Statement

The Board of Directors of JSC PASHA Bank Georgia confirms the authenticity and accuracy of all the data and information provided in the given Pillar 3 report. The report is prepared in full compliance with the internal control process as agreed with the Supervisory Board. The given report meets the requirements of the Order N92 / 04 of the Governor of the National Bank of Georgia of June 22, 2017, on Approving the Regulation of Disclosing Information by the Commercial Banks within Pillar 3 as well as other regulations and norms established by the National Bank of Georgia.

NIKOLOZ SHURGAIA

CEO, CHAIRMAN OF BOARD OF DIRECTORS

FOREWORD BY CHIEF EXECUTIVE OFFICER

PASHA Bank has been operating in Georgia since February 2013, providing high quality services to its corporate and individual customers. The bank has expanded its services to retail banking by launching Re|Bank since 2019.

2022 was the most distinguished year in terms of profitability in Pasha Bank's recent history. Even though we have not reached profitability yet, we have made important progress in each of our business directions: we have doubled our consumer base and portfolio in Retail Banking and have grown our Business Banking portfolio by 19%

We, PASHA Bank and Re|Bank team, are a provider of innovative win-win financial solutions in Georgia and an integral part of a prominent regional strategic investor led by integrity, sound practices, advanced technology, and competent human talent.

Our projects aim at one purpose, to grow together to strengthen Georgia and contribute to PASHA Holding.

FINANCIAL HIGHLIGHTS

Below are some financial highlights of JSC PASHA Bank Georgia for the year ended 31 December 2022 with comparative figures:

Profit and loss	2022	2021
	GEL'000	GEL'000
Net interest income after impairment losses	21,731	21,428
Non-interest income	10,781	3,068
Non-interest expenses	(34,775)	(28,728)
Income tax benefit/(expense)	-	226
Net loss for the year	(2,263)	(4,006)
Other comprehensive income	-	-
Total comprehensive loss for the year	(2,263)	(4,006)

Balance sheet	31 December 2022	31 December 2021
	GEL'000	GEL'000
Cash and cash equivalents and Amounts due from credit institutions	109,469	93,042
Loans to customers	350,885	294,973
Investments in securities	43,861	42,059
Other assets	14,295	15,921
Total assets	518,510	445,995
Amounts due to credit institutions	106,687	123,135
Amounts due to customers	272,031	201,987
Other liabilities	36,977	41,795
Total liabilities	415,695	366,917
Equity	102,815	79,078
Total equity and liabilities	518,510	445,995

In line with the overall developments in the Georgian banking sector, the Bank has also suffered from the effects of the economic downturn caused by COVID-19 with deterioration of the performance and credit risk of the borrowers operating in the vulnerable sectors. This has resulted in the number of restructured loans and significant increase in the ECL rates across all portfolio segments, compared to the average rates existing in the pre–pandemic periods.

During 2022 reporting period the government lifted numerous COVID–19 related restrictions imposed earlier, releasing practically all of them. This has had a positive overall impact on the economy. According to the preliminary estimates published by the National Statistics Office of Georgia, 2022 growth of GDP amounted 10.1%. The level of inflation reached 9.8% year–on–year in December 2022. Russia's invasion of Ukraine highly impacted the global increase of the prices that were transmitted to Georgian market and remain the main reason for high inflation in the country. At the same time, economic activity in Georgia has been high, largely facilitated by the restoration of tourism against the backdrop of an increase in long-term visits by Russians and Belarusians. The NBG expects that inflation will gradually decline to return to the target level from the second half of 2023. However, as uncertainty remains and inflationary risks are at a high level, during the reporting period the NBG has increased and kept the monetary policy rate tight at 11%.

Despite the negative effect of the pandemic and war, the management maintains strong liquidity positions supported by the NBG's measures to strengthen banking sector resilience amidst the crisis. The Bank is working to decrease NPLs to reasonable levels using timely restructuring actions, continued support from the Parent and diligent collection actions.

Although the management of the Bank is strongly committed to the further expansion of the Bank on the Georgian market in line with the approved strategic plans, the major medium–term focus amidst the persisting uncertainties related to Russian–Ukrainian war developments is to restore and preserve sufficient retained earnings to ensure strong platform for future growth and development.

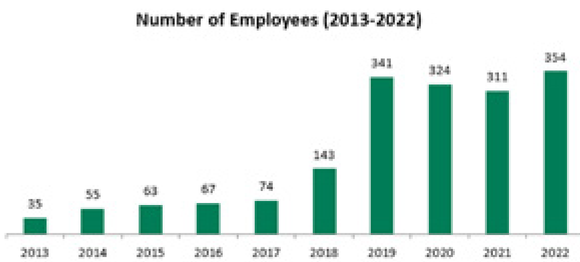
HUMAN RESOURCES

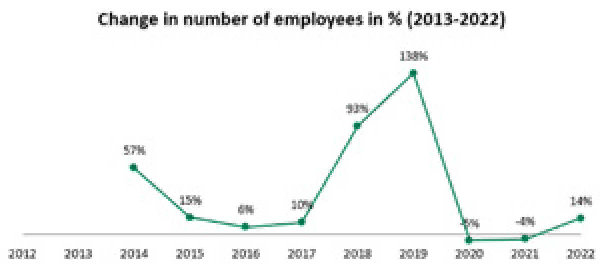
OUR PEOPLE

JSC PASHA Bank Georgia is a workplace with a unique employee centric culture. We believe that our employees are our competitive advantage and our main strength.

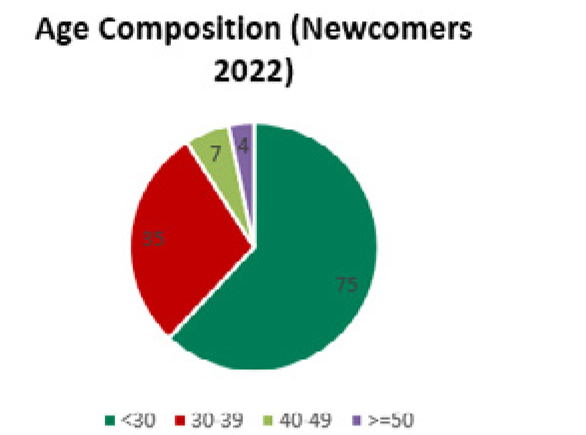
We fully support our people in their professional development, encourage their initiatives, promote transparent cooperation, and strive to keep a good work-life balance.

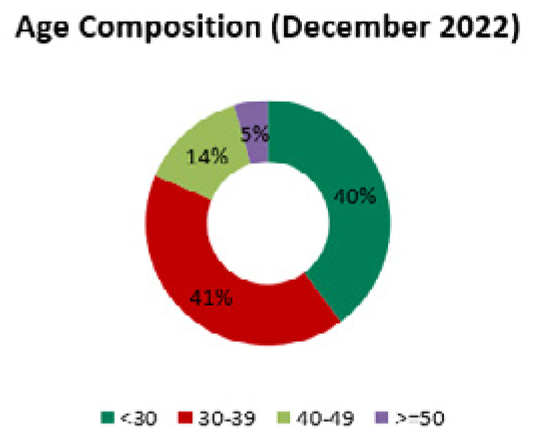
The HR strategy for 2022 was to align HR initiatives with the organization's overall business goals, while also ensuring compliance with laws and regulations, and promoting a positive workplace culture that attracts, develops, and retains top talent.

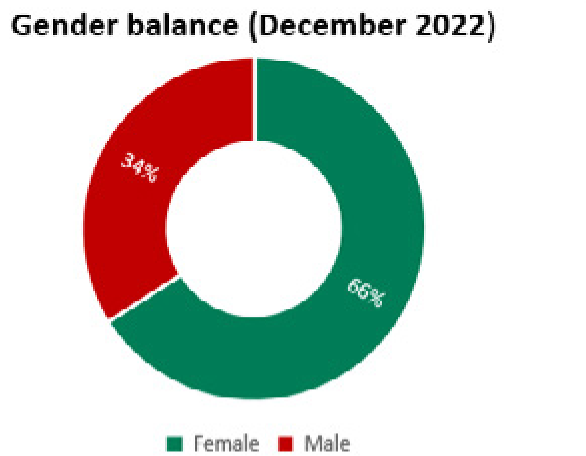


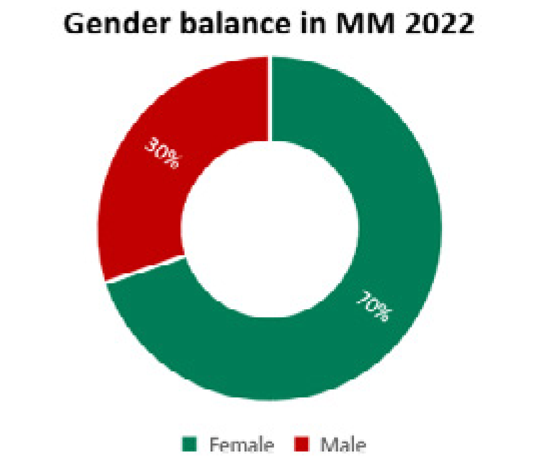


Our aim is to make JSC PASHA Bank Georgia an employer of choice for diverse groups of recent graduates and mid-career professionals.









LEARNING AND DEVELOPMENT

We capitalise on employee development and supporting sustainable learning activities for them since we truly believe: our business grows as our employees grow and develop. The Bank's learning culture enables employees to gain different professional skills and expand their abilities. Our team members enjoy various learning opportunities - such as online, local, and abroad professional trainings, full coverage of international professional certification costs, access to professional literature, language courses, etc.

PASHA Bank's internship programs are a great start for the career advancement of young talents. The Bank hosted 43 interns during 2022 and we are proud to say that 90% out of these interns were hired and keep being a valuable member of Pasha family.

Number of people trained (2022)	320
Total training hours of employees for (2022)	7181
Average training hours per employee (2022)	34

EMPLOYEE ENGAGEMENT AND SATISFACTION

PASHA Bank strives to create a supportive, motivating, collaborative, and positive work environment where employees are engaged and motivated with their jobs.

We strongly believe that engagement drives performance and to keep a hand on pulse and get opinion of our employees we conduct annual Employee Engagement and Satisfaction Survey, as well as Organisational Health Index Survey conducted once every 3 years.

Measuring employee satisfaction and organisational health is a regular practice in the Bank conducts since 2014. Independent companies are managing the process to identify extent of emotional connection employees feel towards the organization and understand concerns of our employees. The surveys cover important for employee and employer areas such as: leadership, work environment, accountability, coordination and control, motivation, innovation & learning, etc.

We are proud that each employee has a role to play, and each voice is important in conquering new heights together.

REMUNERATION OF EMPLOYEES

Remuneration system of JSC PASHA Bank Georgia ensures fair, consistent, competitive and appropriate remuneration and supports the attraction, motivation, and retention of the Bank's employees.

The Bank operates according to the Employee Remuneration Policy approved by the Supervisory Board. Remuneration Policy is designed to provide compliance with the Bank's remuneration system and risk culture, long-term business strategy and risk appetite, the Bank's activities, and legislative/supervisory requirements. It is the responsibility of the HR and Remuneration Committee to ensure the latter.

The remuneration system ensures that the structure of remuneration for control function employees (risk management, compliance, and internal audit functions), including performance-based components, does not compromise the independence of these employees in carrying out their functions. Remuneration of control function employees is not based on the financial results of the business line they oversee or monitor.

The Bank's remuneration consists of fixed and variable remuneration, together with benefits. Fixed remuneration is given to employees on a monthly basis, and variable remuneration is an additional, performance-based pay distributed at different periodicities.

Individual remuneration in the Bank is determined by the principle of equal pay and aims to ensure equal compensation opportunities for relatively similar jobs. Salary range and grade of the given position, individual knowledge/experience, and recent market tendencies are taken into consideration when determining the fixed remuneration. Salary range pay scales job grading methodology developed for the PBG by the worldwide acknowledged leader Korn Ferry Hay Group.

Each job in JSC PASHA Bank Georgia is eligible for variable pay. The bonus system is performance-based and is designed to harmonize high performance and benefits, simultaneously eliminating conflicts of interest. Variable remuneration is a performance-based pay offered in addition to the employee's base pay. The line manager evaluates individual performance of each employee annually according to the approved Performance Management Methodology and the Performance Management Procedure.

The Supervisory Board reviews and approves the Bank's achievement of performance KPIs, and bonus eligibility for members of the BOD and the support staff. Supervisory Board takes into account the need for balancing business risks against opportunities and conflicts of interest for defining KPIs for the Bank's bonus eligibility. The Board of Directors approves bonus disbursement for the front office functions. All existing bonus methodologies are reviewed and approved by the Supervisory Board.

The Bank keeps leading position in market for offering various benefits to the employees. The Benefit Scheme includes different benefit packages, such as health insurance, sport allowance, professional literature allowance, international professional certification and membership fees, diverse range of learning and development activities, etc.

CORPORATE GOVERNANCE

JSC PASHA Bank Georgia is committed to high standards of corporate governance and recognizes the importance of corporate governance practices for enhancing the Bank's success and creating long-term shareholder value.

Corporate governance is defined as a set of structures and processes designed for the direction and supervision of the Bank. JSC PASHA Bank Georgia continually develops a comprehensive range of policies and systems to ensure that all internal and external processes are conducted with effective oversight and control. A sound system of corporate governance is an important contribution to the rule of law in Georgia and a crucial determinant of the role of the Bank in the modern economy and society.

CSR, CHARITY AND SPONSORSHIP ACTIVITIES

In 2022 Pasha Bank continued to support CSR projects in diverse fileds under Pasha Bank, as well as under the retail ReBank brand:

Pasha Bank is a loyal sponsor of the U.S. Independence Day Picnic, organized by U.S. Embassy in Georgia and the American Chamber of Commerce in Georgia (AmCham Georgia). In 2022 supported the event and funded one of the activities during the celebration

Pasha Bank continues to support Urban projects under its Re|Bank brand– in 2022 for the 4th year in a row Re|Bank sponsored Tbilisi Mural Fest, An international street art festival Tbilisi Mural Fest held from 25th of August to 10th of September. The initiative was supported by Tbilisi and Berlin city halls. The Festival aims to enhance the Urban view of Tbilisi by creating large-scale platforms for international artists on Tbilisi walls.

Re|Bank became a supporter of "Films in Mziuri", a project dedicated to the popularization of modern Georgian cinema. s a part of the project film screenings were held in an open Cinema in Café Mziuri during the summer, followed by discussions.

Re|Bank is also an avid supporter of stray animals. In 2022 Re|Bank has sponsored two events: "Feel the Pawer of love" with Animal Project which supported adoption of stray animals and "Become Santa for a Stray Animal" – a fundraiser for food for stray animals.

COMMITMENT TO CORPORATE GOVERNANCE

JSC PASHA Bank Georgia constantly strives to improve its governance standards, to always be compliant with Georgian legislation, and to review and apply the Supervisory Board initiatives aimed at the implementation of the best corporate governance practices.

The Bank demonstrates its commitment to the best corporate governance standards by developing and furthering:

- Responsible, accountable, and value-based management;
- Effective oversight and executive bodies that act in the best interests of the Bank, seek to enhance the shareholder value in a sustainable manner;
- Appropriate information disclosure and transparency, as well as an effective system of risk management and internal control.

The Bank honours and recognizes all general principles of good corporate governance:

- Fairness: The Bank is committed to act in a fair and ethical manner towards all shareholders and stakeholders, as it believes that ethical conduct underpins good corporate governance.
- Accountability and Responsibility: The Supervisory Board is accountable to the shareholders for how it carries out its responsibilities. Similarly, the Board of Directors is responsible for the exercise of powers delegated to them and is accountable to the Supervisory Board for their achievements and performance.
- Transparency: The Bank is committed to providing accurate and understandable information to shareholders and other stakeholders on all material matters regarding the Bank, including its financial condition, performance, and ownership and governance structure in a manner easily accessible to interested parties, without giving away commercially sensitive information.

The Corporate Governance Code for Commercial Banks was adopted and introduced on September 26, 2018 by Decree № 215/04 of the Governor of the National Bank of Georgia, the highest administrative body responsible for the supervision of the financial sector.

The purpose of the Corporate Governance Code for Commercial Banks has been described as the definition of the core corporate governance principles for commercial banks, the establishment of efficient and sound corporate governance that promotes successful functioning and stability of the financial and banking sectors. The requirements laid down in the Code are compulsory for commercial banks.

The Bank has adopted the guidelines of the Code and has complied with its specifications.

CODE OF ETHICS

Members of the Supervisory Board and the Board of Directors, as well as all employees of the Bank, are expected to act in accordance with all applicable laws and regulations and to comply with ethical standards of business conduct as defined by the Bank's Code of Ethics.

The Bank's Code of Ethics is a set of principles that are actively applied in the Bank's day-to-day activities. The ethical principles of the Bank are based on the following values:

Integrity - At the core of our business stands unshakeable commitment to integrity. For us, it means doing what is right. Every time. All the time. Even when no one sees us. At the most basic level, it is about respecting the laws and regulations of the country we operate in. It is about upholding our company's code of conduct even in the face of challenges. It means never sacrificing company interests for personal gains. It means being honest with ourselves, our colleagues, clients, and partners, and earning their trust.

Quality - The outside world will always judge us by the quality of the product or service we deliver. And the quality of our work is directly proportional to the dedication and professionalism of our staff. There is no way around it. That is why we always follow the standards we set. That is why we deliver what we promise - day in, day out - carefully balancing quality with efficiency for optimal results. That is why we try new things and strive to learn and improve - as individuals and as an organization.

Profitability - We generate profits for the benefit of our shareholders and the society at large. We can only achieve that by maintaining a competitive edge. Our staff understands that value comes not only in every dollar earned but also every dollar saved. However, in the pursuit of short-term business goals we never lose sight of our long-term aspiration – to create and maintain a sustainable global business. And this aspiration drives every strategic decision we make.

Collaboration - When we work as one team across departments, business units, and countries we produce phenomenal results. When we collaborate with clients, partners, and suppliers we far exceed market expectations. The impact of these synergies far surpasses that of any individual contribution. Collaboration creates a sound working environment and leads to higher efficiency. It accelerates problem-solving and enables innovation. It nurtures trust and respect.

Entrepreneurship - The world around is constantly changing so we often have to operate in ambiguity. We seek new opportunities and are ready to take bold steps - do things and go places others do not dare to. We do not fear challenges but view them as opportunities to grow. We are unafraid to take on a personal responsibility for going an extra mile or doing something new. Our staff treats the company with care, passion, prudence - just like they would treat their own business.

The Code of Ethics sets the following requirements:

- Maintenance of professional reputation.
- The highest standards for honest and ethical conduct, including proper and ethical procedures for dealing with conflicts of interest between personal and professional relationships.
- Full, fair, accurate, timely, and understandable disclosure in reports and documents that JSC PASHA Bank Georgia files with, or submits to, governmental and regulatory agencies, and in other public communications of the Bank.
- Compliance with applicable governmental laws, rules, and regulations.
- Prompt internal reporting of any illegal behaviour or violations of the Code.
- Provision of methods to communicate violations of the code.

OPEN-DOOR POLICY

The Code of Ethics incorporates an open-door policy, which gives each employee of the Bank an ample opportunity to ask questions and seek advice if he/she is not confident whether a conduct violates the letter and spirit of the Code of Ethics, and to raise concerns if he/she believes that our Code of Ethics has been violated.

JSC PASHA Bank Georgia strives to reinforce internal, as well as external stakeholders' confidence in the Bank's corporate governance and ethical standards by ensuring that unethical and illegal conduct of any internal stakeholder will not be left unattended.

Any member of the governance structure with any material concern about the overall corporate governance of the Bank can report to the Supervisory Board.

The Code of Ethics is developed in line with the best practices of corporate governance and is adopted by the Supervisory Board.

The document of the Code of Ethics can be viewed on PASHA Bank's website at www.pashabank.ge

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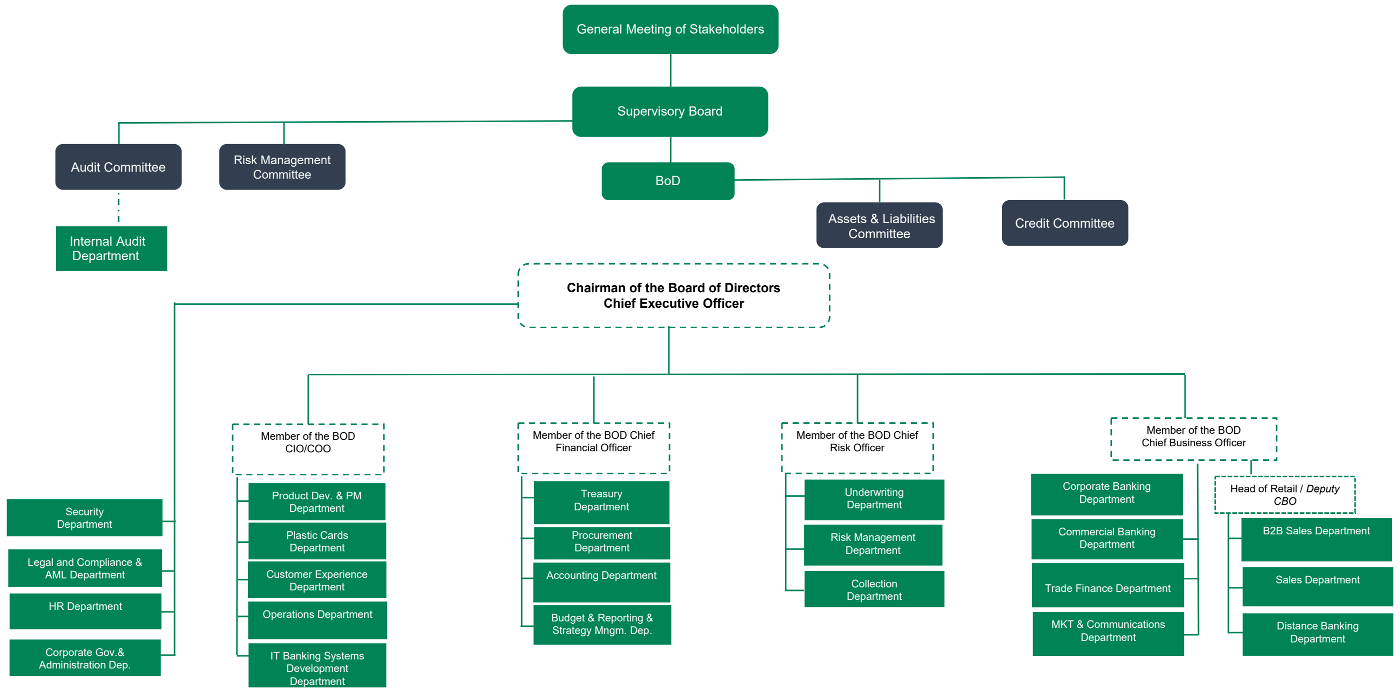
GOVERNANCE STRUCTURE

The governance structure of the JSC PASHA Bank Georgia adequately corresponds to its business nature, scale, and complexity. The organizational and corporate structure of the Bank eliminates conflicts of interest and ensures that no one has unfettered decision-making rights.

JSC PASHA Bank Georgia has a two-tier corporate governance structure - a Supervisory Board entirely composed of non-executive directors and responsible for the supervision of the Bank, and a Board of Directors (management board) entirely composed of executive directors and responsible for the day-to-day management of the Bank.

On October 28 of 2022, the Bank updated its Organizational Structure.



MEMBERS OF THE SUPERVISORY BOARD

Farid Mammadov

Chairman of the Supervisory Board

Farid Mammadov is the Chairman of the Supervisory Board effective since June 01, 2017. He is also a member of the Risk Management Committee.

Experience

Having started his banking career in 1999 as a credit officer at the United Credit Bank CB, Farid Mammadov served as the Director of the Credits Department at OJSC Bank of Baku from 2001 to 2010 and subsequently, as Deputy CEO. In 2012, he started working as the Risk Director within LLC PASHA Holding and served as a member of the Board of Directors at OJSC PASHA Bank until June 2013. From this date until February 2017, he served as First Deputy CEO at OJSC Kapital Bank. Since February 2017, he has been serving as Deputy CEO of LLC PASHA Holding and the Director of Business Group.

Farid Mammadov has more than twenty years of experience in banking and business management.

Education

Farid Mammadov completed his undergraduate education in Political Science at Baku Social Management and Political Science Institute and earned a master's degree in Political Science from the Academy of Public Administration under the President of the Republic of Azerbaijan. He has an MBA from IE Business School, Spain and is a CFA Charterholder.

George Glonti

Senior Independent Member of the Supervisory Board

George Glonti is an Independent Member of the Supervisory Board effective from December 31, 2018. He is also the Chairman of the Audit Committee and a member of the Risk Management Committee.

Experience

Having started his banking career in 1992 as an Assistant in International Operations and Documentary Transactions Department at Iberia Bank, George Glonti became the Head of the same department in 1994 and held this position until 1995. Between 1995 and 1996 he continued his career as the Financial Director of TBC Group and Alma TBC. At the time, he also served as a member of the Board of Directors and the Credit Committee of TBC Bank. From 1996 to 1999, he held the position of the Head of International Division in TbilUniversalBank. Between the years of 1999 and 2003 George Glonti was a Managing Partner, the CEO, and a Shareholder of the UBC International LTD (Audit & Consulting), a company associated with PwC. In 2003-2005 he was Deputy CEO of People's Bank of Georgia. In 2005-2008, George Glonti became the Vice President of the National Bank of Georgia and a member of the NBG Council. From 2008 to 2009 he was the CEO of the People's Bank of Georgia (presently "Liberty"). In 2009, he became the CEO of Kor Standard Bank (presently "Tera Bank") and held the position until 2013. In 2013-2014 Glonti was the Managing Partner and the CEO of the Phoenix Capital. From 2014, he continued his career as the CEO of the Super TV cable television. Since 2014 until the present, he has held the position of the Non-Executive Vice President of GFTC (SWIFT Service Bureau). In 2018, he became the Managing Partner at the RSM Georgia Management & Consulting. George Glonti has more than twenty-five years of experience in banking and business management.

Education

George Glonti completed his BA and MBA in Finance and Economics, with a specialization in Banking, at Tbilisi State University, Georgia.

Ebru Ogan Knottnerus

Independent Member of the Supervisory Board

Ebru Ogan Knottnerus is an Independent Member of the Supervisory Board effective since December 31, 2018. She is also the Chairperson of the Risk Management Committee and a member of the Audit Committee.

Experience

Ebru Ogan Knottnerus started her banking career in 1991 in the Internal Audit Department of PAMUKBANK. Between the years of 1993 and 1997, she worked as the Financial Control and Budget Planning Manager for FINANSBANK. She held the Manager's position in Foreign Investments Department for DEMIRBANK between 1997 and 1999. In 1999, Ebru Ogan Knottnerus joined OTTOMAN Bank and worked as the Head of Risk Management and Internal Control Departments until 2001. She continued her career at the BBVA Group - GARANTI Bank AŞ as the Head of Subsidiaries' Risk Management Department between 2001 and 2003, and from 2016 to 2018 she held the position of the Head of Risk Management.

In 2018, Ebru Ogan Knottnerus joined PASHA Investment Bank Turkey as an Independent Board member. Ebru Ogan Knottnerus has more than twenty-five years of experience in banking and business management.

Education

Ebru Ogan Knottnerus earned her bachelor's degree in Business Administration at the Middle East Technical University (METU) in Ankara, Turkey. She also completed various executive education programs, such as Authentic Leadership Development Programme at Harvard Business School, Strategic Development Programme at London Business School, and High Impact Leadership Programme at Columbia University, USA.

Jalal Gasimov

Member of the Supervisory Board

Jalal Gasimov is a member of the Supervisory Board since October 19, 2015.

Experience

Jalal Gasimov started his banking career at OJSC İlkbank, Azerbaijan in 1999. Between 2000 and 2003 he held various positions in finance at private companies. He worked at Azpetrol Oil Company as the Finance Director in 2003-2004, and was Deputy Chairman of the Board of Directors of Azpetrol Holding from 2004 to 2006. He joined the Moscow Office of McKinsey & Company and served as a Consultant in 2006-2007. He performed top management duties as the CEO of OJSC Bank of Baku, the Finance Director at CRA Group Companies, and the CEO and the Chairman of the Executive Board in JSC Unibank between 2007 and 2015. Jalal Gasimov joined LLC PASHA Holding as the Head of Banking Group and Deputy CEO in 2015. He also serves as the Chairman of the Supervisory Board of OJSC Kapital Bank. Jalal Gasimov is a member of the Board of Directors at PASHA Yatırım Bankası A.Ş. He was appointed as Chief Executive Officer of PASHA Holding effective from 26.12.2019. Jalal Gasimov has more than twenty years of experience in banking and business management.

Education

Jalal Gasimov completed his undergraduate degree in Economics at the Azerbaijan Economy University, received his graduate degree in Economic Relations from the Higher Diplomatic College of Azerbaijan and an MBA from Warwick Business School, UK.

Shahin Mammadov

Member of the Supervisory Board

Shahin Mammadov is a Member of the Supervisory Board effective since April 30, 2018. He is also a Member of the Audit Committee.

Experience

Mr. Mammadov started his career as an Accountant in 2003 and was later promoted to Deputy Chief Accountant at Yapi Kredi Bank Azerbaijan (former Kocbank Azerbaijan JSB). He joined Deloitte & Touche in 2005 as an Associate Auditor and was subsequently promoted to the position of Audit Manager.

In 2009, Mr. Mammadov was assigned to the position of the Director of the Financial Management Department at OJSC PASHA Bank and in 2011 he became the Chief Financial Officer and a member of the Executive Board. In 2013, he joined the Board of Directors of JSC PASHA Bank Georgia supervising the business development function. In July 2014, Mr. Mammadov was appointed the CEO and the Chairman of the Board of Directors at JSC PASHA Bank Georgia. Since March 2015, Shahin Mammadov has been a member of the Supervisory Board at PASHA Yatırım Bankası A.Ş. Since January 2018 he has been serving as the Business Support Director and Deputy CEO at LLC PASHA Holding. On March 1, 2018 Shahin Mammadov became a member of the Supervisory Board at OJSC PASHA Bank. Shahin Mammadov has more than sixteen years of experience in banking and business management.

Education

Shahin Mammadov graduated from the Azerbaijan State Economic University and received a bachelor's degree in Accounting and Audit in 2002. In 2004, he was awarded a master's degree from the same university in Accounting and Audit. In 2010, Mr. Mammadov received his Ph.D. in Economics from the Academy of Sciences of the Republic of Azerbaijan.

He successfully completed several education programs in a number of top business schools as part of the High Potential Leadership Program organized by PASHA Holding in 2013. In 2012, Shahin Mammadov enrolled in the Program for Leadership Development (Executive Education Program) at Harvard Business School and completed Modules 1 to 4 in 2013. In 2017, he completed Module 5 of the same Program. Mr. Mammadov obtained the status of an Alumnus from the Harvard Business School in July 2017. He has been a member of the Association of Chartered Certified Accountants (ACCA) since 2014.

SHAREHOLDER STRUCTURE AND SHARE CAPITAL

JSC PASHA Bank Georgia (the "Bank") was formed on 17 December 2012 as a joint stock company under the laws of Georgia. The Bank operates under a general banking license issued by the National Bank of Georgia (the "NBG") on 17 January 2013 (Identification code: 404433671).

The Bank accepts deposits and extends credit, transfers payments in Georgia and abroad, exchanges currencies and provides other banking services to its commercial customers. The Bank continues its expansion into retail market under the Re|Bank brand name, based on strategic initiatives approved by the Bank's shareholders.

Starting from 2017 the Bank is a member of the deposit insurance system. The system operates under the Law of Georgia on Deposit Insurance System and insures all types of deposits of resident and non-resident individuals and legal entities up to GEL 15,000, with certain exceptions.

The Bank has four service offices in Georgia as of 31 December 2022. The Bank's registered legal address is 37M, Ilia Chavchavadze Avenue, 0179, Tbilisi, Georgia.

As at 31 December 2022, the Bank's 100% owner was OJSC PASHA Bank (the "Parent"). As at 31 December 2022, the Bank is ultimately owned by Mrs. Leyla Aliyeva (34.91%), Mrs. Arzu Aliyeva (34.91%) and Mr. Arif Pashayev (19.49%) and Mr. Jamal Pashayev (10.69%), who exercise joint control over the Bank.

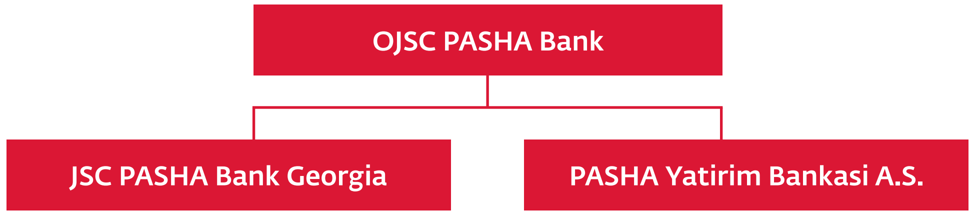
The allocated capital of the Bank is divided into 129 000 000 (one hundred and twenty-nine million) ordinary shares. The nominal value of one ordinary share is 1.00 (one) GEL. Each ordinary share at the General Meeting of Shareholders of the Bank entitles its holder to one vote. The Bank is a subsidiary bank. As of December 31, 2022, 100% of the shares emitted by the Bank was solely owned by OJSC PASHA Bank.

During the reporting period, there were no changes in the Bank's shareholder structure. Information on the type of income received from JSC PASHA Bank Georgia by shareholder or beneficiary owner is provided below:

In GEL thousands'		
	OJSC PASHA Bank Azerbaijan	PASHA Holding Companies
	2022	
Fee and commissions	2	1
Interest on amounts borrowed from credit institutions	35	567
Interest on subordinated debt	739	739

Ultimate Beneficial Owner	%
Leyla Aliyeva	34.91%
Arzu Aliyeva	34.91%
Arif Pashayev	19.49%
Jamal Pashayev	10.69%

Group Structure is as follows:



GENERAL MEETING OF SHAREHOLDERS

The supreme governing body of the Bank is the General Meeting of Shareholders. The Bank holds Annual General Meetings within two months following the signing of the annual audited financial statements. Other general meetings are summoned if the interests of the Bank require so or if it is required by the Bank's Charter. General Meetings are summoned by the Board of Directors, the Supervisory Board, or the shareholder(s). The General Meeting is held on the territory of Georgia or abroad, at a time and place that are most convenient for the shareholders. The General Meeting is called within the term of twenty calendar days after the Directors have sent a notification to the shareholders. Nothing impedes the shareholders from voting from abroad or through the power of attorney issued to another person. The Bank ensures that all valid proxy appointments received for the General Meetings are properly recorded. The invitation to the General Meeting specifies the information regarding the date, time, venue, agenda, the project of the resolution, and proposals, if any, regarding amendments to the Charter.

The voting results and other relevant materials are distributed to the shareholders and the ultimate shareholders.

The Supervisory Board ensures that the Supervisory Board members and all Directors are made aware of their shareholders' views, issues, and concerns.

ISSUES REQUIRING APPROVAL OF THE GENERAL MEETING OF SHAREHOLDERS

a) Approval and amendment of the Bank's Charter;

b) Approval of the Bank's annual audited financial statements;

c) Reorganization of the Bank, which includes mergers, divisions, transformations (change of organizational- legal form), and liquidation of the Bank, full or partial cancellation of pre-emptive rights during a increase in the share capital of the Bank;

d) Issuance of new shares, sale of shares by the existing shareholder(s), or other securities convertible into shares;

e) Accepting or rejecting proposals of the Supervisory Board or the Board of Directors concerning the utilization (including distribution) of profit, or making decisions concerning the utilization of net profit, if the said bodies fail to agree on a proposal;

f) Approval of reports by the Board of Directors and the Supervisory Board;

g) Election and dismissal of members of the Supervisory Board, determining the question of member remuneration, and conclusion of member contracts;

h) Approval of the first composition of the Board of Directors of the Bank;

i) Approval of the first composition of the Audit Committee of the Bank;

j) Making decisions on the participation in court proceedings against the Board of Directors and the Supervisory Board members, including the appointment of a representative for such action;

k) Adopting resolutions on the issuance and sale of shares and other securities under this Charter and Georgian legislation;

l) Making decisions on the acquisition, sale, transfer, exchange (or other transactions to similar effect), or encumbrance of the Bank's properties the value of which is more than 25% of the book value of the Bank;

m) Deciding on other matters according to effective Georgian legislation.

General Meeting of Shareholders

In 2022, the Shareholders Meeting was conducted three times, on March 15, March 16, and March 17. At the General Meeting of Shareholders, Mr. Mir Jamal Pashayev represented the Bank's shareholder, under a duly notarized and legalized power of attorney (proxy).

Agenda of the Annual Meeting of Shareholders

At the meeting of March 15, 2022, the Shareholders Meeting approved increasing of the Bank's capital by issuing new ordinary shares, approved the Shareholders Agreement and amendments to the Bank's Charter.

At the meeting of March 16, 2022, the Shareholders Meeting approved Remuneration Policy for Material Risk Takers.

At the meeting of March 17, 2022, the General Meeting of Shareholders approved the Annual Audit Financial Statements together with Independent Auditors' Report for the financial year 2021.

SHAREHOLDER RIGHTS

The rights and responsibilities of the shareholders are mutually determined by the Charter of JSC PASHA Bank Georgia, the Law of Georgia on Entrepreneurs (as amended periodically), the Law of Georgia on Activities of Commercial Banks (as amended periodically) and all other relevant laws and regulations, including regulations issued by the National Bank of Georgia.

The Charter is available on PASHA Bank's website at www.pashabank.ge

According to Article 4, Section 4.2 of the Bank Charter, shareholders have the right to:

a) Attend or be represented at the General Meeting and take part in the voting process (holders of common shares only);

b) Be elected in the Supervisory Board;

c) Participate in the distribution of profit and receive pro rata share of the dividends;

d) Dispose their shares in accordance with Georgian legislation and the Bank Charter;

e) In case of the Bank's liquidation, receive pro rata share of the assets remaining after the payment of the creditors' claims;

f) Have access to information concerning economic activities of the Bank;

g) Appeal to the Directors of the Bank to specify issues in the General Meeting agenda, request an extraordinary General Meeting, or add issues for consideration to the agenda of an already appointed General Meeting;

h) Request a special inspection of the Bank's economic activities and annual balance sheets if they have a reasonable doubt that material irregularities have taken place;

i) Preemptively subscribe for newly issued or existing shares of the Bank on a pro-rata basis in accordance with the terms and conditions of the Bank Charter;

j) Appeal to a local court or, by agreement of the parties, seek private arbitration for the solution of a conflict between themselves and the Bank;

k) Other rights as stipulated by Georgian legislation and the Bank Charter.

THE SUPERVISORY BOARD

The Supervisory Board is responsible for the general oversight of the Bank and of the Board of Directors. Its members are elected by the shareholders. The Supervisory Board is led by a Chairman, it advises the Board of Directors, and is involved in decision-making on all fundamental matters affecting the Bank. It is the key decision-making body of the Bank, responsible to the shareholders for creating and delivering sustainable shareholder value through providing entrepreneurial leadership and direction to the Bank. It determines the Bank's strategic objectives and policies, provides the overall strategic direction within a framework of rewards, incentives and controls, demonstrates ethical leadership, and promotes a collective vision of the Bank's purpose, values, culture, and behaviors.

Members of the Supervisory Board act in a way that they consider, in good faith, will promote the success of the Bank for the benefit of the shareholders as a whole and, while doing so, take into consideration the interests of other stakeholders as well.

According to Article 7, Section 7.10 of the Bank Charter, the following activities shall be performed only by the Supervisory Board:

- Strategic supervision and control of the Bank;
- Review and approval of corporate strategy and strategic objectives;
- Review and approval of annual budget and business plan;
- Initiation of new banking/commercial activities and termination or suspension of existing activities;
- Establishment and liquidation of new enterprises and branches;
- Acquisition and disposal of shares in other companies;
- Approval of the organizational structure;
- Approval of the Code of Ethics and whistleblowing procedures;
- Adoption of resolutions for implementing the General Meeting decision to admit the Bank's shares and other securities to the stock market;
- Submission of proposals for profit distribution to the General Meeting of shareholders;
- Redemption of shares by the Bank as mandated under Georgian legislation;
- Strategic supervision of risk management activities;
- Approval of the risk appetite statement, conduction of annual reviews;
- Approval of the business continuity plan;
- Authorization of (possible) conflicts of interest and related party transactions within the limits established by the Bank;
- Approval of policies, standards, and procedures in respect to conflicts of interest and related party transactions;
- Approval of structure, size, and composition of the Board of Directors, including appointment and dismissal of its members;
- Determination of rights and obligations of members of the Board of Directors, monitoring and supervision of their activities, request of reports from the Board of Directors;
- Approval of succession policy and succession planning for members of the Board of Directors;
- Conclusion of labour agreements and determination of remuneration packages for members of the Board of Directors;
- Approval of regulatory framework for determining bonuses and/or additional benefits for employees, including members of the Board of Directors;

- Approval of structure, size, and composition of the Supervisory Board committees, including appointment and removal of the Supervisory Board committee members and review of reports by the Supervisory Board committees;
- Election of external auditors;
- Appointment and dismissal of trade representatives (procurators);
- Appointment and dismissal of the Corporate Secretary;
- Approval of transactions including but not limited to attraction of borrowings, granting lending and trade finance products, approval of loan restructuring, loan write-off, approval of acquisition and disposal of fixed assets and intangible assets, administrative expenses, cash limits, Implementation of equity investments in public and private companies in case the transaction is above the decision-making and signatory authority limits of the Board of Directors;
- Approval of decision-making and authority limits of the Board of Directors;
- Securing of borrowings or any other liabilities of the Bank or any third party, if they fall outside the scope of the regular economic activities of the Bank;
- Approval of issuance of bonds;
- Approval and amendment of the Bank's statute-, framework-, and policy-type documents;
- Determination and approval of terms and conditions to be used with regard to credit recourses and deposits to the Bank's employees;
- Convention of the General Meeting, if deemed necessary for the interests of the Bank;
- Supervision and representation of the Bank in case of conflict between members of the Board of Directors;
- Based on the decision of the General Meeting, procession of a legal dispute against members of the Board of Directors on behalf of the Bank, submission of a claim against members of the Board of Directors without the decision of the General Meeting if the issue is related to the responsibility of members of the Board of Directors;
- Supervision of interventions in accordance with the results of examinations carried out by External and Internal Audits, as well as the National Bank of Georgia;
- Resolution of issues that are beyond the scope of the Board of Directors' authority;
- Performance of any other duties as required by the General Meeting.

The Supervisory Board members are collectively responsible for the Bank's interests and have a fiduciary duty towards the Bank. The Chairperson is appointed from the members of the Supervisory Board. He is responsible for its effective overall functioning, including maintenance of a relationship of trust and collegiality with the Supervisory Board members, as well as facilitation of coordination and cooperation between the Supervisory Board and the management.

DEFINITION OF AN INDEPENDENT SUPERVISORY BOARD MEMBER

All members of the Bank's Supervisory Board and the Supervisory Board committees should act independently when making decisions. It should not be permitted to take into consideration the private interests of a shareholder, customer, contractor, investor, or other related party when making business decisions. Members act independently if they effectively exercise their best judgment for the exclusive benefit of the Bank, judgment that is not clouded by real or perceived conflict of interest.

Independence of a person recommended by the Bank on the position of the Supervisory Board member shall be verified by the Bank before appointment in accordance with the National Bank of Georgia's Questionnaire on Independence and the compliance analysis as stipulated by the Regulation on Fit and Proper Criteria for Administrators of Commercial Banks.

"Independent member" means a member, when he/she or his/her relatives, who are first and second legal heirs under the Civil Code of Georgia:

1. Is not a relative of administrators of the Bank or of the Bank's related companies;
2. Is not a relative of the person(s), who directly or indirectly hold significant shares of the Bank or of the Bank's related companies;
3. During last two years, did not have any personal relations (kinship, living together etc.) with the administrators of the Bank or those of the companies incorporated in the group, also with the person(s) holding significant share of the Bank or of the companies incorporated in the group;
4. Does not receive additional remuneration from the Bank other than fixed fee for membership of the Supervisory Board and the Supervisory Board committees;
5. Does not receive dividend for owning of the Bank's shares (owning less than 2% of the Bank's shares directly or indirectly);
6. During last two years, did not conduct business or did not have any other types of material business/commercial relationships with the administrators of the Bank or the Bank's related companies;
7. During last two years, did not conduct business or did not have any other types of material business/commercial relationships with the person who directly or indirectly holds significant shares in the Bank or in the Bank's related companies;
8. Does not have any kind of material liability (including financial one) towards the Bank, the Bank's administrators, the Bank's significant/shareholders or any other type of material / financial interest (including property, investment) in the Bank or in the Bank's related companies (exception is the case when a person directly or indirectly holds 2% or less shares of the Bank or of the Bank's related companies);
9. During the past five years did not have professional or other kind of working relationship (including business services, etc.) with the Bank and with the Bank's related companies, with the administrators and significant shareholders (exception is the case when a person performs non-executive

functions or occupies non-executive position);

10. Has not been employed by the Bank within the last five years other than as member of the Supervisory Board or Supervisory Board committees;
11. Is not related to a non-profit organization that receives significant funding from the Bank or from the Bank's related companies;
12. Is not, nor in the past five years has been, related to a present or former auditor of the Bank or of a related party;
13. Has not served on the Supervisory Board for more than nine years since the date of his first election;
14. The Audit Committee members shall not be considered independent if they and/or their relatives, who are first and second legal heirs under the Civil Code of Georgia, have financial liability to the Bank;
15. Did not have any other kind of relationship that may affect the independence of the person.

The independent members of the Supervisory Board of a parent company and/or subsidiary banks of the group may also be considered to be independent on the Supervisory Board of the subsidiary bank if these members satisfy the independence criteria set by the best international practices and Corporate Governance Code for Commercial Banks approved by Decree №215/04 of the Governor of the National Bank of Georgia.

The Corporate Governance Policy is available on PASHA Bank's website at **www.pashabank.ge**

SUPERVISORY BOARD MEMBERSHIP CRITERIA

The Bank's Corporate Governance Policy sets the Supervisory Board membership criteria, according to which the Supervisory Board seeks members with extensive experience and expertise, and a reputation for integrity.

Members of the Supervisory Board should have experience in positions with a high degree of responsibility, be leaders in companies or institutions with which they are affiliated, and be selected based on contributions they can make to the Supervisory Board, and their ability to represent the shareholders' interests. The Supervisory Board will also take into account the diversity of a candidate's perspectives, background, and other demographics. The Supervisory Board membership criteria and appointment process are also regulated by the Bank's Standard on Appointment of Administrators, which is developed in compliance with the Regulation on Fit and Proper Criteria for Administrators of Commercial Banks and sets requirements that a candidate for the Supervisory Board Membership shall comply with.

In assessing the collective suitability of the Board, the following should be taken into account:

- A member of the Supervisory Board shall have university education in one of the following fields: economics, finance, banking, business administration, audit, accounting, jurisprudence, or other relevant education that enables him/her to perform his/her duties;
- A member of the Supervisory Board shall not be an administrator of another commercial bank registered in Georgia, except in the case when he/she holds an administrator's position in a bank that is a subsidiary or a parent of the Bank;
- A member of the Supervisory Board shall not be a member of the Supervisory Board or the Board of Directors in more than seven enterprises registered in Georgia;
- A member of the Supervisory Board shall not be a I or II rank relative of a member of the Board of Directors or the Supervisory Board of the Bank;
- A member of the Supervisory Board shall have appropriate qualification and professional experience, the composition of the Supervisory Board should ensure a variety skills, knowledge, and experience, which correspond to the scale and complexity of the Bank's activities.

According to the Corporate Governance Policy, factors considered in the review of potential candidates include:

- Prominence in business, institutions, or professions;
- Integrity, honesty, and the ability to generate public confidence;
- Demonstrated sound and independent business judgment;
- Financial literacy and experience with financial institutions;
- Risk management experience;
- Professional experience required to contribute to the Supervisory Board committees;
- Ability to devote sufficient time to the Supervisory Board and the committee work;
- Residency in and familiarity with the geographic region where the Bank carries on business;
- Competencies and skills that the Supervisory Board expects from each existing member.

Independence of a Supervisory Board member is confirmed by the Bank prior to his/her appointment as dictated by the Independence Questionnaire elaborated by NBG and a compliance analysis is submitted to NBG.

BOARD EFFECTIVENESS REVIEW: EVALUATION OF THE SUPERVISORY BOARD MEMBERS

The Supervisory Board conducts annual effectiveness review in order to evaluate the performance of the Supervisory Board as a whole, the Supervisory Board committees, and its individual members. Annual evaluations are internally facilitated. The performance evaluation process may differ from year to year but will normally take the form of a detailed questionnaire supplemented by individual interviews with members of the Supervisory Board and the Supervisory Board committees. The Chairman may hold private meetings with each member of the Supervisory Board to discuss the evaluation results and individual performance. The Chairmen of the Supervisory Board committees are responsible for the evaluation of their committees.

REVIEW AND ASSESSMENT OF BOARDROOM PRACTICES

The Supervisory Board periodically reviews the structure, size, and composition of the Supervisory Board and the committees, and assesses the effectiveness of internal governance policies and practices.

After each Supervisory Board meeting, the Corporate Secretary conducts an online survey of Boardroom Practices to determine the effectiveness of the existing boardroom culture in the Bank. With this survey, the Supervisory Board members are given an opportunity to evaluate the level of the Bank's preparedness and the Board meeting performance, and to propose their suggestions for improvement, as well as to assess their and their colleagues' performance.

Due to the sensitivity of the information, the anonymity of each respondent is strictly protected.

Throughout the year, the Bank held a high number of Board meetings; in total, the Bank convened 45 Board meetings, 32 of which were extraordinary.

INDEPENDENT ASSESSMENT

Boards and Committees Performance Assessment was administered by an independent consultant, Deloitte and results were released in February 2020. In the Performance Assessment, Deloitte used the board effectiveness framework.

The work focused on how the board discharges three key roles:

- Gaining insight and foresight – the board as a whole, and individual board members, are aware of the key policy, legislation, and economic drivers alongside the current and future needs of the key stakeholders, opportunities, and threats, and the extent to which the organization can effectively respond to these stakeholder needs and environmental conditions.
- Clarifying priorities and defining expectations – the board has debated, agreed, and clearly communicated a set of strategic priorities for the organization and how it expects these priorities to be delivered.
- Holding to account and seeking assurance – the board is able to understand and critically appraise performance information, holds the management to account, and is reasonably assured that the management is delivering on these priorities in line with its expectations.

Deloitte carried out the following work for the assessment:

- Review of documentation;
- Distribution of an online survey to all Board members;

- Interviews with the Board members, C-suite executives, and some key stakeholders who regularly interact with the board; and
- Observation of some Board and committee meetings.

Based on the assessment results, it can be concluded that the Bank has achieved a good level of integrity, transparency, and loyalty by continuously working on its corporate governance. Significant efforts have been made to strengthen the performance of boards and committees over the past several years, with noticeable results.

A number of strengths were identified in the way that the Board operates, including instances when the Board demonstrates leading practices when compared to its peers. The Board exhibits a number of positive features in terms of skills and behaviours. There are a number of areas, however, where the Bank would benefit from the relevant best practice recommendations stated in the UK Corporate Governance Code regarding board structure and composition, agendas, reporting, engagement, evaluation, and training.

The strengths of the Board were identified as follows:

- Approach to governance: The Bank takes the Board effectiveness and wider governance seriously, as evidenced by the regular board evaluation process and the robust corporate governance policy.
- Strong professional background of members: The Board members are former or current executives of banks, including those outside of Azerbaijan. The Board members have substantial experience in senior executive roles, the majority of them within the Azerbaijani financial industry in general and PASHA Holding in particular.
- Positive assessment of the Board dynamics: The Board team dynamics were described positively, with interviewees referring to a culture of open, extensive, informal, and robust debate conducive to a productive exchange of views and opinions.
- High level of participation: The Board members were reported to attend the meetings regularly and to be actively involved in boardroom discussions.
- High level of engagement from Independent Members: The degree of Independent Member engagement and personal commitment to the Bank is a strength of the Board. Deloitte considers the alignment of individual Independent Board members to strategic initiatives and the high level of interaction between Executive Directors and Independent Board Members outside of the Board meetings to be in line with the best practices.
- Cohesiveness: The Board is collegial and cohesive. Members have a good working relationship with each other, helped by the engagement described above, and the management is willing to spend time with Independent Board Members.

MEETINGS OF THE SUPERVISORY BOARD

Throughout 2022, the Supervisory Board held forty-five, including thirtytwo extraordinary Board meetings.

Supervisory Board

Members as of 31 December 2022

Supervisory Board					
Members on 31 December 2022					
Name-Surname	Position	Date of Election	Other positions	Meetings attended/ eligible to attend	Attendance Rate
Farid Mammadov	Board Chairman	01.06.2017	Risk Management Committee Member	43/45	96%
George Glonti	Senior Independent member	31.12.2018	Audit Committee Chairman; Risk Management Committee Member	45/45	100%
Ebru Ogan Knottnerus	Independent member	31.12.2018	Risk Management Committee Chairperson; Audit Committee Member.	45/45	100%
Jalal Gasimov	Board Member	19.10.2015		39/44	89%
Shahin Mammadov	Board Member	30.05.2018	Audit Committee Member	39/44	89%

AGENDA OF SUPERVISORY BOARD MEETINGS

Throughout the year 2022, the Supervisory Board included in its agenda, reviewed and/or approved a range of topics concerning corporate governance, operational and organizational risk management, strategic planning and budgeting, and different operational matters, such as the approval of credit facilities, etc.

Items Related to Corporate Governance

1. Approval of updates to the organizational structure;
2. Approval of Executive Board KPIs 2022;
3. Approval of disbursement of the year-2021 performance-based bonus and premiums to JSC PASHA Bank Georgia's back-office employees and members of the Board of Directors;
4. Approval of resignation letter of a member of the Board of Directors;
5. Support for approval by the Extraordinary Meeting of Shareholders the Annual Audit Financial Statements together with Independent Auditors' Report;
6. Approval of new or update of the internal regulatory documents: the Credit Committee Statute, the Bank Related Party Standard and the Bank Related Party Identification Procedure, the Operational Risk Management Policy, the Recovery Planning Framework, the Guideline of Action Plan on Stress Test Results, the Action Plan on Stress Testing, the NBG Revision Action Plan, the Recovery Planning Standard, the RHI 2022 Transformation Plan, the Documents Retention Policy, the Decision-Making and Signatory Authority Matrix, the Environmental and Social Risk Management System and Policy, the Code of Ethics, the Financial Institution Rating and Internal Assessment Methodology for Limit Setting, the IFRS Provisioning Methodology, the Benefit and Other Personnel Related Expense Limits Schemes, the Bonuses' Scheme Framework, the Employee Remuneration Policy and the Bonus Calculation Framework,;
7. Support for approval by the Shareholders Meeting Remuneration Policy for Material Risk Takers v.3;
8. Quarterly Reports on Financial and Other Activities;
9. Quarterly Reports on Critical and High-Risk Audit Findings;
10. Quarterly Reports on Related Party Transactions;
11. Quarterly Reports on Boardroom Practices.
12. Semi-Annual Compliance Reports;
13. Review of the NBG's Inspection ACT on the issue of combating money laundering and financing of terrorism;
14. Monthly updates on significant pending/outstanding issues relevant to the operations of the Company;
15. Approval of the consultant to the Supervisory Board.

Items Related to Risk Management

1. Risk Management Committee Reports;
2. Discussion of RAS;
3. Approval of the Risk Culture Master Roadmaps;
4. Acceptance of the risk with respect to the audit findings;
5. Approval of the Credit Approval Authority Increase;

Items Related to Strategic Planning and Budget

1. Support for approval by the Extraordinary Meeting of Shareholders the capital increase of JSC PASHA Bank Georgia;
2. Support for approval by the Extraordinary Meeting of Shareholders the Articles of Incorporation and the Charter of JSC PASHA Bank Georgia;
3. Approval of 2022 Budget;
4. Approval of 2023 Budget;

And other operational matters, such as approval of credit facilities, changes in terms and conditions of existing credit facilities, waivers, bond purchases, administrative expenses, etc. Meeting Minutes for the respective decisions of the Supervisory Board and its committees were appropriately drafted and authorized by the Corporate Secretary and chairperson of respective governing body.

The Meeting Minutes include information on the final decision, as well as arguments of members voting against the resolutions. The Meeting Minutes were provided to NBG not later than ten days after the meeting date and respective excerpts were distributed to relevant internal stakeholders.

The Supervisory Board regularly meets with senior management and internal control functions to review policies and regulations that identify material risks and issues that are subject to impediments. The Board questions and critically reviews explanations and information provided by the senior management.

The Schedule of Matters Reserved for the Supervisory Board Decision can be found on *Page 49*.

STRATEGY CHANGE

In 2020 the Bank adopted the new strategy for 2021-2023. The new strategy maintains the Bank's aspirations of becoming a noticeable market player governed by utmost integrity, sound corporate governance, advanced technology solutions and managed by a competent human talent to stimulate sustainable economic growth, professional entrepreneurship, and to facilitate country-wide, as well as the regional business partnership. With the new strategy, the Bank stays committed to encouraging a culture of innovation and creativity and becoming a representation of good corporate practice, trust, continuity, and respect for all our stakeholders. The Bank will continue its sustainability efforts through diversifying and increasing profitability in commercial and corporate segments and expanding in the retail segment with organic growth. The Bank's retail brand Re|Bank strives to re-establish the concept of banking with transparent offers, clear communication and an honest approach, and provide our customers with win-win financial solutions.

The Bank's corporate culture evolves with its developing strategy, always staying loyal to its core values and adopting new policies and procedures which comply with the Georgian legislation.

THE SUPERVISORY BOARD COMMITTEES

The Supervisory Board has established two committees under its mandate – the Audit Committee and the Risk Management Committee.

The Audit Committee

The Audit Committee of JSC PASHA Bank Georgia was established by and is accountable to the Supervisory Board. The Committee is a governing body that establishes and controls internal audit function and monitors the Bank's activities according to the applicable legislation. The Committee is responsible for overseeing the Bank's systems of internal controls by establishing internal audit function. The Committee also communicates with the Bank's external auditor and reviews annual and interim IFRS financial statements. By bringing a systematic approach to the evaluation and improvement of risk management, internal control, and governance processes, the Committee monitors whether structural units and employees of the Bank follow the requirements of acting legislation.

The Committee assists the Supervisory Board and the Board of Directors in ensuring the existence and adequacy of an effective internal control system in the Bank.

Members are appointed for a term of maximum four years, with non-restricted re-election.

The Committee meetings should be held at least quarterly and may be held more often if required. During 2022, the committee held 12 meetings.

The Committee makes decisions based on a simple majority of votes of members present. Each member has one vote. In case the votes are equal, the vote of the Chairman is considered a decisive vote. Heads of departments, external auditors, or other persons may be invited to the Committee meetings, if necessary.

Members as of 31 December 2022 and Committee attendance

Name-Surname	Position	Date of Election	Meetings attended/eligible to attend	Attendance Rate
George Glonti	Committee Chairman; Senior Independent Member of the Supervisory Board	01.01.2019	12/12	100 %
Ebru Ogan Knottnerus	Committee Member; Independent Member of the Supervisory Board	01.01.2019	12/12	100 %
Shahin Mammadov	Committee Member; Member of the Supervisory Board	01.01.2019	11/12	92%

For further information, you can view the Audit Committee Statute on the Bank's website at **www.pashabank.ge**

Remuneration of the Bank's auditor, including under professional services fees, for the years ended 31 December 2022 and 2021 comprises (net of VAT):

	2022	2021
Fees for the audit of the Bank's annual financial statements for the year ended 31 December	120	130
Expenditures for other assurance services	51	56
Expenditures for other professional service	3	4
Total fees and expenditures	174	190

Fees and expenditures to other professional audit firms in respect of other professional services comprised GEL 9 thousand in 2022 (2021: GEL 28 thousand).

The Risk Management Committee

The Risk Management Committee of JSC PASHA Bank Georgia was established by the Supervisory Board to advise and assist the Board in discharging its duties and responsibilities, and to ensure that the processes and capabilities for identification, assessment, measurement, control, reporting, and monitoring of risks are effective. The Committee monitors and ensures that the Bank's business is conducted according to the risk guidelines set by the Supervisory Board, and that the risk management system is effective and achieves its purpose. The Committee provides information to the Supervisory Board on strategy formulation, which requires the Bank to manage risks within the Board guidelines for risk appetite. The Committee reviews risk management policy and strategy, and the findings of the Internal Audit Department regarding risk management. Furthermore, it reviews the Bank's risk identification and assessment reports, the risk appetite and tolerance statement, and the Business Contingency Plan, and evaluates the effectiveness of mitigating strategies to address material risks of the Bank. The Risk Management Committee has free and unfettered access to senior management, risk and financial control personnel, and other parties (internal and external) in carrying out its duties.

The Chairperson of the Risk Management Committee is independent and is not the Chairperson of the Supervisory Board or any other committees. The Risk Management Committee comprises three members, the majority of which are independent members of the Supervisory Board.

The Risk Management Committee liaises regularly with the CRO and Deputy CRO to ensure the development and on-going maintenance of a risk management system that is effective and proportionate to the nature, scale, and complexity of the risks inherent in the business. The Risk Management Committee invites the CRO and Deputy CRO to attend the meetings of the Committee.

The Risk Management Committee meetings should be held at least quarterly. In case of necessity, additional, out-of-schedule, committee meetings may be summoned extraordinarily.

Throughout 2022, the Committee held twelve meetings during which various risk management issues were reviewed and, where appropriate, endorsed for approval by the Supervisory Board. Among others, the Committee agenda included the review of risk reports and Committee presentations, the Risk Culture Project Presentation, ERM Framework, Penetration Test results, the Swift Audit results, the Risk Appetite Statement, the Credit Approval Authority Limits, the Information Risk Management Framework (Assessment Results & Implementation Plan), the Audit Results of Cyber Security Framework, discussion of the possible risks posed by the Russia-Ukraine conflict, write off rules, recovery plan improvement, Cyber Security Action Plan, the Recovery Planning Framework, Business Continuity Plan, the Action Plan Guidelines, the project resolution of the Bank's management with respect to the calculation of LGD, the channel analysis for Re/Bank Loans and Top/Cards, the Action Plan on Stress Testing, the RHI 2022 Transformation Plan, implementation of KPI/KRI metrics, system downtime reporting, a report on internal control systems (per ERM), the Stress tests results, the FI methodology (update), the Roadmap for Development of Fraud Risk Framework, the staff turnover report, the BCP presentation, requests for waivers for RAS limitation breaches, NPL Portfolio Status Quo Report, the IFRS Provisioning Methodology, results of migration of credit scores of retail clients; the Retail NPLs, rehabilitation portfolio and court cases.

Members as of 31 December 2022 and Committee attendance				
Name-Surname	Position	Date of Election	Meetings attended/ eligible to attend	Attendance Rate
Ebru Ogan Knottnerus	Committee Chairperson	31.12.2019	12/12	100%
Farid Mammadov	Committee Member	02.10.2017	10/12	83%
George Glonti	Committee Member	31.12.2019	12/12	100%

For further information, you can view the Risk Management Committee Statute on the Bank's website at **www.pashabank.ge**.

THE BOARD OF DIRECTORS

Day-to-day operational management of the Bank is carried out by full-time executives – members of the Board of Directors. The Bank's Board of Directors comprises four directors: Chief Executive Officer, Chief Risk Officer, Chief Information and Operating Officer, and Chief Financial Officer. The directors are appointed by the Supervisory Board for a fixed term, typically for four- years, with the possibility of renewal at the end of the term. The position and the scope of activity for each member of the Board is determined upon appointment.

Senior management plays an important role in ensuring effective governance and is therefore responsible for effective management consistent with the Supervisory Board policy. All administrators comply with the requirements of the Corporate Governance Code for Commercial Banks and the existing legislation, including the Regulation on Fit and Proper Criteria for Administrators of Commercial Banks approved by Decree No 50/04 of the Governor of NBG on June 17, 2014.

According to the Bank's Charter and the Board of Directors Statute, the following activities shall be performed by the Board of Directors:

- Carry out the Bank's day-to-day business operations;
- Take all reasonable measures to have up to date information on the financial standing of the Bank and make informed decisions on matters concerning the operation of the Bank; in cooperation with other functional units of the Bank, the Board of Directors shall ensure maintenance of the Bank's solvency and liquidity, and shall ensure that all measures required for this purpose are taken;
- Develop corporate strategy, strategic objectives, business plan, annual budget, and submit it to the Supervisory Board for approval;
- Present to the Supervisory Board and the General Meeting of Shareholders audited financial statements together with Independent Auditors Reports;
- Submit to the Supervisory Board for approval transactions that go beyond the scope of corporate strategy and strategic objectives, business plan and the budget (non-standard transactions);
- Report to the Supervisory Board any performance against the corporate strategy and strategic objectives, business plan and budget;
- Approve day-to-day operational banking activities, including attraction of borrowings, granting

lending and trade finance products, approval of loan restructuring, approval of acquisition and disposal of fixed assets and intangible assets, administrative expenses, cash limits, implementation of equity investments in public companies, and sign respective agreements within the limits of its decision-making and signatory authority as approved by the Supervisory Board in the Decision Making and Signatory Authority Matrix;

- Determine and approve minimum and maximum interest rates to be used for credit recourses and deposits;
- Approve all forms of technical assistance, service, purchase agreements, and know- how;
- Supervise units and/or departments of the Bank, ensuring that the Bank provides proper services to its customers;
- Solve issues of collateral seizure and take other appropriate measures to protect the Bank against losses;
- Ensure the existence of a proper system of risk control in the Bank following the requirements of Georgian legislation;
- Prepare complete and accurate annual, semiannual, quarterly reports, and other financial information;
- Prepare and submit proposals and draft resolutions, reports, and any other information or documentation requested by or to be presented to the Supervisory Board or the General Meeting of Shareholders;
- Review information provided by internal and external audit of the Bank, the Audit Committee, and any expert and/or advisor engaged by the Bank, as well as reports submitted by managers of the Bank, and make appropriate decisions;
- Approve and amend internal regulatory documents of the Bank except those related to the Supervisory Board privileges;
- Develop and submit for approval to the Supervisory Board internal regulatory documents of the Bank;
- Develop and submit for approval to the Supervisory Board the Code of Ethics, including whistleblowing procedures;
- Develop and submit for approval to the Supervisory Board organizational structure of the Bank;
- Approve structure, size, and composition of the Board of Directors committees, including appointment and removal of committee members; review committee reports;
- Approve job descriptions for managerial positions, work schedules, and collective labor agreements;
- Decide on appointment, dismissal, and remuneration of the Bank employees, except members of the Board of Directors;- Determine any other matter related to the Bank employees;
- Recommend and submit for approval to the Supervisory Board bonus pool for the Bank employees, except bonus amounts to be disbursed to front-office function;
- Approve disbursement of bonus amount to front-office function;
- Monitor compliance with legislation, internal normative documentation, and implementation of resolutions of the General Meeting of Shareholders and the Supervisory Board;
- Execute and implement resolutions issued by the Supervisory Board and the General Meeting of Shareholders;
- Perform any other duties imposed by the Supervisory Board and the General Meeting of Shareholders. The Board of Directors is led by the Chairman of the Board of Directors, who simultaneously serves as the CEO of PASHA Bank. Decisions of the Board of Directors are made by a simple majority of votes.

Nomination Process

The Supervisory Board is responsible for developing and presenting for approval to the General Meeting of Shareholders a formal, rigorous, and transparent procedure for the appointment of directors. The procedure for identifying candidates shall be transparent, so that shareholders are able to see what type of person the Bank is looking for and why a particular individual is appointed. The HR and Remuneration Committee of the Supervisory Board is responsible for the search of new members of the Board of Directors. The Chairman of the Supervisory Board and members of the HR and Remuneration Committee interview the candidate before his/her appointment is recommended to the Supervisory Board for approval.

The HR and Remuneration Committee is responsible for considering succession planning for the directors, conducting an annual review of succession planning, and proposing changes to the process as necessary. The Board of Directors membership criteria and appointment process is regulated by the Bank's Standard on Appointment of Administrators. The process for appointing the Bank's director corresponds to banking regulations and follows criteria and limitations similar to those established for members of the Board of Directors.

Changes in the Board of Directors

On April 08, 2021, by the Supervisory Board Meeting Minutes #13, a composition of the Board of Directors of JSC PASHA Bank Georgia was approved as follows:

- Chairman of the Board of Directors: Mr. Nikoloz Shurgaia;
- Member of the Board of Directors: Mr. Levan Aladashvili;
- Member of the Board of Directors: Mr. Giorgi Chanadiri;
- Member of the Board of Directors: Mr. Selim Berent

On October 03, 2022, the Supervisory Board Meeting #29 of JSC PASHA Bank Georgia approved application on resignation of the Chief Information Officer/Chief Operating Officer and the Member of the Board of Directors, Mr. Giorgi Chanadiri. Mr. Giorgi Chanadiri resigned from the position of the Chief Information Officer/Chief Operating Officer and the Member of the Board of Directors of JSC PASHA Bank Georgia from 01 November 2022.

MEMBERS OF THE BOARD OF DIRECTORS

Nikoloz Shurgaia

CEO, Chairman of Board of Directors

Nikoloz Shurgaia received his Bachelor's degree in Finance and Credit at Tbilisi State University. He also holds Master's degree in Economics and MBA from London Business School in Business Administration.

Nikoloz started his career at Eximbank of Georgia (later United Georgian Bank) in 1994 where he held various positions until 2002. In 2004 he worked as an Assistant Vice-President for ABN AMRO BANK, in Moscow. After one year, Nikoloz was appointed as Principal Banker at EBRD's Financial Institutions Group in London. In 2008-2009 Nikoloz held the position of General Director (CEO) at VTB Bank Georgia. In 2009-2011 he worked as an Executive Chairman of Belarusky Narodny Bank in Minsk and simultaneously held a position of Deputy CEO at Bank of Georgia.

In 2012-2014 Nikoloz became Chairman of the Management Board (CEO) at Rabitabank, in Baku. From 2016 to 2020, he was Chairman of the Management Board (CEO) at Yelo Bank in Baku. Since 2011, Nikoloz has been an Independent Advisor in Azerbaijan, Belarus, Georgia, and Kazakhstan (Georgian Stock Exchange, PASHA Bank Georgia, Bank Moscow-Minsk, EvrotorgInvestBank, Caspian Financial Group).

On April 29, 2021, Nikoloz Shurgaia was appointed as CEO, Chairman of the Board of Directors of JSC PASHA Bank Georgia.

Levan Aladashvili

Member of the Board of Directors, Chief Risk Officer

Levan Aladashvili graduated from Tbilisi Technical University and obtained his Bachelor's degree in Banking in 2005. He has participated in numerous professional training in the areas of risk assessment, risk management, and financial analysis.

He began his professional career at ProCredit Bank Georgia. Between the years 2006-2015, he worked for VTB Bank Georgia in Corporate Banking and Credit Risk Departments.

From 2015 Levan Aladashvili continued his professional career as Head of Credit Risks Department at PASHA Bank Georgia. In 2019 Mr. Aladashvili was appointed on the position of Deputy Chief Risk Officer.

Since May 17, 2021, Levan Aladashvili holds the position of Chief Risk Officer and Member of the Board of Directors at JSC PASHA Bank Georgia.

Giorgi Chanadiri

Member of the Board of Directors, Chief Information and Operating Officer

Giorgi Chanadiri graduated from Tbilisi State University Sukhumi Branch in 2005 and obtained his Bachelor's degree in Mathematics and Computer Sciences. He also attended Project Management course (CAM02) at Free University of Tbilisi in 2012.

Giorgi Chanadiri began his professional career as a Programmer at United Nations High Commissioner for Refugees in 2004. Between years 2006 and 2010 he held positions of Developer, Data Analyst and Report Developer at Bank Republic - Societe Generale Group.

In 2010 – 2012 he worked as a Head of IT Department at The Ministry of Internally Displaced Persons from the Occupied Territories, Accommodation and Refugees of Georgia. From 2012 to 2020 Giorgi Chanadiri was CTO at LTD Universal Card Corporation.

Giorgi Chanadiri continued his professional career at JSC PASHA Bank Georgia from 2020 and held the position of Head of IT and Banking Systems Department.

On April 29th 2021, Giorgi Chanadiri was appointed as Chief Information and Operating Officer and a Member of the Board of Directors of JSC PASHA Bank Georgia.

Selim Berent

Member of the Board of Directors, CFO

Mr. Selim Berent graduated from Koc University, Istanbul, with the bachelor's degree in Business Administration in 1998. He is also an alumnus of Robert College, Istanbul.

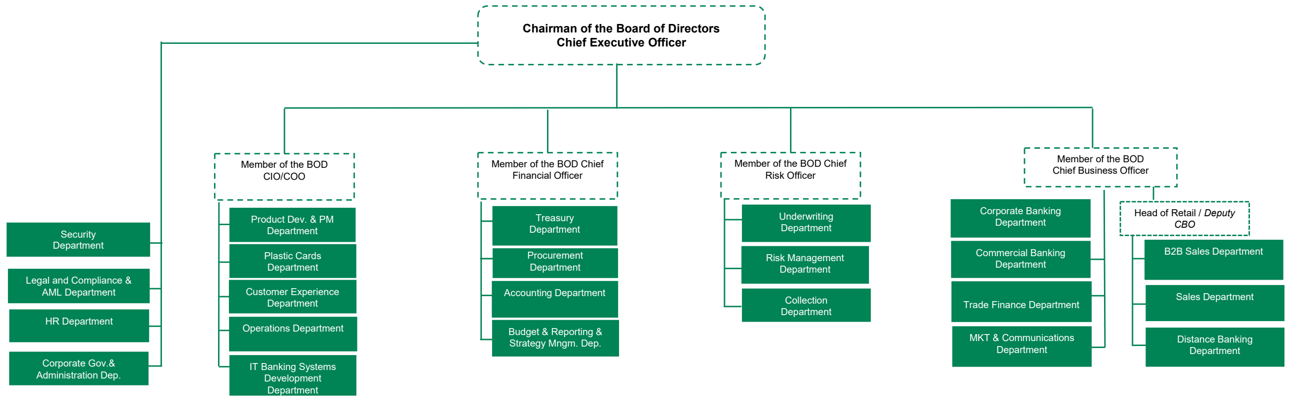
Mr. Selim Berent started his career as the financial controller in Roche Diagnostics, Istanbul in 2003. He then, worked as consultant for PricewaterhouseCoopers, in Istanbul, advising reputable companies in finance function efficiency.

From November 2012, he proceeded his career as Chief Financial Officer of a gold mining company, AIMROC, in Baku.

He joined JSC PASHA Bank Georgia in April 2019 as Strategy Advisor to CEO. During his tenure with PASHA Bank Georgia as the adviser to CEO, Mr. Berent has effectively guided the Bank's strategy function.

Mr. Berent was appointed by the Supervisory Board of JSC PASHA Bank Georgia as the Chief Financial Officer of the Bank effective from September 24, 2020.

Reporting line to the members of the Board of Directors is shown in the chart below



The Bank has a well-defined organizational structure, which ensures allocation of responsibilities, effective identification of risks, management/monitoring and reporting procedures, adequate internal control mechanisms, including robust administrative and accounting procedures, effective IT systems and controls for risk management, remuneration policies/procedures.

COMMITTEES OF THE BOARD OF DIRECTORS

According to the Board of Directors Statute, the Board of Directors may establish standing and/or ad hoc committees, which shall have the obligation to fulfil duties determined by the latter. The Board of Directors approves committee statutes, committee size and composition, including appointment and removal of committee members.

The Board of Directors shall be collectively responsible for decisions made and activities implemented by the committees. The committees shall only exercise powers that are explicitly attributed or delegated to them and their actions as a whole shall not exceed powers of the Board of Directors. Periodically, the Board of Directors shall receive a report from each committee regarding its deliberations and findings.

There are currently two committees supporting the Board of Directors:

Credit Committee

The committee was established to assist the Board of Directors in discharging its duties and responsibilities in specific areas of business activities. The committee monitors credit risk related issues, approves individual or group credits, or other credit products within delegated authority, issues recommendations regarding individual or group credit exposures, issues recommendations regarding credit risk management, monitors loan portfolio, trade finance portfolio, investment portfolio and collateral portfolio, manages problem loans, and ensures the adequacy of loan loss allowance.

The committee has a statute that regulates its activities and contains provisions on the scope of authority, competencies, composition, working procedures, rights and responsibilities.

Assets and Liabilities Committee

The committee was established to assist the Board of Directors in discharging its duties and responsibilities in specific areas of business activities. The committee works to implement practices for managing the Bank's assets and liabilities in terms of interest rate risks, liquidity risks and market risks. The assets and liabilities' management of the Bank is based on policies, guidelines on risk appetite, revenue targets and rates of return, as well as risk management. The covered areas include capital ratios, liquidity, asset mix, rate settings for loans and deposits, and investment guidelines for the banking portfolio. The key objectives of the committee include maintaining liquidity positions, capital ratios at the planned minimum, and ensuring safety of the deposit base, maintaining asset and liability mix generating satisfactory revenue stream to satisfy profitability targets.

The committee has a statute that regulates its activities and contains provisions on the scope of authority, competencies, composition, working procedures, rights and responsibilities.

INTERNAL AUDIT DEPARTMENT

The Internal Audit Department of JSC PASHA Bank Georgia is responsible for providing a regular, independent, objective audit of the Bank's risk management, internal control, and corporate governance processes. The main objective of the Department is to add value and ensure the and improvement of the Bank operations.

The Internal Audit Department is independent of the Bank's management and is reportable directly to the Audit Committee.

The Internal Audit Department Statute describes matters related to the Department's purpose, rights and duties, scope of activities, reporting, and independence. The Internal Audit Policies and Procedures Manual defines a set of comprehensive policies, methodology, procedures, and guidance for performing risk based and value-added audits.

The Annual Audit Plan, which is based on a documented risk assessment, is reviewed and approved by the Audit Committee. Audit findings are communicated to the Audit Committee. The department's budget and compensation are determined by the Supervisory Board based on the proposal of the Audit Committee.

The Head of the Internal Audit Department is appointed by the Bank's Supervisory Board based on the nomination and consent of the Audit Committee. All other employees are appointed by the Head of the Department in agreement with the Audit Committee.

REMUNERATION POLICY FOR DIRECTORS

On March 16, 2022, the General Meeting of Shareholders approved the updated Remuneration Policy for Material Risk Takers (the "Policy"). The Policy establishes guiding principles for decisions concerning remuneration of the Bank's Material Risk Takers, including Board of Directors and Supervisory Board members, that ensure fair, risk based, aligned to corporate culture, competitive, and appropriate remuneration for the market in which the Bank operates. The Policy ensures that the remuneration is appropriate to attract, motivate, retain, and fairly reward Material Risk Takers of the Bank and is consistent with the Corporate Governance Code for Commercial Banks approved by Decree № 215/04 by the Governor of the National Bank of Georgia.

Principles Of Remuneration For Supervisory Board (SB) Members

Concerning remuneration of Supervisory Board members, the Policy adopts the following principles:

- SB members of the Bank shall be remunerated only in the form of fixed remuneration.
- SB members shall not be provided with performance-based remuneration bonuses.
- Remuneration may be different for resident and non-resident SB members. In addition to fixed remuneration, SB members may receive additional remuneration if the member is the Chairman of SB, the Deputy Chairman of SB, a member of the Committee of SB, or the Chairman of SB Committee. The difference between the highest annual (including additional remuneration) and the lowest annual remuneration of the members of SB should not be more than 30% of the lowest remuneration of the SB members.
- Each SB member shall be reimbursed for all reasonable expenses (travel expenses, travel insurance, accommodation, etc.) incurred in connection with their attendance at SB or other meetings of the governing bodies, due to the fact that SB and other meetings of the governing bodies can be held on the territory of Georgia or abroad.
- Each SB member, in performing his/her duties as member of SB or other governing body, has statutory right to request independent consultancy services, and costs of such services provided to SB members shall be reimbursed by the Bank.
- The Bank is prohibited from concluding any type of consultancy agreements with SB members and paying additionally for services provided to the Bank in order not to prejudice the independence of SB members.

Principles of Remuneration for Members of the Board of Directors (Directors)

Concerning remuneration of Directors, the Policy adopts the following principles:

- Director's remuneration shall consist of fixed and performance-based variable remuneration and other benefits.
- Directors are eligible for an annual bonus pool provided that they meet their performance KPIs.
- The Bank's remuneration system should not jeopardize its standing in terms of compliance with regulatory capital requirements. If such material risk persists, consideration should be given to refraining from payment of variable remuneration to directors.
- The annual amount of performance-based variable remuneration for each executive director should not exceed 100% of the amount of his/her fixed annual remuneration with any reasonable exception approved by the General Meeting of Shareholders, but only to a maximum limit of 200%.
- Deferral Principle - At least 40% of variable remuneration or - where variable remuneration of MRTs is material (exceeds 100% of fixed remuneration and/or exceeds 500,000 GEL or its equivalent) - respectively 60% of the variable remuneration shall be deferred over a period of at least 3 (three) years. Deviation from this requirement is allowed if the annual variable remuneration of the person is non-material (does not exceed 20% of the annual fixed remuneration).
- The deferred remuneration may be paid and/or vested fully at the end of the deferral period or proportionally distributed in equal annual installments through the deferral period. In the case of proportionate payments, the first installment of the deferred variable remuneration may be paid no earlier than one year from the beginning of the deferral period, and subsequent payments should not be made more often than once in 12 months.

When deciding regarding base remuneration for an executive director, the Supervisory Board shall consider responsibilities, country-specific remuneration benchmarks, residency, and active legislation.

Variable remuneration might become subject to clawback and malus arrangements. Remuneration can be adjusted (reduced or reversed) taking into consideration the realized risks of the Bank before or at the time of vesting. Remuneration can be adjusted (reduced or reversed) after vesting, due to misreporting, or failure to comply with internal policies or other legal requirements, or for other breaches as defined by the Bank. Early termination of employment agreement with an executive director shall not be the basis for change of deferral period or cause any remuneration adjustments unless there are other reasons for adjusting variable remuneration.

In case of resignation of an executive director, the Supervisory Board should assess the reason for resignation to remunerate the executive director for performance and not reward him/her for failure.

Risks associated with remuneration affect every aspect of the Bank's business, including financial performance, culture, operations, reputation, and governance. To mitigate these risks the Supervisory Board has been committed to maintaining a remuneration system that ensures strategy alignment, is based on a clear performance matrix, and is appropriately governed.

Bonus eligibility

Based on the approved methodology, the Bank's Board of Directors is eligible for annual bonuses on the condition that 75% of the budgeted net profit target is realized. Any exceptions are approved by the Bank's Supervisory Board. The gross bonus amount is calculated based on the following KPIs and their respective weights:

	KPI	Weight
1	Behavioral KPI	10%
2	Performance KPIs	90%

Behavioral KPIs

Behavioral KPI is a 360-degree assessment of emotional and social intelligence of the Board of Directors and examines the members' capacity for recognizing their feelings and those of others, motivating themselves, and managing emotions effectively in themselves and others. It describes behaviors that sustain people in challenging roles, or as their careers become more demanding, and captures qualities that help people deal effectively with change.

Performance KPIs 2022

- Total comprehensive income
- NPL + write offs ratio
- Business Loan Portfolio
- Number of cards sold (cumulative)
- Share of cards that are active in a month (3-month average)
- Share of BNPL turnover in total turnover (3m average)
- Number of open overdue critical/high risk findings

Bonus calculation

Each member of the Board of Directors is entitled to a base bonus adjusted depending on the performance, assessed through the KPIs above.

The base bonus is either equal to a % of net profit or a multiple of the Board of Directors member's monthly gross salary.

The adjustment to the base bonus is calculated based on the following table:

Level of achievement	Score of achievement	Adjustment to Base bonus in %
Exceed expectations	4.26-5.00	110
Meet expectations	3.00-4.25	100
Almost as expected	2.76-2.99	80
Below expectations	1.75-2.75	60
Extremely below expectations	0.00-1.74	40

Remuneration awarded during the reporting period			
		Board of Directors	**Supervisory Board**
Fixed remuneration	Number of employees	4	3
	Total fixed remuneration	1,361,391	445,530
	Of which cash-based	1,294,498 [1]	445,530 [2]
	Of which: deferred		
	Of which: shares or other share-linked instruments		
	Of which deferred		
	Of which other forms	66,892 [3]	
	Of which deferred		
Variable remuneration	Number of employees	4	
	Total variable remuneration	1,127,041	0
	Of which cash-based	1,088,112 [4]	
	Of which: deferred	336,380	
	Of which shares or other share-linked instruments		
	Of which deferred		
	Of which other forms	38,929 [5]	
	Of which deferred		
Total remuneration		2,488,432	445,530

1 The given amount is composed of the fixed pay of six members of the Board of Directors – one former member who left the Bank in the third quarter of 2022 and three current members.

2 The given amount includes the fixed remuneration of three Supervisory Board Members: The Chairman of the Board and two independent members.

3 The insurance, accommodation, and other benefits as determined by the agreement with the director.

4 The bonus accrued in 2022 but to be disbursed (791519.2), premiums of 2022 (296,593)

5 Expenses associated with travel, sports, corporate events, and team-building activities.

SCHEDULE OF MATTERS RESERVED FOR THE BOARD DECISION

Duties and Responsibilities		Quorum Required
1.	Strategic supervision and control of the Bank;	N/A
2.	Approval of the corporate strategy and strategic objectives, review of delivery of the strategy and performance against strategic objectives and operational plans;	simple majority
3.	Approval of the business plan, review of delivery of the performance against the business plan;	simple majority
4.	Approval of the annual budget, review of delivery of performance against the annual budget;	simple majority
5.	Initiation of new banking/commercial activities and termination or suspension of existing activities;	simple majority
6.	Establishment and liquidation of new enterprises, branches;	simple majority
7.	Acquisition and disposal of shares in other companies;	simple majority
8.	Approval of the organizational structure;	simple majority
9.	Approval of the Code of Ethics and whistleblowing procedures;	simple majority
10.	Rendering resolutions for implementation of the decision of the General Meeting of Shareholders on admission of the Bank's shares and other securities to the stock market;	simple majority
11.	Declaring an interim dividend and recommending a final dividend;	simple majority
12.	Redemption of shares by the Bank as provided under the Georgian legislation;	simple majority
13.	Perform strategic supervision of risk management activities;	N/A
14.	Approval of the risk appetite statement, conducting annual reviews;	simple majority
15.	Approval of the business continuity plan;	simple majority
16.	Authorization for conflicts or possible conflicts of interest and related party transactions;	simple majority
16.1.	Transactions with related legal entities;	simple majority
16.2.	Transactions with related persons;	simple majority
16.3.	Agreements with related legal entities;	simple majority
16.4.	Approval of cash covered credit products (including trade finance products) to the related party;	simple majority
17.	Approval of policies, standards and procedures in respect to conflicts of interest and related party transactions;	simple majority
18.	Approval of structure, size and composition of the Board of Directors, including appointments and dismissal of its members;	simple majority
19.	Determining rights and obligations of members of the Board of Directors, monitoring and supervising their activities, requesting reports from the Board of Directors;	simple majority
20.	Approval of succession policy and succession planning for members of the Board of Directors;	simple majority
21.	Conclude the labor agreements and determine remuneration packages for members of the Board of Directors;	simple majority
22.	Approval of the regulatory framework for determining bonuses and/or additional benefits for employees, including for members of the Board of Directors of the Bank;	simple majority
23.	Approval of structure, size and composition of the Supervisory Board committees, including appointments and removals of the Supervisory Board committee members; reviewing reports of the Supervisory Board committees;	simple majority
24.	Election of the external auditors;	simple majority
25.	Appointment and dismissal of trade representatives (procurators);	simple majority
26.	Appointment and dismissal of the Corporate Secretary;	simple majority
27.	Attraction of borrowings by the Bank;	simple majority
28.	Securing borrowings or any other liabilities of the Bank or any third party, if they fall outside the scope of the regular economic activities of the Bank;	simple majority
29.	Granting lending and trade finance products (by amount; by maturity);	simple majority
30.	Sale of credit asset, disregard of its amount, if: It is a collective sale (sale of more than one credit asset at once) of credit assets; The Bank will receive loss from the sale of credit asset, and the sale is above the decision-making limits of the Board of Directors;	simple majority
31.	Approval of loan restructuring;	simple majority
32.	Approval of loan write-off;	simple majority
33.	Approval of acquisition and disposal of fixed assets and intangible assets;	simple majority
34.	Approval of issuance of bonds;	simple majority
35.	Approval of administrative expenses;	simple majority
36.	Approval of cash limits;	simple majority
37.	Implementation of equity investments in public companies;	simple majority
38.	Implementation of any equity investments in private companies;	simple majority
39.	Approval and amendment of the Bank's statute, framework and policy type of documents;	simple majority
40.	Determining and approving the terms and conditions to be used with regard to credit recourses and deposits to the Bank's employees;	simple majority
41.	Convening General Meetings, if deemed necessary for the interests of the Bank;	simple majority
42.	Supervision and representation of the Bank in case of conflict between the members of the Board of Directors;	simple majority
43.	Based on the decision of the General Meeting, procession of legal dispute against members of the Board of Directors on behalf of the Bank, submission of a claim against members of the Board of Directors without the decision of the General Meeting if the issue is related to the responsibility of members of the Board of Directors;	simple majority
44.	Supervising implementation of measures in accordance with results of examinations carried out by the External and Internal Audits, as well as the National Bank of Georgia;	simple majority
45.	Making a decision on such issues that are beyond the scope of the Board of Directors' powers;	simple majority
46.	Perform any other duties as required by the General Meeting.	simple majority

RISK AND CONTROLS

PASHA Bank
New heights. Together.

The Bank is committed to developing sound, effective, and complete risk management strategies and processes in order to assess and maintain, on an ongoing basis, the amount, type, and distribution of internal capital that the Bank considers adequate to cover the nature and level of risks to which it is or might be exposed.

Strategies and processes are subject to regular internal review to ensure that they remain comprehensive and proportionate to the nature, scale, and complexity of the Bank's activities. Risk management helps to identify, assess, and manage risks stemming from the Bank's strategy.

The most significant cause of value destruction is an incompatibility between a strategy and the Bank's mission and vision, and implications of such strategy. Risk management enhances strategy selection. Choosing a strategy calls for a structured decision-making that analyses risks and aligns resources with the Bank's mission and vision. Risk management strategy supports the Bank's mission and vision and eliminates the possibility that the Bank may not realize its mission and vision, or may compromise its values, even if a strategy is successfully carried out.

Risk management considers the possibility that a strategy, or implications thereof, is not aligned with the Bank's mission and vision. The Supervisory Board and the Board of Directors determine if a strategy works in tandem with the Bank's risk appetite, how it will help drive the Bank to set objectives, and ultimately, to allocate resources efficiently.

Risk management strategy is derived from business strategy. All factors of business strategy are taken into account for the purpose of risk profile analysis. The Bank manages risks following the Three Lines of Defense model, which provides an effective way to enhance communication on risk management and control by clarifying essential roles and duties. The Three Lines of Defense model enhances clarity regarding risks and controls and helps to improve the effectiveness of risk management systems. The Three Lines of Defense model distinguishes between three groups (or lines) involved in effective risk management:

- Functions that own and manage risks;
- Functions that oversee risks;
- Functions that provide independent assurance.

Business lines and operations units execute activities that create and prevent risk. The first line owns and manages risks and controls through policies, procedures, and monitoring processes in daily operations that help prevent or mitigate risks. It works collaboratively with the second line to address improvements required to enhance controls and mitigate risks.

The second line supports senior management by bringing expertise and monitoring alongside the first line to ensure that risks and controls are properly managed.

The third line of defense – Internal Audit, provides the Board of Directors and senior management with comprehensive assurance from the perspective of the highest level of independence and objectivity in the organization. This high level of independence is not available in the second line of defense. Internal audit provides assurance on the effectiveness of governance, risk management, and internal controls, including the degree to which first and second lines of defense achieve risk management and control objectives.

Main roles and responsibilities for key stakeholders in the Bank's Risk Management Process are as follows:

Supervisory Board

- Approve the Bank's risk appetite statement and risk management policies;
- Perform risk oversight to incorporate consideration of risk in strategic decision-making and to address risk interactions across business units.

Risk Management Committee

- Review risk management policies and risk appetite statement;
- Accept risk assessments, issue directives for risk treatment to maintain risk levels within the defined tolerance thresholds, and accept risk treatment options;
- Ensure that appropriate processes and capabilities are in place to identify, assess, measure, manage, monitor, and report risks.

Board of Directors

- Assume overall responsibility and accountability for risk management function;
- Ensure a proper balance between risk and return, consistent with the Bank's risk appetite;
- Make available the necessary resources to meet risk management objectives and targets;
- Maintain commitment to improving risk management performance.

Risk Function

- Develop, implement, and administer Risk Management (RM) program. This entails developing and maintaining RM policies, identifying key risks to be reported at the corporate level, coordinating risk management processes and procedures, tools, and information systems, risk analysis and risk treatment with risk owners, calculating an overall integrated risk portfolio, reporting on corporate risks and the risk portfolio to the Risk Management Committee, monitoring adherence to the risk management program, and improving risk management capability of the enterprise through communication and training;

- Establish RM communication at all levels. Gather data and develop risk reports for the RM Committee and others as directed by the RM Committee;
- Provide professional advice on RM. Provide advice and direction on current and evolving RM practices, make recommendations, and implement mandated improvements;
- Analyze RM metrics and report performance. Quantify and prioritize risks, validate decision-making analytics, assumptions and methodologies, report risks and ensure that information presented for decision-making and reporting is complete and correct;
- Deploy and maintain quantitative tools and models that assist in estimating the likelihood and severity of risk events such as an event tree model;
- Facilitate identification, measurement, monitoring, and reporting of risks;
- Design/revise the Risk Appetite Statement (RAS) in accordance with the Group RAS;
- Cascade the RAS down to different levels in the organization (i.e. define the "playing field" for units);
- Continuously review/report limit status/breaches and take proactive measures to avoid RAS breaches;
- In case of RAS breaches, propose and execute a mitigation plan;
- Ensure that incentives across the Bank are in line with the RAS;
- Ensure alignment of risk appetite, strategy, and capital allocation in the Bank (including budgeting and business planning cycles);
- Assess risk culture at different levels of the Bank.

Risk Appetite

The process of setting Risk Appetite seeks to enhance risk management capabilities of the Bank to ensure a better alignment of risk-taking with strategic objectives. Risk appetite objectives define the level of risk that the Bank is willing to accept, provide opportunities for maximization of value within boundaries, establish systematic control of risks, and enable timely mitigation.

RAS resides at the heart of an effective risk management program and is linked to the Bank's overall risk management philosophy and strategic ambition. The objective of developing a clearly articulated RAS is to explicitly define the level and nature of risks that the Bank is willing to take in order to pursue its stated mission on behalf of its shareholders, which is subject to constraints imposed by shareholders, debt holders, regulator, and other stakeholders.

With an RAS in place, the Bank can define specific tolerances around its performance, and in doing so link its risk management to the overall management processes.

General principles of risk taking and risk management established by the Bank are as follows:

- Prudent risk-taking with comprehensive risk assessment and control environment;
- Application of best practices in line with the complexity and size of the Bank;
- Direct risk management considerations into business planning and project development activities;
- Compliance with the requirements of NBG and guidelines from the Bank's shareholders. The general principles of risk-taking have to be reflected in all rules and policies and applied consistently throughout the Bank.

In order to institute objective criteria to measure exposure to relevant risk factors, risk policies are represented by numerical targets/limits within the Bank's risk appetite framework. The Bank develops a risk appetite framework based on its business and risk strategy. The RAS includes qualitative statements as well as quantitative measures expressed relative to earnings, capital, risk measures, liquidity, and other relevant measures, as appropriate.

Risk appetite statement includes the following elements:

Profitability is a key objective, but credit standards must not be compromised in the pursuit of an operating income. A well-balanced and high-quality credit portfolio is the highest priority.

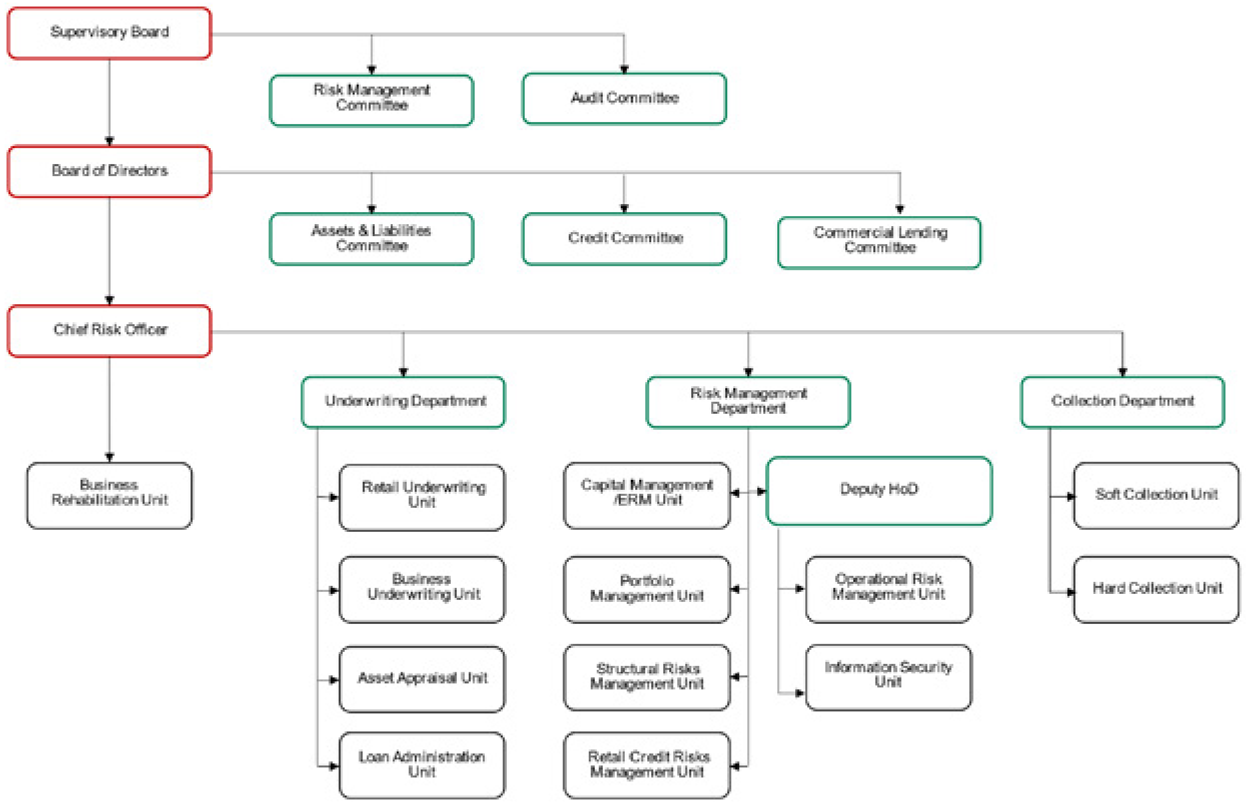
Below is an excerpt from RAS of PASHA Bank:

- **Capital/solvency** – the Bank will operate with a sufficient and comfortable capital base, not only to fulfill regulatory requirements, but also to protect the Bank from potential shocks without hindering its growth potential. The Bank will regularly run stress tests to ensure the adequacy of its capital remains.
- **Liquidity** – the Bank will ensure abundant levels of liquidity to survive severe short-term and medium-term market-wide liquidity stress event and to promote diversified and stable funding sources.
- **Credit risk** – the Bank aims to keep a well-diversified loan portfolio that delivers positive net income at a consolidated level even during severe but realistic stress events. To do so, the Bank maintains consistent underwriting standards depending on its risk appetite rather than market opportunities; the Bank applies appropriate concentration limits and runs tight monitoring systems.
- **Market risk** – the Bank will ensure VaR and Stressed VaR is sufficiently covered by the capital including the VaR under stress scenarios.

The Bank will keep its currency position under review at all times to be able to hedge against potential devaluations.

- **Regulatory risk** – the Bank will ensure that the number of open regulatory findings and the number of new legal matters will be maintained on an acceptable level.
- **Reputational risk** – the Bank has minimal tolerance for headline risk associated with unacceptable business practices, privacy breaches, and internal fraud.

Organizational Structure of Risk Management:



RISK MANAGEMENT AND CAPITAL ALLOCATION

Credit Risk

Credit risk refers to a threat of losses that impacts the Bank's profitability and capital position and arises from non-performance of contractual obligations by counterparties.

The Credit Policy and the Credit Standard of the Bank regulate lending process and contain credit risk management principles and actions to mitigate risks inherent in lending activities. The primary objectives of the Credit Policy are to:

- Protect the Bank from excessive losses from credit activities;
- Define basic principles of planning and organizing credit activities and building the desired loan portfolio;
- Ensure capital allocation to credit risk, bank is exposed to.

The Bank follows the key principles listed below in order to realize its credit policy objectives:

- Segregation of duties: responsibilities must be strictly divided between the back office and the front office;
- Four-eye principle and the principle of prevention of conflict of interests is to be adhered to at all stages of the credit cycle;
- Risk-awareness during credit assessment processes and, later, during management of exposures, to avoid excessive losses;
- Operation with a robust and professional risk management approach and control environment as the basis of solid risk-taking and proper risk management.

The primary objectives and key principles of the Credit Policy are achieved through the following course of actions:

- Creation of effective credit policies and procedures;
- Providing appropriate trainings to relevant employees;
- Increasing and diversifying the customer base;
- Ensuring efficiency of the decision-making process;
- Ensuring effective credit risk management;
- Monitoring external factors which can affect credit decision or portfolio quality;
- Running stress tests on portfolio level;
- Managing the optimal risk and return ratio of credit products;
- Improving and optimizing credit portfolio quality and structure;
- Assessing expected losses of loan portfolio and ensuring the adequate level of LLP;
- Assessing unexpected losses of loan portfolio and ensuring adequate capital allocation;
- Ensuring compliance of the credit process with Georgian legislation and regulations of the National Bank of Georgia.

In all cases of risk-taking, the creditworthiness of the customer is to be assessed and monitored during the lifetime of the credit exposure according to the Credit Policy. Portfolio quality reports are regularly presented to the Board of Directors.

The capital requirement for credit risk is calculated by the Bank under Basel III requirements based on a standardized approach in compliance with the Regulation of the National Bank of Georgia on Capital Adequacy Requirements for Commercial Banks. To recognize allowance for expected credit losses for all financial assets not held at fair value through profit and loss, the Bank applies the provisions of IFRS 9. Although the Bank considers credit risk as the most material and most important risk type, currently, due to the lack of data, using advanced methodologies for calculation of the credit risk capital requirement would be an excessive exercise for the Bank. The Bank uses internal and external rating providers for credit risk assessment, such as Moody's, Fitch, and S&P.

Foreign Exchange Induced Credit Risk

Foreign Exchange Induced Credit Risk is a risk arising from the movement of foreign currency exchange rates that would deteriorate the creditworthiness of the customer. Individual assessment of customers and transaction-level stress test is carried out according to the Credit Policy. Furthermore, the limits outlined by the regulator are applied and a sensitivity analysis is conducted. Currency-induced credit risk is built into the capital adequacy requirement calculation, by adding a currency induced credit risk (CICR) buffer for unhedged foreign currency denominated exposures.

Counterparty Risk

Counterparty risk is a subset of credit risk and is mainly estimated for credit derivatives (i.e. futures, forwards, swaps, options, and other off-balance sheet liabilities originating from other similar contracts), according to CAR, Article 50. Counterparty risk is a risk that counterparty to a transaction would default before the final settlement of the transaction's cash flows. The Bank operates a counterparty limit system for treasury deals with the Bank's partners (banks, financial institutions) as defined by the Board of Directors. Limits are reviewed at least on an annual basis and in cases when relevant information about the counterparty is identified. Counterparty risk is accounted for in the capital requirement estimation under Pillar 1 in the pool of risk-weighted assets as part of exposures weighted based on their credit risk as defined by CAR.

Country Risk

Country risk refers to potential losses that may be generated by an (economic, political, etc.) event that occurs in a specific country, where the event can be controlled by that country (government) but not by the lender/investor. Due to the business strategy of the Bank (serving companies of certain neighbouring countries, i.e. Azerbaijan, Turkey) with trade finance and other services, the Bank is exposed to country risk. The Bank's ICAAP defines country risk, although historically it has not been sufficiently material to require additional capital.

Operational Risk

Operational risk is defined as the Bank's exposure to potential losses that may impact its profitability and capital position. Operational risk may derive from inadequate internal processes or systems, external events, inadequate employee performance or from a breach of, or non-compliance with, statutory provisions, contracts, and internal regulations. Operational risk includes legal risk but excludes reputational and strategic risk.

The objective of operational risk management is to find the extent of the Bank's operational risk exposure, understand its drivers, allocate capital, and identify trends internally and externally that would help in predicting it.

It is vital for the Bank to try to prevent fraud, maintain the integrity of internal control, and reduce errors in transactions. For this purpose, the Bank has implemented Fraud Risk Management Program (FRMP). The primary purpose of the Program is to develop corporate culture and to create an environment that inhibits the fraud.

Internal control is usually embedded in the Bank's day-to-day activities and is designed to ensure, to the extent possible, that the Bank's activities are efficient and effective, information is reliable, timely and complete, and the Bank is compliant with the applicable laws and regulations. Failure to understand and manage operational risk may increase the likelihood that some risks will go unrecognized and uncontrolled. The Bank conducts adequate operational risk assessment procedures before it launches any new product, activity, process or system, as well as before it outsources core banking- and IT system- related activities. Furthermore, the Bank mitigates operational risks by following strict rules for the assignment of duties and responsibilities among and within the functions, and a system of internal control and supervision. The Bank has in place Enterprize Risk Management Framework, Operational Risk Management Policy, Operational Risk Management Procedure, Operational Risk Assessment Methodology and Fraud Management Policy. The Bank uses tools for operational risk identification and assessment, such as Data Loss Collection, Audit Findings, Risk Control Self-assessment, Key Risk Indicators, etc., for timely identification and mitigation of risks. Capital requirement under ICAAP is calculated using the Basic Indicator Approach, which is also used for the calculation of Pillar 1 capital.

Market Risk

Foreign Currency Exchange Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has set internal limits on open currency position and also follows regulatory limitations. Currency positions are monitored daily, the Bank calculates the capital requirement for FX positions based on historical and delta normal Value at Risk (VaR) method, using the 99% confidence level.

Interest Rate Risk

Interest rate risk means the risk of financial loss (damage) resulting from an adverse movement of interest rates.

Interest rate risk of the banking book is assessed on a monthly basis. The interest rate risk reports positions and gaps by repricing periods for each relevant currency.

Business Risk

Business risk is defined as the risk linked to a potential drop in profits or capital due to changes in the operating environment or erroneous corporate decisions, inadequate implementation of decisions, or poor reaction to changes in a competitive environment. The Bank considers strategic planning and budgeting processes as a crucial part of risk management. The Bank has developed detailed processes and budgeting regulations that ensure meticulous budgeting according to the business strategy of the Bank, and describe the processes to regularly monitor and review the budget. For business risk, a regulatory capital requirement is not calculated. As the risk is defined to be material, the Bank calculates capital requirements to cover the risk under ICAAP. As the Bank has limited historical data to go by, a simplified methodology measuring deviations from the budget has been developed.

Credit Concentration Risk

Credit concentration risk is interpreted as a distribution of exposures to customers where potential default by a relatively small group of counterparties or large individual counterparties is driven by a common underlying cause and may jeopardize the "business-as-usual" operation of the Bank. The Bank controls credit concentration risk via a limit system on large exposures and certain industries. The Bank regularly monitors the concentration of the portfolio by calculating the HHI for the whole portfolio of the Bank. The creation of capital buffers for concentration risk is required by the regulator under Pillar 2.

Liquidity Risk

Liquidity risk is defined as the risk of inability of the Bank to honor its financial obligations. Liquidity risk comprises both funding liquidity and asset liquidity risks:

- Funding liquidity risk appears with an inability to obtain new funding;
- Asset liquidity risk appears when the Bank is not able to sell its assets easily at market price without avoiding losses because of an illiquid market.

Measuring Liquidity Risk

Primary tools for measuring liquidity risk are identification of liquidity positions and stress testing. Liquidity positions are identified on a monthly basis via standardized reporting packages for the regulator, including LCR and NSFR. Stress testing is based on the Bank's cash inflows and cash outflows during a six-month survival horizon. The target liquidity requirement is then estimated by applying a stress scenario to the expected cash inflows and outflows, and the liquidity buffer.

Managing Liquidity Risk

The presence of liquidity risk in short-time intervals is considered to be more dangerous for the Bank's operations, because the shorter a term is, the less time the Bank has to make management decisions to adjust to the situation. The longer the time interval, the more controllable liquidity is considered to be, because the Bank has more time to take corrective measures. Therefore, limits on short-term cumulative liquidity gaps are usually more conservative than those on longer terms gaps.

The ever-changing financial markets have a direct impact on the availability of funding sources for the Bank. Therefore, even with constant monitoring of liquidity and funding sources, the Bank recognizes that unforeseen events (for example, changing economic or market conditions, deteriorating loan portfolio quality, or any other situation beyond the control of the Bank) may potentially lead to a short- or long-term crisis situation. the Bank assesses the potential liquidity risk and prepares a clear action plan for liquidity crises. To mitigate a funding liquidity risk, the Bank establishes a liquidity buffer, which may be used to meet payment obligations while continuing normal banking activities, without obtaining new funding. The Bank additionally ensures that its funding is diversified and that the maturity profile does not create significant gaps. The Bank has access to NBG refinancing facilities to maintain its liquidity in GEL. The Bank developed sound practices to manage liquidity risks, which are laid down in the Liquidity Management Policy and the Liquidity Management Procedure. Liquidity reports are regularly introduced to ALCO.

Strategic Risk

Strategic risks arise from fundamental decisions that executives make concerning the Bank's objectives. Essentially, strategic risks are the risks of failing to achieve these business objectives. Strategic risks are managed by operating a proper internal governance system. In order to minimize potential losses due to strategic risks, the Bank established a framework for its internal governance system. Strategic risks are only managed via processes; no capital is allocated for the purpose.

Reputational Risk

Reputational risk is the current or prospective indirect risk to earnings and capital arising from adverse perception of the image of the Bank on the part of customers, counterparties, shareholders, investors, regulators, and other stakeholders. It manifests when external opinions about the Bank are less favourable than desired. Reputational risk is managed by respective processes and organizational units of the Bank.

Reputational risk is only managed by processes; no capital is allocated for the purpose.

Group Risk

Group risk is defined as possible losses due to the fact that the Bank is operating as a member of a group, as a subsidiary company, or as a mother company. The Bank has no subsidiary, therefore, only the risk of operating as a member of a financial group needs to be assessed. The main assessment factor is to identify dependencies where a change in the level of parent company support might cause problems for the Bank. This assessment is based on expert judgment, and its results are manifested in areas where the risk is managed.

The Bank has identified two major sources of group risk, which are managed via proper processes defined by the parent company and negotiated with the Bank:

Group governance risk: the parent company operates a holding-level governance system, which ensures that the Bank receives methodological support from the mother company;

Own funds supply: planning of own funds and analysis of possible ways of capital increase are part of the budgeting process, including supply of own funds from the parent company. As the current risk is not material, no capital is allocated for the purpose.

Macroeconomic Risk

Macroeconomic risk is the current or prospective risk of loss on on-balance sheet and off-balance sheet positions arising from adverse movements in macroeconomic conditions, such as a fall in the GDP growth rates, decline in real estate prices, etc.

As macroeconomic risks are external risks that are beyond the Bank's control, the only tool for their management is stress tests-based capital and liquidity planning. The Bank performs macroeconomic risks-related stress tests based on internal macro projections and stress test model and also methodological guideline (the Guideline) communicated to the Bank by the regulator. For the purposes of internal capital assessment, the Bank applies transaction-level stress tests assessing the effect of FX, concentration and interest-induced credit risks. Enterprise-level macroeconomic stress testing is used for capital planning purposes.

Regulatory Risk

Regulatory risk is defined as the risk stemming from a changing regulatory environment. It incorporates either an amendment of the existing or an enactment of a new national or international law/regulation.

In order to mitigate regulatory risk, the Bank permanently monitors not only the legislation but also prospective changes. A crucial point in the process is that respective departments, managers, and employees affected by the changing legislation are informed by the Legal and Compliance & AML Department. Senior management regularly receives executive summaries about recent regulatory modifications. The Bank makes sure that existing and even significant prospective (if they are likely to be enacted) regulations are reflected in its strategy. To prepare for significant legislative changes, the Bank applies several techniques: impact study, scenario analysis, action plans, or even modification of the business plan. The Bank conducts regular revision of its internal regulations and ensures that they are compatible with the external regulatory environment.

Regulatory risk is only managed by processes; no capital is allocated for the purpose.

RISK MITIGATION STRATEGY

Techniques to mitigate risk are largely dependent on the type of risk that needs to be reduced. Among others, the Bank uses the following types of mitigation techniques:

- Audits – regular audits from the Internal Audit department may identify problems such as accounting errors or security vulnerabilities before they become larger problems;
- Segregation of duties – responsibilities are strictly divided between the relevant positions;
- The Four-Eye Principle and the Principle of Prevention of Conflict of Interests – the Bank adheres to these principles at all levels of business processes;
- Backup – the Bank backs up business information in multiple secure physical locations;
- Business Continuity Plan – the Bank has developed a plan to continue with normal operations in the face of extraordinary events such as natural disasters or security incidents;
- Procedures – the Bank controls risk through internal procedures or actions that reduce the likelihood of undesirable events;
- Diversification – the process of allocating capital and resources in diverse areas to reduce risk and volatility;
- Due diligence – the process of investigation before committing to a contract or strategy. Basic due diligence, such as checking financial, environmental, corporate social responsibility, and management practices of a potential partner, is a basic step in risk management;
- Communication – regularly communicating risk factors to line managers serves to reduce it;
- Performance Management – setting risk reduction goals as part of performance management;
- Policies – policies designed to reduce the risk of misconduct;
- Standards – establishing standards to guide business practices and decision-making;
- Training – training for employees, designed to increase professionalism and skills.

RISK REPORTING

In order to ensure timely, quality, and informative decision-making process, the Bank's risk management function reports to the Risk Management Committee of the Supervisory Board on a monthly basis. The reports include loan portfolio report, corporate investment portfolio report, trading book report, related party transactions, off-balance sheet portfolio, collateral portfolio, non-performing loans and write-off report, credit concentrations, deposit portfolio report, FI exposures, liquidity and maturity analysis, market risk analysis, operational risk analysis, incident management, capital adequacy report, etc.

On a quarterly basis, the Risk Management Committee reports to the Supervisory Board on the Bank's risk management activities and the way the committee discharged its duties and responsibilities.

The risk management function reports to the Board of Directors on a regular basis. These reports include reviews of Credit Committee activities, internal loss database reports, etc.

STRESS TESTS AND SCENARIO ANALYSIS

Scenario analysis is an exercise that uses expert opinions of business and risk managers to identify plausible enterprise loss scenarios to estimate unexpected losses. Scenarios are a forward-looking assessment of the key risks or "potential future events" that attempt to derive a reasoned assessment of likelihood, in terms of frequency and severity of plausible losses.

Stress test framework aims to assess the impact of extraordinary but possible events on the capital or liquidity of the Bank. The Bank elaborated its ICAAP framework in a way that already contains a sensitivity analysis and scenario analysis to measure exposure to risks that are defined as relevant. The Bank performs macroeconomic risks-related stress tests based on a methodological guideline (the Guideline) communicated to the Bank by NBG. According to the Guideline, stress tests must be performed on the overall Bank level (enterprise-level stress) and transaction level (transaction-level stress). The transaction level tests assess the creditworthiness of the Bank's top borrowers in the case of changing external factors. The following risks are managed via stress testing on the enterprise risk level:

- Foreign exchange induced credit risk;
- Interest rate risk of the banking book;
- Foreign exchange rate risk;
- Concentration risk;
- Interest rate risk;
- Regulatory risk;
- Systematic risk.

Enterprise-level stress tests are used by the Bank in the course of its capital and liquidity planning by assessing the effect of various macroeconomic scenarios on the Bank's overall financial performance indicators, such as profitability, asset quality, funding base, and liquidity.

Table 1

12/31/2022

N	Key metrics	4Q-2022	3Q-2022	2Q-2022	1Q-2022	4Q-2021
	Regulatory capital (amounts, GEL)					
	Based on Basel III framework					
1	CET1 capital	88,477,907	87,660,852	87,689,198	89,340,855	65,001,418
2	Tier1 capital	88,477,907	87,660,852	87,689,198	89,340,855	65,001,418
3	Regulatory capital	105,517,547	110,636,092	110,772,679	113,442,882	88,849,008
4	CET1 capital total requirement	60,302,979	57,248,719	54,870,356	55,260,501	32,475,900
5	Tier1 capital total requirement	75,808,433	71,972,490	69,067,716	69,608,944	43,313,689
6	Regulatory capital total requirement	103,025,006	97,868,984	93,992,320	94,847,748	71,714,522
	Total Risk Weighted Assets (amounts, GEL)					
7	Total Risk Weighted Assets (Total RWA) (Based on Basel III framework)	556,152,868	527,486,562	495,834,913	493,521,123	475,591,138
	Capital Adequacy Ratios					
	Based on Basel III framework *					
8	CET1 capital	15.91%	16.62%	17.69%	18.10%	13.67%
9	Tier1 capital	15.91%	16.62%	17.69%	18.10%	13.67%
10	Regulatory capital	18.97%	20.97%	22.34%	22.99%	18.68%
11	CET1 capital total requirement	10.84%	10.85%	11.07%	11.20%	6.83%
12	Tier1 capital total requirement	13.63%	13.64%	13.93%	14.10%	9.11%
13	Regulatory capital total requirement	18.52%	18.55%	18.96%	19.22%	15.08%
	Income					
14	Total Interest Income /Average Annual Assets	8.65%	8.42%	8.13%	7.80%	7.59%
15	Total Interest Expense / Average Annual Assets	3.41%	3.40%	3.46%	3.42%	3.38%
16	Earnings from Operations / Average Annual Assets	0.49%	1.73%	0.14%	-0.56%	0.53%
17	Net Interest Margin	5.24%	5.02%	4.66%	4.38%	4.21%
18	Return on Average Assets (ROAA)	-0.44%	-1.00%	-1.41%	-1.17%	-1.38%
19	Return on Average Equity (ROAE)	-2.43%	-5.54%	-7.98%	-7.22%	-8.37%
	Asset Quality					
20	Non Performed Loans / Total Loans	10.37%	10.9%	10.9%	11.9%	12.7%
21	LLR/Total Loans	5.85%	5.9%	6.1%	6.3%	6.7%
22	FX Loans/Total Loans	58.78%	56.3%	60.2%	64.3%	64.4%
23	FX Assets/Total Assets	56.51%	61.9%	61.3%	62.3%	62.1%
24	Loan Growth-YTD	18.94%	14.9%	8.7%	7.1%	-7.8%
	Liquidity					
25	Liquid Assets/Total Assets	11.12%	9.09%	8.52%	9.87%	13.75%
26	FX Liabilities/Total Liabilities	69.52%	78.34%	80.45%	79.53%	79.28%
27	Current & Demand Deposits/Total Assets	16.73%	11.87%	10.56%	11.16%	11.55%
	Liquidity Coverage Ratio***					
28	Total HQLA	126,443,044	92,427,258	103,990,480	86,473,326	104,280,998
29	Net cash outflow	79,541,169	41,989,157	43,278,783	50,521,892	43,044,126
30	LCR ratio (%)	158.97%	220.12%	244.71%	179.00%	246.01%
	Net Stable Funding Ratio					
31	Available stable funding	374,610,446	357,523,301	361,215,801	357,008,994	298,809,539
32	Required stable funding	287,598,577	298,230,166	271,237,916	273,085,223	262,699,005
33	Net stable funding ratio (%)	130.25%	119.88%	133.17%	130.73%	113.75%

* Regarding the annulment of conservation buffer requirement please see the press release of National Bank of Goergia "Supervisory Plan Of The National Bank Of Georgia With Regard To COVID-19" (link: https://www.nbg.gov.ge/index.php?m=340&newsid=3901&lng=eng)
*** LCR calculated according to NBG's methodology which is more focused on local risks than Basel framework. See the table 14. LCR; Commercial banks are required to comply with the limits by coefficients calculated according to NBG's methodology. The numbers calculated within Basel framework are given for illustrative purposes.

Table 2

12/31/2022

Balance Sheet							in Lari
		Reporting Period			Respective period of the previous year		
N	**Assets**	GEL	FX	Total	GEL	FX	Total
1	Cash	1,391,066	2,937,345	4,328,411	1,042,129	3,705,151	4,747,280
2	Due from NBG	264,568	43,473,517	43,738,085	152,538	47,578,675	47,731,213
3	Due from Banks	27,144,157	34,210,332	61,354,489	15,055,676	25,509,089	40,564,766
4	Dealing Securities	0	0	0	0	0	0
5	Investment Securities	35,481,000	7,410,998	42,891,998	28,082,000	12,590,995	40,672,995
6.1	Loans	150,263,976	214,308,570	364,572,546	109,144,121	197,372,268	306,516,389
6.2	Less: Loan Loss Reserves	-7,494,213	-13,821,149	-21,315,362	-5,202,521	-15,381,631	-20,584,152
6	Net Loans	142,769,763	200,487,421	343,257,184	103,941,600	181,990,637	285,932,237
7	Accrued Interest and Dividends Receivable	1,377,863	1,055,009	2,432,872	1,423,155	1,243,097	2,666,252
8	Other Real Estate Owned & Repossessed Assets	278,408	0	278,408	232,301	0	232,301
9	Equity Investments	0	0	0	0	0	0
10	Fixed Assets and Intangible Assets	11,441,089	0	11,441,089	14,102,196	0	14,102,196
11	Other Assets	2,734,535	44,115	2,778,650	2,068,098	16,637	2,084,735
12	**Total assets**	222,882,450	289,618,737	512,501,187	166,099,693	272,634,282	438,733,975
	Liabilities						
13	Due to Banks	13,608,525	56,928,267	70,536,792	3,010,590	58,882,622	61,893,211
14	Current (Accounts) Deposits	24,664,194	51,421,290	76,085,484	5,270,824	41,125,909	46,396,733
15	Demand Deposits	6,224,727	3,429,371	9,654,098	3,195,878	1,096,776	4,292,655
16	Time Deposits	59,059,969	122,847,418	181,907,387	40,510,228	120,362,181	160,872,408
17	Own Debt Securities			0			0
18	Borrowings	16,000,000	20,888,890	36,888,890	20,000,000	23,729,034	43,729,034
19	Accrued Interest and Dividends Payable	672,339	3,030,756	3,703,095	453,512	7,567,740	8,021,251
20	Other Liabilities	7,393,828	5,579,177	12,973,005	4,002,140	8,686,138	12,688,278
21	Subordinated Debentures	0	27,020,000	27,020,000	0	30,976,000	30,976,000
22	**Total liabilities**	127,623,583	291,145,168	418,768,751	76,443,171	292,426,400	368,869,571
	Equity Capital						
23	Common Stock	129,000,000	0	129,000,000	103,000,000	0	103,000,000
24	Preferred Stock	0	0	0	0	0	0
25	Less: Repurchased Shares	0	0	0	0	0	0
26	Share Premium	0	0	0	0	0	0
27	General Reserves	0	0	0	0	0	0
28	Retained Earnings	-35,267,563	0	-35,267,563	-33,135,596	0	-33,135,596
29	Asset Revaluation Reserves	0	0	0	0	0	0
30	**Total Equity Capital**	93,732,437	0	93,732,437	69,864,404	0	69,864,404
31	**Total liabilities and Equity Capital**	221,356,019	291,145,168	512,501,187	146,307,575	292,426,400	438,733,975

Table 3

12/31/2022

Income statement							in Lari
		Reporting Period			Respective period of the previous year		
N		GEL	FX	Total	GEL	FX	Total
	Interest Income						
1	Interest Income from Bank's "Nostro" and Deposit Accounts	1,288,558	458,894	1,747,452	707,256	-103,943	603,313
2	Interest Income from Loans	20,406,445	14,638,584	35,045,029	12,899,448	14,974,931	27,874,379
2.1	from the Interbank Loans		3	3		6	6
2.2	from the Retail or Service Sector Loans	4,767,692	7,185,248	11,952,940	4,445,677	7,997,389	12,443,066
2.3	from the Energy Sector Loans		2,393,382	2,393,382		537,408	537,408
2.4	from the Agriculture and Forestry Sector Loans	674,614	183,873	858,486	614,284	61,345	675,629
2.5	from the Construction Sector Loans	679,312	1,953,933	2,633,245	925,724	2,169,878	3,095,603
2.6	from the Mining and Mineral Processing Sector Loans			0	9,479	4,209	13,689
2.7	from the Transportation or Communications Sector Loans			0			0
2.8	from Individuals Loans	6,016,329	574,059	6,590,387	2,957,038	1,233,790	4,190,827
2.9	from Other Sectors Loans	8,268,499	2,348,086	10,616,586	3,947,245	2,970,905	6,918,151
3	Fees/penalties income from loans to customers	338,761	517,645	856,406	363,780	677,755	1,041,536
4	Interest and Discount Income from Securities	3,319,621	1,343,908	4,663,530	3,280,571	1,015,401	4,295,972
5	Other Interest Income			0			0
6	**Total Interest Income**	25,353,386	16,959,032	42,312,417	17,251,056	16,564,144	33,815,200
	Interest Expense						
7	Interest Paid on Demand Deposits	603,002	160,160	763,162	373,155	93,271	466,426
8	Interest Paid on Time Deposits	4,985,145	4,104,409	9,089,554	3,268,711	4,000,842	7,269,553
9	Interest Paid on Banks Deposits	677,084	2,264,666	2,941,750	631,992	2,715,800	3,347,792
10	Interest Paid on Own Debt Securities			0			0
11	Interest Paid on Other Borrowings	1,848,657	2,032,218	3,880,875	1,701,842	2,289,672	3,991,513
12	Other Interest Expenses			0			0
13	Total Interest Expense	8,113,887	8,561,453	16,675,340	5,975,699	9,099,585	15,075,284
14	**Net Interest Income**	17,239,499	8,397,578	25,637,077	11,275,356	7,464,559	18,739,916
	Non-Interest Income						
15	Net Fee and Commission Income	88,419	159,286	247,705	-43,484	77,200	33,716
15.1	Fee and Commission Income	241,610	507,047	748,657	118,099	380,158	498,257
15.2	Fee and Commission Expense	153,192	347,760	500,952	161,583	302,958	464,541
16	Dividend Income			0			0
17	Gain (Loss) from Dealing Securities			0			0
18	Gain (Loss) from Investment Securities		52	52			0
19	Gain (Loss) from Foreign Exchange Trading	10,915,800	0	10,915,800	9,946,379	0	9,946,379
20	Gain (Loss) from Foreign Exchange Translation	-679,376	0	-679,376	-6,985,817	0	-6,985,817
21	Gain (Loss) on Sales of Fixed Assets	-59,696		-59,696	-803,084		-803,084
22	Non-Interest Income from other Banking Operations	1,747,717	617,782	2,365,499	1,229,651	424,536	1,654,187
23	Other Non-Interest Income	62,439	518	62,958	398,863		398,863
24	Total Non-Interest Income	12,075,303	777,638	12,852,941	3,742,507	501,736	4,244,244
	Non-Interest Expenses						
25	Non-Interest Expenses from other Banking Operations	738,218	1,257,422	1,995,640	880,957	1,348,671	2,229,628
26	Bank Development, Consultation and Marketing Expenses	8,129,926	9,602	8,139,528	4,726,470	2,814	4,729,285
27	Personnel Expenses	19,460,905	0	19,460,905	13,988,850	0	13,988,850
28	Operating Costs of Fixed Assets	5,795	0	5,795	5,711	0	5,711
29	Depreciation Expense	5,544,418	0	5,544,418	5,815,015	0	5,815,015
30	Other Non-Interest Expenses	1,701,182		1,701,182	1,655,367		1,655,367
31	Total Non-Interest Expenses	35,580,444	1,267,024	36,847,469	27,072,371	1,351,485	28,423,856
32	Net Non-Interest Income	-23,505,141	-489,386	-23,994,528	-23,329,863	-849,749	-24,179,612
33	Net Income before Provisions	-6,265,643	7,908,192	1,642,549	-12,054,507	6,614,810	-5,439,697
34	Loan Loss Reserve	2,806,777	0	2,806,777	1,426,592	0	1,426,592
35	Provision for Possible Losses on Investments and Securities		0	0		0	0
36	Provision for Possible Losses on Other Assets	967,740		967,740	-650,504		-650,504
37	Total Provisions for Possible Losses	3,774,517	0	3,774,517	776,088	0	776,088
38	Net Income before Taxes and Extraordinary Items	-10,040,160	7,908,192	-2,131,967	-12,830,595	6,614,810	-6,215,785
39	Taxation			0			0
40	Net Income after Taxation	-10,040,160	7,908,192	-2,131,967	-12,830,595	6,614,810	-6,215,785
41	Extraordinary Items	0	0	0	62,882	0	62,882
42	Net Income	-10,040,160	7,908,192	-2,131,967	-12,767,713	6,614,810	-6,152,902

Table 4

12/31/2022

On-balance sheet items per standardized regulatory report							in Lari
N		Reporting Period			Respective period of the previous year		
		GEL	FX	Total	GEL	FX	Total
1	**Contingent Liabilities and Commitments**	95,114,131	28,419,645	123,533,776	33,284,807	18,907,716	52,192,523
1.1	Guarantees Issued	43,077,385	18,041,906	61,119,292	11,537,782	14,193,372	25,731,154
1.2	Letters of credit Issued		260,981	260,981			0
1.3	Undrawn loan commitments	52,036,746	10,116,758	62,153,504	21,747,025	4,714,344	26,461,369
1.4	Other Contingent Liabilities			0			0
2	**Guarantees received as security for liabilities of the bank**			0			0
3	**Assets pledged as security for liabilities of the bank**	0	0	0	0	0	0
3.1	Financial assets of the bank			0			0
3.2	Non-financial assets of the bank			0			0
4	**Guaratees received as security for receivables of the bank**	17,045,052	329,595,087	346,640,139	30,819,843	328,298,043	359,117,886
4.1	Surety, joint liability	30,100	317,843,856	317,873,956	27,899,002	311,835,405	339,734,407
4.2	Guarantees	17,014,952	11,751,230	28,766,183	2,920,841	16,462,638	19,383,479
5	**Assets pledged as security for receivables of the bank**	90,573,419	369,593,283	460,166,702	89,024,604	1,093,303,260	1,182,327,864
5.1	Cash	2,039,896	3,999,693	6,039,590	2,601,659	6,183,237	8,784,896
5.2	Precious metals and stones			0			0
5.3	Real Estate:	33,800,000	287,998,210	321,798,210	37,655,876	965,525,581	1,003,181,458
5.3.1	Residential Property	1	35,309,406	35,309,407	0	46,286,604	46,286,604
5.3.2	Commercial Property	0	189,742,121	189,742,121	3,855,876	847,053,641	850,909,517
5.3.3	Complex Real Estate			0	0	3,493,164	3,493,164
5.3.4	Land Parcel	0	47,306,356	47,306,356	0	38,619,226	38,619,226
5.3.5	Other	33,799,999	15,640,327	49,440,326	33,800,000	30,072,947	63,872,947
5.4	Movable Property	0	43,391,010	43,391,010	2,308,546	103,008,761	105,317,307
5.5	Shares Pledged	0	95	95	0	56	56
5.6	Securities	0	14	14			0
5.7	Other	54,733,523	34,204,261	88,937,784	46,458,522	18,585,625	65,044,147
6	**Derivatives**	54,692,130	272,650,604	327,342,734	24,446,025	120,526,488	144,972,513
6.1	Receivables through FX contracts (except options)	28,447,098	134,952,234	163,399,332	3,230,820	69,182,652	72,413,472
6.2	Payables through FX contracts (except options)	26,245,032	137,698,370	163,943,402	21,215,205	51,343,836	72,559,041
6.3	Principal of interest rate contracts (except options)			0			0
6.4	Options sold			0			0
6.5	Options purchased			0			0
6.6	Nominal value of potential receivables through other derivatives			0			0
6.7	Nominal value of potential payables through other derivatives			0			0
7	**Receivables not recognized on-balance**	6,798,665	7,248,852	14,047,517	2,593,602	3,474,526	6,068,127
7.1	Principal of receivables derecognized during last 3 month	564,744	0	564,744	279,153	0	279,153
7.2	Interest and penalty receivable not recognized on-balance or derecognized during last 3 month	615,151	1,940,956	2,556,107	-312,935	-519,620	-832,555
7.3	Principal of receivables derecognized during 5 years month (including last 3 month)	3,024,722	0	3,024,722	1,474,127	0	1,474,127
7.4	Interest and penalty receivable not recognized on-balance or derecognized during last 5 years (including last 3 month)	3,773,943	7,248,852	11,022,795	1,119,475	3,474,526	4,594,001
8	**Non-cancelable operating lease**	0	0	0	0	0	0
8.1	Through indefinit term agreement			0			0
8.2	Within one year			0			0
8.3	From 1 to 2 years			0			0
8.4	From 2 to 3 years			0			0
8.5	From 3 to 4 years			0			0
8.6	From 4 to 5 years			0			0
8.7	More than 5 years			0			0
9	Capital expenditure commitment			0			0

Table 5

12/31/2022

Risk Weighted Assets						in Lari
N		4Q-2022	3Q-2022	2Q-2022	1Q-2022	4Q-2021
1	Risk Weighted Assets for Credit Risk	497,820,929	476,626,324	440,293,243	438,994,708	420,416,310
1.1	Balance sheet items *	456,038,374	436,680,212	415,169,308	422,082,516	403,563,014
1.1.1	Including: amounts below the thresholds for deduction (subject to 250% risk weight)					-
1.2	Off-balance sheet items	38,514,568	38,068,843	23,540,141	15,299,570	15,405,027
1.3	Counterparty credit risk	3,267,987	1,877,268	1,583,794	1,612,622	1,448,269
2	Risk Weighted Assets for Market Risk	4,745,002	6,502,079	11,183,511	10,168,256	10,816,669
3	Risk Weighted Assets for Operational Risk	53,586,937	44,358,159	44,358,159	44,358,159	44,358,159
4	Total Risk Weighted Assets	556,152,868	527,486,562	495,834,913	493,521,123	475,591,138

* COVID 19 related provisions are deducted from balance sheet items after applying relevant risks weights and mitigation

Table 6

12/31/2022

Information about supervisory board, directorate, beneficiary owners and shareholders

	Members of Supervisory Board	Independence status
1	Shahin Mammadov	Member of PASHA Bank Supervisory Board
2	George Glonti	Senior Independent Member of PASHA Bank Supervisory Board
3	Ebru Ogan Knottnerus	Independent Member of PASHA Bank Supervisory Board
4	Jalal Gasımov	Member of PASHA Bank Supervisory Board
5	Farid Mammadov	Chairman of PASHA Bank Supervisory Board
6		
7		
8		
9		
10		

	Members of Board of Directors	Position/Subordinated business units
1	Nikoloz Shurghaia	Chairman of Board of Directors, CEO
2	Selim Berent	Member of the Board of Directors, CFO
3	Levan Aladashvili	Member of the Board of Directors, Chief Risk Officer
4		
5		
6		
7		
8		
9		
10		

List of Shareholders owning 1% and more of issued capital, indicating Shares

1	PASHA Bank OJSC	100%

List of bank beneficiaries indicating names of direct or indirect holders of 5% or more of shares

1	Mr. Arif Pashayev	19.49%
2	Mrs. Arzu Aliyeva	34.91%
3	Mrs. Leyla Aliyeva	34.91%
4	Mr. Mir Jamal Pashayev	10.69%

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Table 7

12/31/2022

Linkages between financial statement assets and balance sheet items subject to credit risk weighting				
		a	b	c
	Account name of standardazed supervisory balance sheet item	Carrying values as reported in published stand-alone financial statements per local accounting rules	Carrying values of items: Not subject to capital requirements or subject to deduction from capital	Carrying values of items: Subject to credit risk weighting
1	Cash	4,328,411		4,328,411
2	Due from NBG	43,738,085		43,738,085
3	Due from Banks	61,354,489		61,354,489
4	Dealing Securities	-		0
5	Investment Securities	42,891,998		42,891,998
6.1	Loans	364,572,546		364,572,546
6.2	Less: Loan Loss Reserves	(21,315,362)		-21,315,362
6	Net Loans	343,257,184		343,257,184
7	Accrued Interest and Dividends Receivable	2,432,872		2,432,872
8	Other Real Estate Owned & Repossessed Assets	278,408		278,408
9	Equity Investments	-		0
10	Fixed Assets and Intangible Assets	11,441,089	5,254,530	6,186,560
11	Other Assets	2,778,650		2,778,650
	Total exposures subject to credit risk weighting before adjustments	**512,501,187**	**5,254,530**	**507,246,658**

Table 8

12/31/2022

Differences between carrying values per standardized balance sheet used for regulatory reporting purposes and the exposure amounts used for capital adequacy calculation purposes		in Lari
1	**Total carrying value of balance sheet items subject to credit risk weighting before adjustments**	**507,246,658**
2.1	Nominal values of off-balance sheet items subject to credit risk weighting	123,464,787
2.2	Nominal values of off-balance sheet items subject to counterparty credit risk weighting	163,399,332
3	**Total nominal values of on-balance and off-balance sheet items before any adjustments used for credit risk weighting purposes**	**794,110,777**
4	Effect of provisioning rules used for capital adequacy purposes	6,692,143
5.1	Effect of credit conversion factor of off-balance sheet items related to credit risk framework	-84,950,220
5.2	Effect of credit conversion factor of off-balance sheet items related to counterparty credit risk framework (table CCR)	-160,131,346
6	Effect of other adjustments *	
7	**Total exposures subject to credit risk weighting**	**555,721,355**

*Other adjustments include COVID 19 related provisions too. These provisions are deducted from risk weighted balance sheet items. See table "5.RWA"

Table 9

12/31/2022

Regulatory capital		in Lari
1	Common Equity Tier 1 capital before regulatory adjustments	93,732,437
2	Common shares that comply with the criteria for Common Equity Tier 1	129,000,000
3	Stock surplus (share premium) of common share that meets the criteria of Common Equity Tier 1	
4	Accumulated other comprehensive income	
5	Other disclosed reserves	
6	Retained earnings (loss)	-35,267,563
7	Regulatory Adjustments of Common Equity Tier 1 capital	5,254,530
8	Revaluation reserves on assets	
9	Accumulated unrealized revaluation gains on assets through profit and loss to the extent that they exceed accumulated unrealized revaluation losses through profit and loss	
10	Intangible assets	5,254,530
11	Shortfall of the stock of provisions to the provisions based on the Asset Classification	
12	Investments in own shares	
13	Reciprocal cross holdings in the capital of commercial banks, insurance entities and other financial institutions	
14	Cash flow hedge reserve	
15	Deferred tax assets not subject to the threshold deduction (net of related tax liability)	
16	Significant investments in the common equity tier 1 capital (that are not common shares) of commercial banks, insurance entities and other financial institutions that are outside the scope of regulatory consolidation	
17	Holdings of equity and other participations constituting more than 10% of the share capital of other commercial entities	
18	Significant investments in the common shares of commercial banks, insurance entities and other financial institutions (amount above 10% limit)	
19	Investments in the capital of commercial banks, insurance entities and other financial institutions where the bank does not own more than 10% of the issued share capital (amount above 10% limit)	
20	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	
21	The amount of significant Investments and Deferred Tax Assets which exceed 15% of common equity tier 1	
22	Regulatory adjustments applied to Common Equity Tier 1 resulting from shortfall of Tier 1 and Tier 2 capital to deduct investments	
23	Common Equity Tier 1	88,477,907
24	Additional tier 1 capital before regulatory adjustments	0
25	Instruments that comply with the criteria for Additional tier 1 capital	0
26	Including:instruments classified as equity under the relevant accounting standards	
27	Including: instruments classified as liabilities under the relevant accounting standards	
28	Stock surplus (share premium) that meet the criteria for Additional Tier 1 capital	
29	Regulatory Adjustments of Additional Tier 1 capital	0
30	Investments in own Additional Tier 1 instruments	
31	Reciprocal cross-holdings in Additional Tier 1 instruments	
32	Significant investments in the Additional Tier 1 capital (that are not common shares) of commercial banks, insurance entities and other financial institutions	
33	Investments in the capital of commercial banks, insurance entities and other financial institutions where the bank does not own more than 10% of the issued share capital (amount above 10% limit)	
34	Regulatory adjustments applied to Additional Tier 1 resulting from shortfall of Tier 2 capital to deduct investments	
35	Additional Tier 1 Capital	0
36	Tier 2 capital before regulatory adjustments	17,039,640
37	Instruments that comply with the criteria for Tier 2 capital	10,816,878
38	Stock surplus (share premium) that meet the criteria for Tier 2 capital	
39	General reserves, limited to a maximum of 1.25% of the bank's credit risk-weighted exposures	6,222,762
40	Regulatory Adjustments of Tier 2 Capital	0
41	Investments in own shares that meet the criteria for Tier 2 capital	
42	Reciprocal cross-holdings in Tier 2 capital	
43	Significant investments in the Tier 2 capital (that are not common shares) of commercial banks, insurance entities and other financial institutions	
44	Investments in the capital of commercial banks, insurance entities and other financial institutions where the bank does not own more than 10% of the issued share capital (amount above 10% limit)	
45	Tier 2 Capital	17,039,640

Table 9.1

12/31/2022

Capital Adequacy Requirements			
	Minimum Requirements	**Ratios**	**Amounts (GEL)**
1	**Pillar 1 Requirements**		
1.1	Minimum CET1 Requirement	4.50%	25,026,879
1.2	Minimum Tier 1 Requirement	6.00%	33,369,172
1.3	Minimum Regulatory Capital Requirement	8.00%	44,492,229
2	**Combined Buffer**		
2.1	Capital Conservation Buffer *	2.50%	13,903,822
2.2	Countercyclical Buffer	0.00%	-
2.3	Systemic Risk Buffer	0.00%	-
3	**Pillar 2 Requirements**		
3.1	CET1 Pillar 2 Requirement	3.84%	21,372,278
3.2	Tier 1 Pillar2 Requirement	5.13%	28,535,439
3.3	Regulatory capital Pillar 2 Requirement	8.02%	44,628,955
	Total Requirements	**Ratios**	**Amounts (GEL)**
4	CET1	10.84%	60,302,979
5	Tier 1	13.63%	75,808,433
6	Total regulatory Capital	18.52%	103,025,006

* Regarding the annulment of conservation buffer requirement please see the press release of National Bank of Goergia "Supervisory Plan Of The National Bank Of Georgia With Regard To COVID-19" (link: https://www.nbg.gov.ge/index.php?m=340&newsid=3901&lng=eng)

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Table 10

12/31/2022

Reconciliation of balance sheet to regulatory capital			in Lari
N	**On-balance sheet items per standardized regulatory report**	**Carrying values as reported in published stand-alone financial statements per local accounting rules**	**linkage to capital table**
1	Cash	4,328,411	
2	Due from NBG	43,738,085	
3	Due from Banks	61,354,489	
4	Dealing Securities	0	
5	Investment Securities	42,891,998	
6.1	Loans	364,572,546	
6.2	Less: Loan Loss Reserves	-21,315,362	
6.2.1	Of which: General Reserves	5,003,550	table 9 (Capital), N39
6.2.2	Of which: COVID-19 Related Reserves		
6	Net Loans	343,257,184	
7	Accrued Interest and Dividends Receivable	2,432,872	
8	Other Real Estate Owned & Repossessed Assets	278,408	
9	Equity Investments		
9.1	Of which above 10% equity holdings in financial institutions		
9.2	Of which significant investments subject to limited recognition		
9.3	Of which below 10% equity holdings subject to limited recognition		
10	Fixed Assets and Intangible Assets	11,441,089	
10.1	Of which intangible assets	5,254,530	table 9 (Capital), N10
11	Other Assets	2,778,650	
12	**Total assets**	512,501,187	
13	Due to Banks	70,536,792	
14	Current (Accounts) Deposits	76,085,484	
15	Demand Deposits	9,654,098	
16	Time Deposits	181,907,387	
17	Own Debt Securities		
18	Borrowings	36,888,890	
19	Accrued Interest and Dividends Payable	3,703,095	
20	Other Liabilities	12,973,005	
20.1	Of which general reserves on other liabilities	1,219,212	
21	Subordinated Debentures	27,020,000	
21.1	Of which tier 2 capital qualifying instruments	10,816,878	
22	**Total liabilities**	418,768,751	
23	Common Stock	129,000,000	
24	Preferred Stock		
25	Less: Repurchased Shares		
26	Share Premium		
27	General Reserves		
28	Retained Earnings	-35,267,563	
29	Asset Revaluation Reserves		
30	**Total Equity Capital**	93,732,437	

Table 11

12/31/2022

Credit Risk Weighted Exposures
(On-balance items and off-balance items after credit conversion factor)

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
	Risk weights	0%		20%		35%		50%		75%		100%		150%		250%		Risk Weighted Exposures before Credit Risk Mitigation
	Exposure classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	
1	Claims or contingent claims on central governments or central banks	5,738,014		-		-		-		-		43,473,517		-		-		43,473,517
2	Claims or contingent claims on regional governments or local authorities	-		-		-		-		-		-		-		-		-
3	Claims or contingent claims on public sector entities	-		-		-		-		-		-		-		-		-
4	Claims or contingent claims on multilateral development banks	-		-		-		-		-		-		-		-		-
5	Claims or contingent claims on international organizations/ institutions	-		-		-		-		-		-		-		-		-
6	Claims or contingent claims on commercial banks	-		55,814,386		-		5,720,282		-		-	135,000	-		-		14,158,018
7	Claims or contingent claims on corporates	-		-		-		-		-		297,392,939	37,186,463	-		-		334,579,402
8	Retail claims or contingent retail claims	-		-		-		-		-		49,900,008	5,557,415	-		-		55,457,423
9	Claims or contingent claims secured by mortgages on residential property	-		-		-		-		-		-		-		-		-
10	Past due items	-		-		-		-		-		42,571,740		-		-		42,571,740
11	Items belonging to regulatory high-risk categories	-		-		-		-		-		-		-		-		-
12	Short-term claims on commercial banks and corporates	-		-		-		-		-		-		-		-		-
13	Claims in the form of collective investment undertakings ('CIU')	-		-		-		-		-		-		-		-		-
14	Other items	4,328,411		-		-		-		-		8,999,504		-		-		8,999,504
	Total	10,066,425	-	55,814,386	-	-	-	5,720,282	-	-	-	442,337,708	42,878,878	-	-	-	-	499,239,604

Table 12

12/31/2022

	Credit Risk Mitigation																				in Lari
		Funded Credit Protection										**Unfunded Credit Protection**									
		On-balance sheet netting	Cash on deposit with, or cash assimilated instruments	Debt securities issued by central governments or central banks, regional governments or local authorities, public sector entities, multilateral development banks and international organizations/institutions	Debt securities issued by regional governments or local authorities, public sector entities, multilateral development banks and international organizations/institutions	Debt securities issued by other entities, which securities have a credit assessment, which has been determined by NBG to be associated with credit quality step 3 or above under the rules for the risk weighting of exposures to corporates.	Debt securities with a short-term credit assessment, which has been determined by NBG to be associated with credit quality step 3 or above under the rules for the risk weighting of short term exposures	Equities or convertible bonds that are included in a main index	Standard gold bullion or equivalent	Debt securities without credit rating issued by commercial banks	Units in collective investment undertakings	Central governments or central banks	Regional governments or local authorities	Multilateral development banks	International organizations / institutions	Public sector entities	Commercial banks	Other corporate entities that have a credit assessment, which has been determined by NBG to be associated with credit quality step 2 or above under the rules for the risk weighting of exposures to corporates	Total Credit Risk Mitigation - On-balance sheet	Total Credit Risk Mitigation - Off-balance sheet	Total Credit Risk Mitigation
1	Claims or contingent claims on central governments or central banks																				0
2	Claims or contingent claims on regional governments or local authorities																				0
3	Claims or contingent claims on public sector entities																				0
4	Claims or contingent claims on multilateral development banks																				0
5	Claims or contingent claims on international organizations/institutions																				0
6	Claims or contingent claims on commercial banks																				0
7	Claims or contingent claims on corporates		242,170																		242,170
8	Retail claims or contingent retail claims		80,182																		80,182
9	Claims or contingent claims secured by mortgages on residential property																				0
10	Past due items		0																		0
11	Items belonging to regulatory high-risk categories																				0
12	Short-term claims on commercial banks and corporates																				0
13	Claims in the form of collective investment undertakings																				0
14	Other items																				0
	Total	0	322,352	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	322,352

Table 13

12/31/2022

	Standardized approach - Effect of credit risk mitigation						
		a	b	c	d	e	f
	Asset Classes	On-balance sheet exposures	Off-balance sheet exposures		RWA before Credit Risk Mitigation	RWA post Credit Risk Mitigation	RWA Density f=e/(a+c)
			Off-balance sheet exposures - Nominal value	Off-balance sheet exposures post CCF			
1	Claims or contingent claims on central governments or central banks	49,211,531			43,473,517	43,473,517	88%
2	Claims or contingent claims on regional governments or local authorities	-			-	-	0%
3	Claims or contingent claims on public sector entities	-			-	-	0%
4	Claims or contingent claims on multilateral development banks	-			-	-	0%
5	Claims or contingent claims on international organizations/institutions	-			-	-	0%
6	Claims or contingent claims on commercial banks	61,534,668	270,000	135,000	14,158,018	14,158,018	23%
7	Claims or contingent claims on corporates	297,392,939	78,246,276	37,186,463	334,579,402	334,337,232	100%
8	Retail claims or contingent retail claims	49,900,008	44,948,511	5,557,415	55,457,423	55,377,241	100%
9	Claims or contingent claims secured by mortgages on residential property	-			-	-	0%
10	Past due items	42,571,740			42,571,740	42,571,740	100%
11	Items belonging to regulatory high-risk categories	-			-	-	0%
12	Short-term claims on commercial banks and corporates	-			-	-	0%
13	Claims in the form of collective investment undertakings ('CIU')	-			-	-	0%
14	Other items	13,327,915			8,999,504	8,999,504	68%
	Total	513,938,801	123,464,787	42,878,878	499,239,604	498,917,252	90%

Table 14

12/31/2022

Liquidity Coverage Ratio										
		Total unweighted value (daily average)			Total weighted values according to NBG's methodology* (daily average)			Total weighted values according to Basel methodology (daily average)		
		GEL	FX	Total	GEL	FX	Total	GEL	FX	Total
High-quality liquid assets										
1	Total HQLA				23,170,505	103,272,539	126,443,044	9,872,163	48,112,991	57,985,154
Cash outflows										
2	Retail deposits	6,065,802	38,757,713	44,823,516	586,822	11,151,325	11,738,147	155,731	2,531,968	2,687,699
3	Unsecured wholesale funding	59,434,403	269,204,968	328,639,372	19,250,798	49,959,029	69,209,827	18,689,637	47,282,096	65,971,733
4	Secured wholesale funding	16,000,000	-	16,000,000	-	-	-	-	-	-
5	Outflows related to off-balance sheet obligations and net short position of derivative exposures	89,066,290	33,527,906	122,594,196	14,728,345	9,024,673	23,753,018	4,885,892	4,501,660	9,387,553
6	Other contractual funding obligations	-	-	-	-	-	-	-	-	-
7	Other contingent funding obligations	4,477,129	9,720,354	14,197,483	3,558,262	2,889,208	6,447,470	3,525,516	2,932,091	6,457,607
8	TOTAL CASH OUTFLOWS	175,043,624	351,210,942	526,254,566	38,124,228	73,024,235	111,148,463	27,256,776	57,247,815	84,504,591
Cash inflows										
9	Secured lending (eg reverse repos)	-	-	-	-	-	-	-	-	-
10	Inflows from fully performing exposures	153,976,945	208,433,237	362,410,182	28,762,298	1,718,775	30,481,073	41,862,749	62,158,781	104,021,530
11	Other cash inflows	8,530,213	8,719,001	17,249,214	620,042	506,179	1,126,221	612,454	490,521	1,102,975
12	TOTAL CASH INFLOWS	162,507,158	217,152,238	379,659,396	29,382,340	2,224,955	31,607,294	42,475,203	62,649,302	105,124,505
					Total value according to NBG's methodology* (with limits)			Total value according to Basel methodology (with limits)		
13	Total HQLA				23,170,505	103,272,539	126,443,044	9,872,163	48,112,991	57,985,154
14	Net cash outflow				9,531,057	70,799,281	79,541,169	6,814,194	14,311,954	21,126,148
15	Liquidity coverage ratio (%)				243.11%	145.87%	158.97%	144.88%	336.17%	274.47%

* Commercial banks are required to comply with the limits by coefficients calculated according to NBG's methodology. The numbers calculated within Basel framework are given for illustratory purposes.

Table 15

12/31/2022

Counterparty credit risk													
		a	b	c	d	e	f	g	h	i	j	k	l
		Nominal amount	Percentage	Exposure value	0%	20%	35%	50%	75%	100%	150%	250%	Counterparty Credit Risk Weighted Exposures
1	FX contracts	163,399,332		3,267,987	0	0	0	0	0	3,267,987	0	0	3,267,987
1.1	Maturity less than 1 year	163,399,332	2.0%	3,267,987						3,267,987			3,267,987
1.2	Maturity from 1 year up to 2 years	0	5.0%	0									0
1.3	Maturity from 2 years up to 3 years	0	8.0%	0									0
1.4	Maturity from 3 years up to 4 years	0	11.0%	0									0
1.5	Maturity from 4 years up to 5 years	0	14.0%	0									0
1.6	Maturity over 5 years	0											0
2	Interest rate contracts	0		0	0	0	0	0	0	0	0	0	0
2.1	Maturity less than 1 year		0.5%	0									0
2.2	Maturity from 1 year up to 2 years		1.0%	0									0
2.3	Maturity from 2 years up to 3 years		2.0%	0									0
2.4	Maturity from 3 years up to 4 years		3.0%	0									0
2.5	Maturity from 4 years up to 5 years		4.0%	0									0
2.6	Maturity over 5 years												0
	Total	163,399,332		3,267,987	0	0	0	0	0	3,267,987	0	0	3,267,987

Table 15.1

12/31/2022

Leverage Ratio		
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral) *	519,193,331
2	(Asset amounts deducted in determining Tier 1 capital)	(5,254,530)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	513,938,801
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	
EU-5a	Exposure determined under Original Exposure Method	3,267,987
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	
8	(Exempted CCP leg of client-cleared trade exposures)	
9	Adjusted effective notional amount of written credit derivatives	
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	
11	Total derivative exposures (sum of lines 4 to 10)	3,267,987
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
14	Counterparty credit risk exposure for SFT assets	
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	
15	Agent transaction exposures	
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	-
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	123,464,787
18	(Adjustments for conversion to credit equivalent amounts)	(80,585,910)
19	Other off-balance sheet exposures (sum of lines 17 to 18)	42,878,878
	Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)	
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	
	Capital and total exposures	
20	Tier 1 capital	88,477,907
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	560,085,666
	Leverage ratio	
22	Leverage ratio	15.797%
	Choice on transitional arrangements and amount of derecognised fiduciary items	
EU-23	Choice on transitional arrangements for the definition of the capital measure	
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	

*COVID 19 related provisions are deducted from balance sheet items

Table 16

12/31/2022

Net Stable Funding Ratio						
		Unweighted value by residual maturity				**Weighted value**
		No maturity	**< 6 month**	**6 month to <1yr**	**>= 1 yr**	
	Available stable funding					
1	Capital:	99,294,785	-	-	188,099,461	287,394,247
2	Regulatory capital	99,294,785			-	99,294,785
3	Other non-redeemable capital instruments and liabilities with remaining maturity more than 1 year				188,099,461	188,099,461
4	Redeemable retail deposits or non-redeemable retail deposits with residual maturity of less than one year	16,215,539	14,346,670	6,942,336	1,417,211	27,140,096
5	Residents' deposits	3,499,172	7,186,482	5,829,110	550,165	16,211,682
6	Non-residents' deposits	12,716,367	7,160,188	1,113,226	867,046	10,928,413
7	Wholesale funding	84,522,835	39,184,426	40,547,295	-	60,076,104
8	Redeemable funding or non-redeemable funding with residual maturity of less than one year, provided by the government or enterprises controlled by the government, international financial institutions and legal entities, excluding representatives of financial sector	57,936,227	21,668,686	29,976,857	-	54,790,885
9	Redeemable funding or non-redeemable funding with residual maturity of less than one year, provided by the central banks and other financial institutions	26,586,608	17,515,740	10,570,438	-	5,285,219
10	Liabilities with matching interdependent assets					
11	Other liabilities:	-	21,025,078	-	-	-
12	Liabilities related to derivatives		934,564	-	-	-
13	All other liabilities and equity not included in the above categories	-	20,090,514	-	-	-
14	**Total available stable funding**					374,610,446
	Required stable funding					
15	Total high-quality liquid assets (HQLA)	07,286,515	30,365,600	-	-	4,479,281
16	Performing loans and securities:	2,134,471	58,788,878	52,488,068	217,598,167	235,634,915
17	Loans and deposits to financial institutions secured by Level 1 HQLA	-	-	-	-	-
18	Loans and deposits to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	2,134,471	23,440,424	26,833,350	19,479,852	36,732,761
19	Loans to non-financial institutions and retail customers, of which:	-	33,528,454	25,654,718	187,411,918	188,891,716
20	With a risk weight of less than or equal to 35%					
21	Residential mortgages, of which:					
22	With a risk weight of less than or equal to 35%					
23	Securities that do not qualify as HQLA	-	1,820,000	-	10,706,398	10,010,438
24	Assets with matching interdependent liabilities					
25	Other assets:	6,186,560	2,778,416	236,940	28,778,584	36,668,069
26	Assets related to derivatives	Jan-00	390,495	-	-	390,495
27	All other assets not included in the above categories	6,186,560	2,387,922	236,940	28,778,584	36,277,574
28	Off-balance sheet items	-	72,618,642	15,638,332	33,988,602	10,816,312
29	**Total required stable funding**					287,598,577
30	**Net stable funding ratio**					**130.25%**

*Items to be reported in the 'no maturity' time bucket do not have a stated maturity. These may include, but are not limited to, items such as capital with perpetual maturity, current/demand deposits, etc.

PASHA Bank

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Table 17

12/31/2022

Distribution by residual maturity Risk classes		Exposures of On-Balance Items					
		On demand	≤ 1 year	> 1 year ≤ 5 year	> 5 year	No stated maturity	Total
1	Claims or contingent claims on central governments or central banks	43,742,131			5,469,400		49,211,531
2	Claims or contingent claims on regional governments or local authorities						-
3	Claims or contingent claims on public sector entities						-
4	Claims or contingent claims on multilateral development banks						-
5	Claims or contingent claims on international organizations/ institutions						-
6	Claims or contingent claims on commercial banks	30,924,700	30,609,968				61,534,668
7	Claims or contingent claims on corporates		3,113,200	210,860,405	123,039,066		337,012,671
8	Retail claims or contingent retail claims		418,037	52,401,935	32,044		52,852,016
9	Claims or contingent claims secured by mortgages on residential property						-
10	Past due items*		1,774,861	30,934,692	9,862,187		42,571,740
11	Items belonging to regulatory high-risk categories						-
12	Short-term claims on commercial banks and corporates						-
13	Claims in the form of collective investment undertakings ('CIU')						-
14	Other items	4,328,411	2,812,945			6,186,560	13,327,915
15	Total	78,995,242	36,954,150	263,262,340	128,540,510	6,186,560	513,938,801

Past due items* - Past due items will be filled in paragraph 10 and also will be redistributed to the classes in which they were recorded before they were classified as "Past due tems". An overdue loan line is not included in the formula for eliminating double counting.

Table 18

12/31/2022

On Balance Assets / Risk classes		a	b	c	d	e	f	g
		Gross carrying values		Special Reserve	General Reserve	Additional General Reserve	Accumulated write-off, during the reporting period	Book value
		Of which: Loans and other Assets - Non-Performing	Of which: Loans and other Assets - other than Non-Performing					(a+b-c-d-e)
1	Claims or contingent claims on central governments or central banks		49,211,531					49,211,531
2	Claims or contingent claims on regional governments or local authorities	-						-
3	Claims or contingent claims on public sector entities							-
4	Claims or contingent claims on multilateral development banks							-
5	Claims or contingent claims on international organizations/ institutions							-
6	Claims or contingent claims on commercial banks		61,534,668					61,534,668
7	Claims or contingent claims on corporates	34,572,128	315,760,107	13,319,564	5,690,752			331,321,919
8	Retail claims or contingent retail claims	3,449,504	51,592,411	2,189,899	1,001,392		587,805	51,850,624
9	Claims or contingent claims secured by mortgages on residential property							-
10	Past due items*	31,489,511	22,243,424	11,161,195	297,363			42,274,377
11	Items belonging to regulatory high-risk categories							-
12	Short-term claims on commercial banks and corporates							-
13	Claims in the form of collective investment undertakings ('CIU')							-
14	Other items	604,170	18,304,037	325,762				18,582,445
15	Total	38,625,802	496,402,754	15,835,225	6,692,143	-	587,805	512,501,187
16	Of which: loans	37,790,897	323,092,541	15,391,531	5,923,831		587,805	339,568,076
17	Of which: securities		44,199,506		768,312			43,431,194

Past due items* - Past due items will be filled in paragraph 10 and also will be redistributed to the classes in which they were recorded before they were classified as "Past due tems". An overdue loan line is not included in the formula for eliminating double counting.

Table 19

12/31/2022

On Balance Assets		a	b	c	d	e	f	g
		Gross carrying values		Special Reserve	General Reserve	Additional General Reserve	Accumulated write-off, during the reporting period	Book value
Sector of repayment source / counterparty type		Of which: Loans and other Assets - Non-Performing	Of which: Loans and other Assets - other than Non-Performing					(a+b-c-d-e)
1	State, state organizations	579,792	9,186,632	406,643	178,939		136,207	9,180,841
2	Financial Institutions	584,949	208,427,624	283,136	1,945,475		144,466	206,783,961
3	Pawn-shops	100	20,205	100	402		-	19,802
4	Construction Development, Real Estate Development and other Land Loans	1,313,783	21,715,499	981,525	316,090		2,567	21,731,667
5	Real Estate Management	1,058,760	44,567,247	400,877	869,119		-	44,356,010
6	Construction Companies	126,674	3,328,569	196,863	45,229		67,506	3,213,152
7	Production and Trade of Construction Materials	2,220,565	462,849	670,989	8,938		-	2,003,487
8	Trade of Consumer Foods and Goods	650,964	9,578,944	324,131	166,558		19,433	9,739,219
9	Production of Consumer Foods and Goods	311,465	2,011,472	233,994	12,234		2,775	2,076,710
10	Production and Trade of Durable Goods	130,983	73,979	38,766	1,424		-	164,772
11	Production and Trade of Clothes, Shoes and Textiles	-	3,526,837	50	70,277		-	3,456,510
12	Trade (Other)	356,361	8,297,010	219,763	161,259		45,152	8,272,349
13	Other Production	568,807	5,127,223	182,418	23,887		6,487	5,489,725
14	Hotels, Tourism	15,356,276	23,084,816	4,630,724	459,688		-	33,350,681
15	Restaurants	7,393,566	3,736,627	2,339,430	51,988		2,229	8,738,774
16	Industry	4,028	98,862	1,257	1,954		-	99,678
17	Oil Importers,Filling stationas,gas stations and Retailers	879,504	30,693,711	1,375,518	389,021		-	29,808,676
18	Energy	91,729	47,273,627	83,565	938,808		-	46,342,984
19	Auto Dealers	1,998	10,396,811	999	206,672		-	10,191,138
20	HealthCare	74,601	1,917,407	29,784	37,876		28,678	1,924,349
21	Pharmacy	10,826	418,837	5,845	8,294		-	415,523
22	Telecommunication	10,987	392,801	7,824	7,740		5,996	388,224
23	Service	2,539,995	9,317,513	924,593	172,438		38,879	10,760,477
24	Agriculture	2,468,739	6,014,636	742,021	118,346		-	7,623,007
25	Other	973,477	13,831,395	1,242,423	137,094		86,432	13,425,355
26	Assets on which the Sector of repayment source is not accounted for	312,705	14,597,584	186,227	362,392		998	14,361,671
27	Other assets	604,170	18,304,037	325,762				18,582,445
28	Total	38,625,802	496,402,754	15,835,225	6,692,143	-	587,805	512,501,187

Table 20

12/31/2022

Changes in reserve for loans and Corporate debt securities		Change in reserves for loans during the reporting period	Change in reserves for Corporate debt securities during the reporting period
1	Opening balance	20,820,324	444,067
2	An increase in the reserve for possible losses on assets	5,187,576	330,840
2.1	As a result of the origination of the new assets	3,306,234	330,840
2.2	As a result of classification of assets as a low quality	1,881,342	-
2.3	Increase reserve of foreign currency assets as a result of currency exchange rate changes	-	-
2.4	As a result of an increase in “additional general reserves”	-	-
3	Decrease in reserve for possible losses on assets	4,692,538	6,595
3.1	As a result of write-off of assets	575,125	-
3.2	As a result of partial or total payment of standard assets	1,400,413	-
3.3	As a result of partial or total payment of adversely classified assets	2,433,320	-
3.4	As a result of classification of assets as a high quality	-	-
3.5	Decrease reserve of foreign currency assets as a result of currency exchange rate changes	283,680	6,595
3.6	As a result of an decrease in “additional general reserves”	-	-
4	Closing balance	21,315,362	768,312

Table 21

12/31/2022

Changes in the stock of non-performing loans over the period		Gross carrying value of Non-performing Loans	Net accumulated recoveries related to decrease of Non-performing loans
1	Opening balance	38,213,770	
2	Inflows to non-performing portfolios	4,191,147	
3	Inflows to non-performing portfolios, as e result of currency exchange rate changes	453,642	
4	Outflows from non-performing portfolios	5,067,502	
5	Outflow to stadrat loan portfolio		
6	Outflow to watch loan portfolio		
7	Outflow due to loan repayment, partial or total	3,589,361	
8	Outflow due to taking possession of collateral		
9	Outflow due to sale of portfolios		
10	Outflows due to write-offs	587,805	
11	Outflow due to other situations		
12	Outflows from non-performing portfolios, as a result of currency exchange rate changes	890,335	
13	Closing balance	37,791,057	

Table 22

12/31/2022

Distribution of loans, Debt securities and Off-balance-sheet items according to Risk classification and Past due days		Gross carrying value of loans and Debt securities, nominal value of Off-balance-sheet items																		
		Total	Classified in standard category			Classified in watch category						Classified in Non-Performing category								
				Past due ≤ 30 days	Past due > 30 days		Past due ≤ 30 days	Past due > 30 days < 60 days	Past due ≥ 60 days < 90 days	Past due ≥ 90 days		Past due < 60 days	Past due ≥ 60 days < 90 days	Past due ≥ 90 days < 180 days	Past due ≥ 180 days < 1 year	Past due ≥ 1 year <2 year	Past due ≥ 2 year <5 year	Past due ≥ 5 year <7 year	Past due ≥ 7 year	Of which: Classified in Loss category
1	Loans	364,572,546	296,191,452	14,868,160	1	30,590,037	3,157,921	812,160	3,320,638	0	37,791,057	3,173,971	431,252	3,687,563	15,036,868	6,589,646	2,339,636	-	2,709	1,091,161
1.1	Central banks																			
1.2	General governments																			
1.3	Credit institutions																			
1.4	Other financial corporations	75,223,489	75,061,369	-	-	-	-	-	-	-	162,120	-	-	-	-	162,120	-	-	-	-
1.5	Non-financial corporations	234,795,396	171,060,610	13,876,545	-	29,479,258	2,978,895	270,200	3,297,507	-	34,255,528	2,999,108	-	2,141,445	14,065,815	6,422,762	2,339,636	-	-	-
1.6	Households	54,553,661	50,069,474	991,615	1	1,110,779	179,025	541,960	23,130	0	3,373,409	174,863	431,252	1,546,118	971,054	4,764	-	-	2,709	1,091,161
2	Debt Securities	43,663,600	43,663,600	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1	Central banks																			
2.2	General governments	5,248,000	5,248,000																	
2.3	Credit institutions																			
2.4	Other financial corporations	19,101,000	19,101,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.5	Non-financial corporations	19,314,600	19,314,600	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.6	Households																			
3	Off-balance-sheet items	123,533,776	60,960,584			284,588					135,100									-
3.1	Central banks																			
3.2	General governments																			
3.3	Credit institutions	270,000	270,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.4	Other financial corporations	8,363,431	7,080,800	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.5	Non-financial corporations	71,248,795	53,609,784		-	284,588	-	-	-	-	135,100	-	-	-	-	-	-	-	-	-
3.6	Households	43,651,551	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Table 23

12/31/2022

Loans Distributed according to LTV ratio, Loan reserves, Value of collateral for loans and loans secured by guarantees according to Risk classification and past due days		Gross carrying value of Loans																	
		Total	Loans Classified in standard category			Loans Classified in watch category					Loans Classified in Non-Performing category								
				Past due ≤ 30 days	Past due > 30 days		Past due ≤ 30 days	Past due > 30 days < 60 days	Past due ≥ 60 days < 90 days	Past due ≥ 90 days		Past due < 60 days	Past due ≥ 60 days < 90 days	Past due ≥ 90 days < 180 days	Past due ≥ 180 days < 1 year	Past due ≥ 1 year <2 year	Past due ≥ 2 year <5 year	Past due ≥ 5 year <7 year	Past due ≥ 7 year
1	Loans	364,572,546	296,191,452	14,868,160	1	30,590,037	3,157,921	812,160	3,320,638	0	37,791,057	3,173,971	431,252	3,687,563	15,036,868	6,589,646	2,339,636	-	2,709
1.1	Secured Loans	295,109,233	231,212,327	13,876,545		29,479,258	2,978,895	270,200	3,297,507		34,417,648	2,999,108		2,141,445	14,065,815	6,584,882	2,339,636		
1.1.1	Loans Secured by Immovable property	221,619,914	158,729,498	13,876,545		28,634,888	2,978,895	270,200	3,297,507		34,255,528	2,999,108		2,141,445	14,065,815	6,422,762	2,339,636		
1.1.1.1	LTV ≤70%	101,492,614	73,812,731	5,770,545		16,138,607	2,978,895	270,200	3,297,507		11,541,275	2,999,108			1,313,783	2,013,059	2,144,257		
1.1.1.2	LTV >70% ≤85%	30,846,935	20,279,226	8,106,000							10,567,709			2,141,445	4,167,130	3,201,684			
1.1.1.3	LTV >85% ≤100%	31,540,841	22,513,397								9,027,444				8,584,902	442,542			
1.1.1.4	LTV >100%	57,739,525	42,124,144			12,496,281					3,119,100					765,477	195,378		
1.2	Reserves on Secured Loans	17,897,467	4,624,247	277,531		2,947,926	297,890	27,020	329,751		10,325,294	899,732		642,433	4,219,744	1,975,465	701,891		
1.3	Value of Pledged collateral																		
1.3.1	Of which value capped at the Loan value	207,080,080	146,664,362	13,876,545		27,258,260	2,978,895	270,200	3,297,507		33,157,458	2,999,108		2,141,445	14,065,815	6,363,623	2,184,666		
1.3.1.1	Of which immovable property	187,530,787	133,412,094	13,876,545		21,026,525	2,978,895	270,200	3,297,507		33,092,167	2,999,108		2,141,445	14,065,815	6,363,623	2,184,666		
1.3.2	Of which value above the cap	212,259,455	168,910,933	8,438,945		18,728,702	4,189,511	232,408	3,190,251		24,619,820	7,602,289		382,548	6,532,304	2,935,456	1,013,431		
1.3.2.1	Of which immovable property	188,731,090	151,111,270	8,438,945		14,926,287	4,189,511	161,358	3,084,411		22,693,534	6,065,999		382,548	6,532,304	2,935,456	1,013,431		
1.4	Loans secured by the state and state institutions																		
1.5	Loans secured by bank and /or financial institutions																		

Table 24

12/31/2022

Loans	Sector of repayment source	Gross carrying value						General and Special Reserves						Additional General Reserve
			Standard	Watch	Sub-Standard	Doubtful	Loss		Standard	Watch	Sub-Standard	Doubtful	Loss	
1	State, state organizations	9,688,334	8,946,923	170,621	108,441	226,557	235,791	577,603	178,939	17,062	32,532	113,278	235,791	
2	Financial Institutions	78,758,731	78,149,294	33,454	270,912	219,150	85,921	1,843,101	1,562,986	3,345	81,274	109,575	85,921	
3	Pawn-shops	20,111	20,111				-	402	402					
4	Construction Development, Real Estate Development and other Land Loans	22,992,208	15,804,525	5,873,899	1,313,783		-	1,297,615	316,090	587,390	394,135			
5	Real Estate Management	41,773,539	39,943,354	771,425	1,050,036		8,724	1,199,744	798,867	77,143	315,011		8,724	
6	Construction Companies	3,372,003	2,261,452	998,072	29,137	18,445	64,896	227,896	45,229	99,807	8,741	9,223	64,896	
7	Production and Trade of Construction Materials	2,609,798	446,895	11,256	2,144,257	6,771	619	657,345	8,938	1,126	643,277	3,385	619	
8	Trade of Consumer Foods and Goods	7,037,620	5,227,923	1,168,510	621,935	2,970	16,281	425,756	104,558	116,851	186,581	1,485	16,281	
9	Production of Consumer Foods and Goods	2,309,008	611,675	1,385,868	308,655		2,810	246,227	12,234	138,587	92,596		2,810	
10	Production and Trade of Durable Goods	204,412	73,430	-	130,983			40,763	1,469		39,295			
11	Production and Trade of Clothes, Shoes and Textiles	3,514,360	3,513,863	497				70,327	70,277	50				
12	Trade (Other)	8,557,580	8,062,962	147,668	141,788	104,227	100,935	371,611	161,259	14,767	42,536	52,114	100,935	
13	Other Production	5,680,476	5,089,887	27,057	555,235	861	7,435	278,940	101,798	2,706	166,571	431	7,435	
14	Hotels, Tourism	38,313,747	22,984,379	35,795	15,242,498	31,313	19,762	5,071,435	459,688	3,580	4,572,749	15,657	19,762	
15	Restaurants	11,110,500	2,599,421	1,123,301	7,374,182	2,076	11,520	2,389,131	51,988	112,330	2,212,255	1,038	11,520	
16	Industry	102,197	97,678	492	4,028			3,211	1,954	49	1,208			
17	Oil Importers,Filling stationas,gas stations and Retailers	31,478,132	19,478,975	11,119,652	878,511	994		1,765,595	389,580	1,111,965	263,553	497		
18	Energy	44,335,106	44,238,389	5,188	2,477	13,899	75,153	968,132	884,768	519	743	6,950	75,153	
19	Auto Dealers	335,619	333,621			1,998	-	7,671	6,672			999		
20	HealthCare	1,969,124	1,893,776	8,185	60,272	6,891	-	60,221	37,876	819	18,082	3,445		
21	Pharmacy	426,394	414,722	845	2,342	6,853	1,631	14,139	8,294	85	702	3,427	1,631	
22	Telecommunication	399,695	386,997	1,911	2,650	2,999	5,138	15,364	7,740	191	795	1,499	5,138	
23	Service	11,697,641	8,623,526	544,371	2,290,657	124,937	114,150	1,090,724	172,471	54,437	687,197	62,469	114,150	
24	Agriculture	8,380,592	5,917,310		2,461,284		1,999	858,730	118,346		738,385		1,999	
25	Other	14,677,799	6,720,296	6,996,920	419,472	281,205	259,905	1,360,448	134,406	699,692	125,842	140,603	259,905	
26	Assets on which the Sector of repayment source is not accounted for	14,827,823	14,350,069	165,049	129,379	104,836	78,490	551,139	364,913	16,505	38,814	52,418	78,490	
27	Total	364,572,546	296,191,452	30,590,037	35,542,914	1,156,982	1,091,161	21,393,273	6,001,742	3,059,004	10,662,874	578,492	1,091,161	

Table 25

12/31/2022

Collateral type / Gross carrying value/nominal value - distribution according to / Loans, corporate debt securities and Off-balance-sheet items		a	b	c	d	e	f	g	h	i
		Secured by deposit	Secured by the state and state institutions	Secured by bank and /or financial institutions	Secured by gold / gold jewelry	Secured by Immovable property	Secured by shares / stocks and other securities	Secured by other collateral	Secured by another third party guarantee	Unsecured Amount
1	Loans	1,493,513		-		187,530,787		73,417,786	17,479,728	84,650,733
2	Corporate debt securities					143		14,000,027	2,701,830	21,710,310
3	Off-balance-sheet itmes	3,436,089	-	28,761,922	-	31,421,403	-	7,718,590	444,848	51,750,924
4	Of which: Non-Performing Loans					33,092,167		65,305	1,098,070	3,535,515
5	Of which: Non-Performing Corporate debt securities									
6	Of which: Non-Performing Off-balance-sheet itmes	-	-	-	-	1,441,894	-	-	118,806	57,890

Table 26

12/31/2022

Retail Products		Gross carrying value of Loans						Reserves						Number of Loans	Weighted average nominal interest rate on quarterly disbursed loans	Weighted average effective interest rate on quarterly disbursed loans	Weighted average nominal interest rate (on Gross carrying value of Loans)	Weighted average maturity of loans according to the remaining maturity (months)
			Standard	Watch	Sub-Standard	Doubtful	Loss		Standard	Watch	Sub-Standard	Doubtful	Loss					
1	Auto loans													-				
2	Consumer Loans	24,709,277	21,864,007	548,387	702,424	797,817	796,642	1,898,397	437,280	54,839	210,727	398,909	796,642	4,546	17%	19%	17%	33
3	Pay Day Loans													-				
4	Momental Installments													-				
5	Overdrafts	12,918	8,526	0	1,692	76	2,624	3,340	171	0	508	38	2,624	38	15%	16%	12%	5
6	Credit Cards	30,088,461	28,453,934	562,392	421,150	359,089	291,895	1,223,106	569,081	56,239	126,345	179,545	291,895	20,664	36%	39%	36%	34
7	Mortgages	130,596	-	-	130,596	-	-	39,179	-	-	39,179	-	-	1			10%	36
7.1	Mortgages - Purchase of completed real estate	130,596	-	-	130,596	-	-	39,179	-	-	39,179	-	-	1			10%	36
7.2	Mortgages - Construction, the purchase of real estate under construction																	
7.3	Mortgages - For Real Estate Renovation													-				
8	Retail Pawnshop loans													-				
9	Student loans													-				
10	Total Retail Products	54,941,251	50,326,467	1,110,779	1,255,862	1,156,982	1,091,161	3,164,021	1,006,532	111,078	376,759	578,492	1,091,161	25,249	27%	30%	27%	34
10.1	Between them: Loans issued on the basis of income from a pension or other state social disbursement																	

Table 20

12/31/2022

Differences between accounting and regulatory scopes of consolidation

a	b	c	d	e	f													
Assets (as reported in published IFRS financial statements)	Carrying Values as reported in published IFRS financial statements	Carrying Values per IFRS under scope of regulatory consolidation (stand-alone)	Carrying values as reported in published stand-alone financial statements per local accounting rules (stand-alone)	Notes	Reconciliation with standardized regulatory reporting format													
					1	2	3	4	5	6.1	6.2	6	7	8	9	10	11	12
					Cash	Due from NBG	Due from Banks	Dealing Securities	Investment Securities	Total Loans	Less: Loan Loss Reserves	Net Loans	Accrued Interest and Dividends Receivable	Other Real Estate Owned & Repossessed Assets	Equity Investments	Fixed Assets and Intangible Assets	Other Assets	TOTAL ASSETS
Cash and cash equivalents	62,542,245	62,542,245	62,547,064		4,328,411.19	287,139.17	57,893,209.36						38,304.11					62,547,064
Amounts due from credit institutions	46,926,502	46,926,502	46,926,655			43,450,945.94	3,461,280.00						14,429.53					46,926,655
Loans to customers	350,885,352	350,885,352	345,037,476							364,572,546.28	(21,315,362.07)	343,257,184.21	1,780,291.84					345,037,476
Investment securities	43,861,222	43,861,222	43,431,194						42,891,997.88				539,195.75					43,431,194
Property and equipment	2,420,191.77	2,420,191.77	2,420,192													2,420,191.77		2,420,192
Right of use assets	3,766,367.86	3,766,367.86	3,766,368													3,766,367.86		3,766,368
Intangible assets	5,254,530	5,254,530	5,254,530													5,254,529.80		5,254,530
Income tax asset	0	0	0															0
Deferred income tax assets	0	0	0															0
Other assets	2853988	2853988	3,117,709										60,650.62	278,408.00			2,778,650.41	3,117,709
																		0
Total assets	518,510,398	518,510,398	512,501,187	0	4,328,411	43,738,085	61,354,489	0	42,891,998	364,572,546	-21,315,362	343,257,184	2,432,872	278,408	0	11,441,089	2,778,650	512,501,187

a	b	c	d	e	f									
Liabilities (as reported in published IFRS financial statements)	Carrying Values as reported in published IFRS financial statements	Carrying Values per IFRS under scope of regulatory consolidation (stand-alone)	Carrying Values per local accounting rules under scope of regulatory consolidation (stand-alone)	Notes	Reconciliation with standardized regulatory reporting format									
					13	14	15	16	17	18	19	20	21	22
					Due to Banks	Current (Accounts) Deposits	Demand Deposits	Time Deposits	Own Debt Securities	Borrowings	Accrued Interest and Dividends Payable	Other Liabilities	Subordinated Debentures	Total Liabilities
Amounts due to credit institutions	106,687,620	106,687,620	121,517,995		70,536,792			11,248,000		36,888,890	2,844,312			121,517,995
Amounts due to customers	272,030,757	272,030,757	257,200,384			76,085,484	9,654,098	170,659,387			801,415			257,200,384
Provisions for guarantees and letters of credit	356,395	356,395	1,288,201									1,288,201		1,288,201
Deferred income tax liability	0	0	0											0
Lease Liabilities	3,771,646	3,771,646	3,771,646								12,334	3,759,313		3,771,646
Other liabilities	6,290,421	6,290,421	7,925,492									7,925,492		7,925,492
Subordinated debt	26,559,484	26,559,484	27,065,033								45,033		27,020,000	27,065,033
														0
Total liabilities	415,696,324	415,696,324	418,768,751	0	70,536,792	76,085,484	9,654,098	181,907,387	0	36,888,890	3,703,095	12,973,005	27,020,000	418,768,751

a	b	c	d	e	f							
Equity (as reported in published IFRS financial statements)	Carrying Values as reported in published IFRS financial statements	Carrying Values per IFRS under scope of regulatory consolidation (stand-alone)	Carrying Values per local accounting rules under scope of regulatory consolidation (stand-alone)	Notes	Reconciliation with standardized regulatory reporting format							
					23	24	25	26	27	28	29	30
					Common Stock	Preferred Stock	Less: Repurchased Shares	Share Premium	General Reserves	Retained Earnings	Asset Revaluation Reserves	Total Equity Capital
Share capital	129,000,000	129,000,000	129,000,000		129,000,000							129,000,000
Additional paid-in capital	1,154,911	1,154,911										
Retained earnings	-27,340,837	-27,340,837	-35,267,563							-35,267,563		-35,267,563
Other reserves												0
												0
												0
												0
												0
												0
Total equity	102,814,074	102,814,074	93,732,437	0	129,000,000	0	0	0	0	-35,267,563	0	93,732,437

Table 21

12/31/2022

Consolidation by entities

	Name of Entity	Method of Accounting consolidation	Method of regulatory consolidation				Description
			Full Consolidation	Proportional Consolidation	Neither consolidated nor deducted	Deducted	
1	XXX	Full Consolidation					
2	XXX	Proportional Consolidation					
3	XXX	Not consolidated					

Table 22

12/31/2022

Information about historical operational losses

		T-2022	T-2021	T-2020
1	Total amount of losses	39,697	0	5,000
2	Total amount of losses, exceeding GEL 10,000	38,000		
3	Number of events with losses exceeding GEL 10,000	1		
4	Total amount of 5 biggest losses	39,697	0	5,000

Table 23

12/31/2022

Operational risks - basic indicator approach

		a	b	c	d	e
		T-2023	T-2022	T-2021	Average of sums of net interest and net non-interest income during last three years	Risk Weighted asset (RWA)
1	Net interest income	25,637,077	18,739,916	16,605,960		
2	Total Non-Interest Income	12,852,941	4,244,244	6,643,437		
3	less: income (loss) from selling property	-59,696	-803,084	-150,304		
4	Total income (1+2-3)	38,549,714	23,787,243	23,399,702	28,578,886	53,585,412

Table 24

12/31/2022

Remuneration awarded during the reporting period

			Board of Directors	Supervisory Board	Other material risk takers
1	Fixed remuneration	Number of employees	4	3	12
2		Total fixed remuneration (3+5+7)	1,361,391	445,530	1,445,032
3		Of which cash-based	1,294,498	445,530	1,380,221
4		Of which: deferred			
5		Of which: shares or other share-linked instruments			
6		Of which deferred			
7		Of which other forms	66,892		64,810
8		Of which deferred			
9	Variable remuneration	Number of employees	4		12
10		Total variable remuneration (11+13+15)	1,127,041	0	743,298
11		Of which cash-based	1,088,112		696,347
12		Of which: deferred	336,380		277,670
13		Of which shares or other share-linked instruments			
14		Of which deferred			
15		Of which other forms	38,929		46,951
16		Of which deferred			
17	Total remuneration		2,488,432	445,530	2,188,329

Table 25

12/31/2022

Special payments

		Board of Directors	Supervisory Board	Other material risk takers
Guaranteed bonuses	Number of employees			
	Total amount			
Sign-on awards	Number of employees			
	Total amount:	0	0	0
	Of which cash-based			
	Of which shares			
	Of which share-linked instruments			
	Of which other instruments			
Severance payments	Number of employees			
	Total amount:	0	0	0
	Of which cash-based			
	Of which shares			
	Of which share-linked instruments			
	Of which other instruments			

Table 26

12/31/2022

Information about deferred and retained remuneration

		a	b	c	d	e
		Total amount of outstanding deferred remuneration	Of which Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of reduction during the year due to ex post explicit adjustments	Total amount of reduction during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
1	Board of Directors	336,380	0	0	0	0
2	Cash	336,380				
3	Shares					
4	Share-linked instruments					
5	Other					
6	Supervisory Board	0	0	0	0	0
7	Cash					
8	Shares					
9	Share-linked instruments					
10	Other					
11	Other material risk takers	277,670	0	0	0	0
12	Cash	277,670				
13	Shares					
14	Share-linked instruments					
15	Other					
16	Total	277,670	0	0	0	0

Table 27

12/31/2022

Shares owned by senior management														
		a	b	c	d	e	f	g	h	I	j	k	l	m
		Amount of shares at the beginning of the reporting period			Changes during the reporting period							Amount of shares at the end of the reporting period		
		Unvested	Vested	Total (a+b)	Awarded during the period		Vesting	Reduction during the period		Other Changes		Unvested (a+d-f-g)	Vested (b+e+f-h+i-j)	Total(k+l)
					Of which: Unvested	Of which: Vested		Unvested	Vested	Purchase	Sell			
	Senior management													
1	Total amount:	0	0	0	0	0	0	0	0	0	0	0	0	0
1.1				0								0	0	0
1.2				0								0	0	0
1.3				0								0	0	0
1.4				0								0	0	0
1.5				0								0	0	0
1.6				0								0	0	0
.....				0								0	0	0
	Other material risk takers													
2	Total amount:											0	0	0

Annex 1

Financial Statements

Building a better working world

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder and the Supervisory Board of JSC PASHA Bank Georgia

Opinion

We have audited the financial statements of JSC PASHA Bank Georgia (hereinafter, the "Bank"), which comprise the statement of financial position as at 31 December 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2022 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Emphasis of matter paragraph

We draw attention to Note 24 to the financial statements, which describes a significant concentration of the Bank's transactions with related parties. Our opinion is not modified in respect of this matter.

Other information included in in the Bank's 2021 Annual Report

Other information consists of the information included in the Bank's 2022 Management Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2022 Management Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon in our report on the audit of the financial statements.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines 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, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Bank's financial reporting process.

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 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.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Ana Kusrashvili

On behalf of EY LLC

22 February 2023

Tbilisi, Georgia

JSC PASHA Bank Georgia

Financial statements

Year ended 31 December 2022
together with independent auditor's report

PASHA Bank
New heights. Together.

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Statement of financial position

As at 31 December 2022

(Amounts in tables are in thousands of Georgian lari)

	Notes	*2022*	*2021*
Assets			
Cash and cash equivalents	5	62,542	42,380
Amounts due from credit institutions	6	46,927	50,662
Loans to customers	7	350,885	294,973
Investment securities	8	43,861	42,059
Property and equipment	9	2,420	3,827
Right of use assets	10	3,766	5,412
Intangible assets	11	5,255	4,863
Other assets	12	2,854	1,819
Total assets		**518,510**	**445,995**
Liabilities			
Amounts due to credit institutions	13	106,687	123,135
Amounts due to customers	14	272,031	201,987
Provisions	18	356	240
Lease liabilities	10	3,772	6,147
Subordinated debt	15	26,559	30,222
Other liabilities	12	6,290	5,186
Total liabilities		**415,695**	**366,917**
Equity			
Share capital	17	129,000	103,000
Additional paid-in capital	17	1,155	1,155
Accumulated deficit		(27,340)	(25,077)
Total equity		**102,815**	**79,078**
Total equity and liabilities		**518,510**	**445,995**

Signed on behalf of the Board of Directors of the Bank on 22 February 2023:

Nikoloz Shurgaia — Chairman of the Board of Directors

Selim Berent — Chief Financial Officer, Member of the Board of Directors

The accompanying selected explanatory notes on pages 5 to 45 are an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 December 2022

(Amounts in tables are in thousands of Georgian lari)

	Notes	*2022*	*2021*
Interest income calculated using effective interest rate			
Loans to customers		36,890	28,931
Investment securities		4,664	4,296
Amounts due from credit institutions		1,747	603
		43,301	**33,830**
Interest expense			
Amounts due to customers		(8,728)	(6,737)
Amounts due to credit institutions		(6,469)	(6,705)
Subordinated debt		(1,478)	(1,633)
Lease liabilities		(228)	(405)
		(16,903)	**(15,480)**
Net interest income		**26,398**	**18,350**
Credit (loss)/reversal on interest bearing assets	5,6,7,8,18	(4,667)	3,078
Net interest income after impairment losses		**21,731**	**21,428**
Net gains/(losses) from foreign currencies			
- dealing		10,916	9,946
- translation differences		(1,468)	(7,483)
Fee and commission income, net:	19	1,028	56
- fee and commission income		3,042	1,716
- fee and commission expense		(2,014)	(1,660)
Net gain/(loss) on modification of financial assets measured at amortised cost	7	202	(55)
Other operating income		103	604
Non-interest income		**10,781**	**3,068**
Personnel expenses	20	(19,450)	(15,391)
General and administrative expenses	20	(9,601)	(6,541)
Depreciation and amortisation	9, 10, 11	(5,544)	(5,815)
Provisions		(80)	(39)
Other operating expenses		(100)	(942)
Non-interest expenses		**(34,775)**	**(28,728)**
Loss before income tax		**(2,263)**	**(4,232)**
Income tax benefit/(expense)	16	–	226
Net loss for the year		**(2,263)**	**(4,006)**
Other comprehensive income		–	–
Total comprehensive loss for the year		**(2,263)**	**(4,006)**

The accompanying selected explanatory notes on pages 5 to 45 are an integral part of these financial statements.

PASHA Bank

New heights. Together.

Statement of changes in equity

For the year ended 31 December 2022

(Amounts in tables are in thousands of Georgian lari)

	Share capital	*Additional paid-in capital*	*Accumulated deficit*	*Total equity*
1 January 2021	**103,000**	**1,155**	**(21,071)**	**83,084**
Total comprehensive loss or the year	–	–	(4,006)	**(4,006)**
31 December 2021	**103,000**	**1,155**	**(25,077)**	**79,078**
Total comprehensive loss for the year	–	–	**(2,263)**	**(2,263)**
Issue of share capital (Note 17)	26,000	–	–	**26,000**
31 December 2022	**129,000**	**1,155**	**(27,340)**	**102,815**

The accompanying selected explanatory notes on pages 5 to 45 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2022

(Amounts in tables are in thousands of Georgian lari)

	Notes	*2022*	*2021*
Cash flows from operating activities			
Interest received		43,052	36,784
Interest paid		(21,222)	(12,402)
Fees and commissions received		3,024	1,716
Fees and commissions paid		(2,043)	(1,685)
Realised gains less losses from dealing in foreign currencies		10,916	9,946
Personnel expenses paid		(18,140)	(15,411)
General and administrative expenses paid		(9,677)	(7,399)
Other income received		6	3
Cash flows from operating activities before changes in operating assets and liabilities		**5,916**	**11,552**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(927)	(6,562)
Loans to customers		(88,005)	8,134
Other assets		(523)	(236)
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		654	(6,422)
Amounts due to customers		97,194	1,730
Other liabilities		(2,054)	(129)
Net cash from operating activities		**12,255**	**8,067**
Cash flows from investing activities			
Purchase of investment securities	8	(20,449)	(3,100)
Proceeds from redemption of investment securities	8	16,529	6,500
Purchase of property and equipment		(519)	(481)
Proceeds from sale of property and equipment		72	466
Purchase of intangible assets		(2,078)	(1,964)
Net cash (used in) / from investing activities		**(6,445)**	**1,421**
Cash flows from financing activities			
Principal repayments of lease liability		(2,071)	(2,891)
Proceeds from issue of share capital	17	26,000	-
Net cash from / (used in) financing activities		**23,929**	**(2,891)**
Effect of exchange rates changes on cash and cash equivalents		(9,575)	(3,360)
Effect of expected credit losses on cash and cash equivalents		(2)	25
Net increase in cash and cash equivalents		**20,162**	**3,262**
Cash and cash equivalents, beginning	5	42,380	39,118
Cash and cash equivalents, ending	5	**62,542**	**42,380**

The accompanying selected explanatory notes on pages 5 to 45 are an integral part of these financial statements.

1. Principal activities

JSC PASHA Bank Georgia (the "Bank") was formed on 17 December 2012 as a joint stock company under the laws of Georgia. The Bank operates under a general banking license issued by the National Bank of Georgia (the "NBG") on 17 January 2013 (Identification code: 404433671).

The Bank accepts deposits and extends credit, transfers payments in Georgia and abroad, exchanges currencies and provides other banking services to its commercial customers. The Bank continues its expansion into retail market under the Re|Bank brand name, based on strategic initiatives approved by the Bank's shareholders.

Starting from 2017 the Bank is a member of the deposit insurance system. The system operates under the Law of Georgia on Deposit Insurance System and insures all types of deposits of resident and non-resident individuals up to GEL 5,000, with certain exceptions.

The Bank has four service offices in Georgia as of 31 December 2022. The Bank's registered legal address is 37M, Ilia Chavchavadze Avenue, 0179, Tbilisi, Georgia.

As at 31 December 2022 and 2021, the Bank's 100% owner was OJSC PASHA Bank (the "Parent"), the Republic of Azerbaijan. As at 31 December 2022 and 2021 the Bank is ultimately owned by Mrs. Leyla Aliyeva, Mrs. Arzu Aliyeva, Mr. Arif Pashayev and Mr. Mir Jamal Pashayev, who exercise collective control over the Bank.

These financial statements have not yet been approved by the Parent on the general meeting of shareholder of the Bank. The shareholder has the power and authority to amend the financial statements after the issuance.

2. Basis of preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

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

3. Summary of accounting policies

Changes in accounting policies

The Bank applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The following amendments to standards were applied for the first time in the 2022 year, resulting in consequential changes to the accounting policies and other note disclosures:

- Reference to the Conceptual Framework – Amendments to IFRS 3
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter
- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
- IAS 41 Agriculture – Taxation in fair value measurements

The amendments effective since 1 January 2022 do not have an impact on the financial statements of the Bank.

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Fair value measurement

Fair values of financial instruments measured at amortised cost are disclosed in Note 22. 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 Bank. 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. 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 Bank 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 categorized 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.

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets and liabilities are recognised on the trade date i.e. the date that the Bank commits to purchase the asset or liability. Regular way purchases or sales are purchases or sales of financial assets and liabilities that require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets and liabilities

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost;
- FVOCI;
- FVPL.

The Bank classifies and measures its derivative portfolio at FVPL. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading, are derivative instruments or the fair value designation is applied.

(Amounts in tables are in thousands of Georgian lari)

3. Summary of accounting policies (continued)

Financial assets and liabilities

Amounts due from credit institutions, loans to customers, investment securities at amortised cost

The Bank only measures amounts due from credit institutions, loans to customers and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

The details of these conditions are outlined below:

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- 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);
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Letters of credit and undrawn loan commitments

The Bank issues letters of credit and loan commitments. Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer.

(Amounts in tables are in thousands of Georgian lari)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs. Therefore, performance guarantees are not considered financial instruments and thus do not fall in scope of IFRS 9.

Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank changes the business model for managing financial assets. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets and liabilities in 2022.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The Bank 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, with the difference 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 loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan;
- Change in counterparty;
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, presented within interest revenue calculated using EIR in the statement of profit or loss and net gain/(loss) on modification of financial assets measured at amortised cost, to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Bank also reassesses whether here has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. Asset that has been classified as credit-impaired as the result of modification, can be recorded as Stage 2 or Stage 3 if certain criteria are met according to the Banks approved methodology.

Derecognition of financial assets and liabilities

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;
- The Bank 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 Bank 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 Bank 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 Bank'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 Bank could be required to repay.

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Write-off

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

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 profit or loss.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the National Bank of Georgia, excluding mandatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Mandatory reserve deposit with the NBG

Mandatory reserve deposits with the NBG are carried at amortised cost and represent interest bearing mandatory reserve deposits which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows. Mandatory reserve is included in amounts due from credit institutions.

Leases

Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

3. Summary of accounting policies (continued)

Leases (continued)

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the 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. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business;
- The event of default; and
- The event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Taxation

The current income tax expense is calculated in accordance with the regulations of Georgia.

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 (applicable to undistributed profits) and tax laws, that have been enacted or substantively enacted by the end of the reporting period.

Georgia also has various operating taxes that are assessed on the Bank's activities. These taxes are included as a component of other operating expenses.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of 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.

3. Summary of accounting policies (continued)

Property and equipment (continued)

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Furniture and fixtures	4
Computers and equipment	4
Motor vehicles	4
Other equipment	5
Leasehold improvements	1-5 years or lease term, if lower

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Intangible assets

Intangible assets include computer software and licenses.

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 useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Amounts due to/from credit institutions

Amounts due to credit institutions include deposits and loans placed by commercial banks and the Ministry of Finance. The Bank considers Ministry of Finance as a credit institution, because it provides refinancing facility similar to that of the National Bank of Georgia and long-term deposits as a liquidity support measure.

Amounts due from credit institutions include amounts due only from the NBG and commercial banks. The Bank considers non-banking credit institutions as customers and loans to non-banking credit organizations are included in loans to customers.

Provisions

Provisions are recognised when the Bank 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.

Contingencies

Contingent liabilities are not recognised in the 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 statement of financial position but disclosed when an inflow of economic benefits is probable.

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.

3. Summary of accounting policies (continued)

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

The Bank calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. EIR 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 Bank 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 revenue or expense.

When a financial asset becomes credit-impaired, the Bank calculates interest revenue by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest revenue on a gross basis.

Interest revenue on all financial assets at FVPL is recognised using the contractual interest rate.

Fee and commission income

The Bank earns fee and commission income from several types of services it provides to its customers. 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 income on guarantees and letters of credit. 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.

Fee income earned at a point in time

Fees arising from settlement and cash operations are recognized upon completion of the underlying transactions. Each cash operation and settlement operation is treated as a separate performance obligation.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party − such as where the Bank's performance obligation is the arrangement of the acquisition of shares or other securities − are recognised on completion of the underlying transaction. Fees or components of fees that are linked to certain performance obligations are recognised after fulfilling the corresponding criteria. When the contract provides for a variable consideration, fee and commission income is only recognized to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur until the uncertainty associated with the variable consideration is subsequently resolved.

Foreign currency translation

The financial statements are presented in Georgian lari ("GEL"), which is the Bank's functional and presentation 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 at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of profit or loss 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.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBG exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official GEL exchange rates at 31 December 2022 and 2021 were 2.7020 GEL and 3.0976 GEL to 1 USD, respectively, 2.8844 GEL and 3.5040 GEL to 1 EUR, respectively and 1.5924 GEL and 1.8222 GEL to 1 AZN, respectively.

3. Summary of accounting policies (continued)

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 Bank's financial statements are disclosed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The amendments are not expected to have a material impact on the Bank.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The amendments are not expected to have an impact on the Bank.

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 Bank.

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. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Bank is currently assessing the impact of the amendments to determine the impact they will have on the Bank's accounting policy disclosures.

4. Significant accounting judgments and estimates

Estimation uncertainty

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates are as follows:

Impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades;
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs, such GDP growth and inflation, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

During 2022 the Bank approved new methodology which included updates related to PD and LGD calculation. The amount of change in estimate caused by the updates was deemed as impracticable to be estimated by the Bank. The amount of allowance for loans to customers, investment securities and credit related commitments recognized in the statement of financial position at 31 December 2022 was GEL 16,824 thousand (2021: GEL 13,864 thousand), GEL 338 thousand (2021: GEL 342 thousand) and GEL 356 thousand (2021: GEL 195 thousand) respectively. Refer to Note 7, Note 8 and Note 18.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 22.

Leases − estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease.

The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates. More details are provided in Note 10.

(Amounts in tables are in thousands of Georgian lari)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2022	*2021*
Cash on hand	4,328	4,747
Current accounts with the NBG	287	168
Current accounts with other credit institutions	30,793	12,300
Time deposits with credit institutions up to 90 days	27,139	25,168
Less: allowance for impairment	(5)	(3)
Cash and cash equivalents	**62,542**	**42,380**

As at 31 December 2022, current accounts and time deposit accounts with credit institutions denominated in GEL, USD and EUR represent 47.14%%, 47.01% and 4.86% of total current and time deposit accounts respectively (31 December 2021: GEL 40.41%, USD 26.62%, EUR 30.33%).

All balances of cash equivalents are held at amortized cost and are allocated to Stage 1.

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2022	*2021*
Mandatory reserve with the NBG	43,455	47,563
Time deposits for more than 90 days	3,473	3,103
Less: allowance for impairment	(1)	(4)
Amounts due from credit institutions	**46,927**	**50,662**

Credit institutions are required to maintain cash deposits (mandatory reserve) with the NBG, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw these deposits is restricted by regulation.

An analysis of changes in the gross carrying value and corresponding ECL in relation to time deposits for more than 90 days during the year ended 31 December 2022 is as follows:

	Gross carrying value	*ECL*
As at 1 January 2022	**3,103**	**(4)**
New assets originated	6,253	(6)
Assets repaid	(6,085)	1
Foreign exchange and other movements	202	8
At 31 December 2022	**3,473**	**(1)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to time deposits for more than 90 days during the year ended 31 December 2021 is as follows:

	Gross carrying value	*ECL*
As at 1 January 2021	**–**	**–**
New assets originated	3,087	(6)
Assets repaid	–	–
Foreign exchange and other movements	16	2
At 31 December 2021	**3,103**	**(4)**

All balances of amounts due from credit institutions are held at amortized cost and are allocated to Stage 1.

(Amounts in tables are in thousands of Georgian lari)

7. Loans to customers

Loans to customers comprise:

	2022	*2021*
Corporate	190,703	154,437
Commercial	122,383	128,918
Consumer	54,623	25,482
Loans to customers	**367,709**	**308,837**
Less – allowance for impairment	(16,824)	(13,864)
Loans to customers	**350,885**	**294,973**

Commercial loans include loans to medium sized companies.

An analysis of changes in the gross carrying value in relation to loans to customers during the year ended 31 December 2022 is as follows:

Corporate loans at amortized cost, gross	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2022	**114,192**	**40,245**	**–**	**154,437**
New assets originated	243,759	–	–	**243,759**
Assets repaid	(169,659)	(23,751)	–	**(193,410)**
Transfers to Stage 1	32,738	(32,738)	–	**–**
Transfers to Stage 2	(26,905)	26,905	–	**–**
Transfers to Stage 3	–	(189)	189	**–**
Foreign exchange and net other movements	(10,320)	(3,736)	(27)	**(14,083)**
At 31 December 2022	**183,805**	**6,736**	**162**	**190,703**

Corporate loans at amortized cost, allowance for ECL	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2022	**(1,376)**	**(823)**	**–**	**(2,199)**
New assets originated	(3,602)	–	–	**(3,602)**
Assets repaid	1,098	147	–	**1,245**
Transfers to Stage 1	(157)	157	–	**–**
Transfers to Stage 2	198	(198)	–	**–**
Transfers to Stage 3	–	3	(3)	**–**
Foreign exchange and net other movements	2,104	676	(159)	**2,621**
At 31 December 2022	**(1,735)**	**(38)**	**(162)**	**(1,935)**

Commercial loans at amortized cost, gross	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2022	**67,770**	**45,516**	**15,632**	**128,918**
New assets originated	71,282	291	–	**71,573**
Assets repaid	(50,336)	(9,249)	(4,279)	**(63,864)**
Transfers to Stage 1	4,604	(4,604)	–	**–**
Transfers to Stage 2	(13,233)	15,106	(1,873)	**–**
Transfers to Stage 3	–	(22,684)	22,684	**–**
Unwinding of discount	–	–	940	**940**
Foreign exchange and net other movements	(8,135)	(3,866)	(3,183)	**(15,184)**
At 31 December 2022	**71,952**	**20,510**	**29,921**	**122,383**

Commercial loans at amortized cost, allowance for ECL	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2022	**(1,075)**	**(3,295)**	**(5,373)**	**(9,743)**
New assets originated	(1,096)	(21)	–	**(1,117)**
Assets repaid	322	914	1,857	**3,093**
Transfers to Stage 1	(150)	150	–	**–**
Transfers to Stage 2	329	(712)	383	**–**
Transfers to Stage 3	–	3,435	(3,435)	**–**
Unwinding of discount	–	–	940	**940**
Foreign exchange and net other movements	1,178	(1,177)	(2,601)	**(2,600)**
At 31 December 2022	**(492)**	**(706)**	**(8,229)**	**(9,427)**

PASHA Bank
New heights. Together.

(Amounts in tables are in thousands of Georgian lari)

7. Loans to customers (continued)

Consumer loans at amortized cost, gross	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2022	**24,425**	**319**	**738**	**25,482**
New assets originated	88,162	–	–	**88,162**
Assets repaid	(57,094)	(15)	(19)	**(57,128)**
Transfers to Stage 1	1,347	(1,065)	(282)	**–**
Transfers to Stage 2	(5,773)	5,799	(26)	**–**
Transfers to Stage 3	–	(3,933)	3,933	**–**
Amounts written off	–	–	(1,640)	**(1,640)**
Foreign exchange and net other movements	(305)	46	6	**(253)**
At 31 December 2022	**50,762**	**1,151**	**2,710**	**54,623**

Consumer loans at amortized cost, allowance for ECL	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2022	**(1,136)**	**(48)**	**(738)**	**(1,922)**
New assets originated	(3,130)	–	–	**(3,130)**
Assets repaid	1,829	11	73	**1,913**
Transfers to Stage 1	(113)	98	15	**–**
Transfers to Stage 2	731	(735)	4	**–**
Transfers to Stage 3	–	960	(960)	**–**
Amounts written off	–	–	1,640	**1,640**
Recoveries	–	–	(89)	**(89)**
Foreign exchange and net other movements	(745)	(474)	(2,655)	**(3,874)**
At 31 December 2022	**(2,564)**	**(188)**	**(2,710)**	**(5,462)**

An analysis of changes gross carrying value in relation to loans to customers during the year ended 31 December 2021 is as follows:

Corporate loans at amortized cost, gross	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	**122,244**	**37,390**	**–**	**159,634**
New assets originated	116,922	5,104	–	**122,026**
Assets repaid	(109,790)	(10,408)	–	**(120,198)**
Transfers to Stage 1	23,980	(23,980)	–	**–**
Transfers to Stage 2	(35,955)	35,955	–	**–**
Foreign exchange and net other movements	(3,209)	(3,816)	–	**(7,025)**
At 31 December 2021	**114,192**	**40,245**	**–**	**154,437**

Corporate loans at amortized cost, allowance for ECL	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**(1,298)**	**(3,622)**	**–**	**(4,920)**
New assets originated	(1,368)	(226)	–	**(1,594)**
Assets repaid	452	795	–	**1,247**
Transfers to Stage 1	(111)	111	–	**–**
Transfers to Stage 2	196	(196)	–	**–**
Foreign exchange and net other movements	753	2,315	–	**3,068**
At 31 December 2021	**(1,376)**	**(823)**	**–**	**(2,199)**

Commercial loans at amortized cost, gross	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	**120,487**	**43,327**	**4,204**	**168,018**
New assets originated	53,937	32,414	1,210	**87,561**
Assets repaid	(76,710)	(33,224)	(3,378)	**(113,312)**
Transfers to Stage 1	24,663	(20,754)	(3,909)	**–**
Transfers to Stage 2	(38,242)	59,191	(20,949)	**–**
Transfers to Stage 3	(9,706)	(28,856)	38,562	**–**
Foreign exchange and net other movements	(6,659)	(6,582)	(108)	**(13,349)**
At 31 December 2021	**67,770**	**45,516**	**15,632**	**128,918**

(Amounts in tables are in thousands of Georgian lari)

7. Loans to customers (continued)

Commercial loans at amortized cost, allowance for ECL	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**(3,189)**	**(7,210)**	**(1,560)**	**(11,959)**
New assets originated	(1,315)	(1,947)	(570)	**(3,832)**
Assets repaid	1,232	4,078	1,478	**6,788**
Transfers to Stage 1	(685)	588	97	**–**
Transfers to Stage 2	2,391	(4,112)	1,721	**–**
Transfers to Stage 3	572	3,252	(3,824)	**–**
Foreign exchange and net other movements	(81)	2,056	(2,715)	**(740)**
At 31 December 2021	**(1,075)**	**(3,295)**	**(5,373)**	**(9,743)**

Consumer loans at amortized cost, gross	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	**9,163**	**783**	**9**	**9,955**
New assets originated	39,793	68	22	**39,883**
Assets repaid	(23,346)	(32)	(1)	**(23,379)**
Transfers to Stage 1	570	(483)	(87)	**–**
Transfers to Stage 2	(1,749)	1,763	(14)	**–**
Transfers to Stage 3	–	(1,645)	1,645	**–**
Amounts written off	–	–	(840)	**(840)**
Foreign exchange and net other movements	(6)	(135)	4	**(137)**
At 31 December 2021	**24,425**	**319**	**738**	**25,482**

Consumer loans at amortized cost, allowance for ECL	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**(484)**	**(117)**	**(9)**	**(610)**
New assets originated	(2,046)	(18)	(22)	**(2,086)**
Assets repaid	1,253	9	1	**1,263**
Transfers to Stage 1	(79)	(8)	87	**–**
Transfers to Stage 2	144	(158)	14	**–**
Transfers to Stage 3	–	726	(726)	**–**
Amounts written off	–	–	840	**840**
Foreign exchange and net other movements	76	(482)	(923)	**(1,329)**
At 31 December 2021	**(1,136)**	**(48)**	**(738)**	**(1,922)**

Modified and restructured loans

The Bank 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, with the difference 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.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

During 2022, the Bank has modified the terms and conditions of certain commercial loans. The Bank considered these modifications to be non-substantial.

The table below includes assets that were modified during the period, with the related modification gain or loss recognized by the Bank.

Loans modified during the period	*2022*	*2021*
Amortised cost before modification	1,726	56,105
Net modification gain/ (loss)	–	(55)

GEL 202 thousand of modification gain included in the statement of comprehensive income represents the effect of repaid loans which were modified in previous years.

(Amounts in tables are in thousands of Georgian lari)

7. Loans to customers (continued)

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 types of collateral normally obtained are charges over real estate properties, also cash covers and guarantees, provided by borrowers or third parties, including the Parent.

Management monitors the market value of collateral, 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 loan impairment.

Concentration of loans to customers

As at 31 December 2022, the Bank had a concentration of loans due from three major groups of related borrowers in the total amount of GEL 54,677 thousand which represented 14.87% of the total gross loan portfolio (31 December 2021: GEL 53,514 thousands, 17.33% of the gross loan portfolio). Allowance of GEL 445 thousand was recognised against these loans (31 December 2021: GEL 756 thousand).

Loans are made within Georgia in the following industry sectors:

	2022	*2021*
Trade and services	118,152	145,424
Non-banking credit organizations	71,420	28,878
Individuals	54,623	25,482
Real estate management	49,314	56,038
Energy	44,194	18,565
Construction	19,546	29,792
Agro	10,370	4,359
Other	90	299
	367,709	**308,837**

8. Investment securities

As at 31 December 2022, investment securities comprised of bonds of financial institutions and other companies and Treasury bonds of the Ministry of Finance of Georgia:

Investment securities comprise:

	2022	*2021*
Debt securities at amortised cost		
Corporate bonds	20,951	22,875
Bonds of Financial institutions	17,779	14,057
Treasury bonds of the Ministry of Finance of Georgia	5,469	5,469
	44,199	**42,401**
Less: allowance for impairment	(338)	(342)
Total debt securities	**43,861**	**42,059**

As at 31 December 2022, GEL 16,142 thousand worth of investment securities were pledged as a collateral for the loan from the National Bank of Georgia (31 December 2021: GEL 20,102 thousand) (Note 13).

(Amounts in tables are in thousands of Georgian lari)

8. Investment securities (continued)

An analysis of changes in the gross carrying value in relation to investment securities during the year ended 31 December 2022 is as follows:

	Corporate bonds	*Bonds of financial institutions*	*Treasury bonds of the Ministry of Finance of Georgia*	*Total*
Gross carrying value as at 1 January 2022	**22,875**	**14,057**	**5,469**	**42,401**
New assets originated	16,699	3,750	–	**20,449**
Assets repaid	(16,529)	–	–	**(16,529)**
Foreign exchange and other movements	(2,094)	(28)	–	**(2,122)**
At 31 December 2022	**20,951**	**17,779**	**5,469**	**44,199**

An analysis of changes in the ECL allowances during the year ended 31 December 2022 is as follows:

	Corporate bonds	*Bonds of financial institutions*	*Treasury bonds of the Ministry of Finance of Georgia*	*Total*
ECL as at 1 January 2022	**(254)**	**(88)**	**–**	**(342)**
New assets originated	(216)	(54)	–	**(270)**
Assets repaid	156	–	–	**156**
Foreign exchange and other movements	44	74	–	**118**
At 31 December 2022	**(270)**	**(68)**	**–**	**(338)**

An analysis of changes in the gross carrying value in relation to investment securities during the year ended 31 December 2021 is as follows:

	Corporate bonds	*Bonds of financial institutions*	*Treasury bonds of the Ministry of Finance of Georgia*	*Total*
Gross carrying value as at 1 January 2021	**20,449**	**20,720**	**5,469**	**46,638**
New assets originated	3,100	–	–	**3,100**
Assets repaid	–	(6,500)	–	**(6,500)**
Foreign exchange and other movements	(674)	(163)	–	**(837)**
At 31 December 2021	**22,875**	**14,057**	**5,469**	**42,401**

An analysis of changes in the ECL allowances during the year ended 31 December 2021 is as follows:

	Corporate bonds	*Bonds of financial institutions*	*Treasury bonds of the Ministry of Finance of Georgia*	*Total*
ECL as at 1 January 2021	**(255)**	**(160)**	**–**	**(415)**
New assets originated	(47)	–	–	**(47)**
Assets repaid	–	4	–	**4**
Foreign exchange and other movements	48	68	–	**116**
At 31 December 2021	**(254)**	**(88)**	**–**	**(342)**

All balances of investment securities are held at amortized cost and are allocated to Stage 1.

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9. Property and equipment

The movements in property and equipment were as follows:

	Furniture and fixtures	*Computers and equipment*	*Motor vehicles*	*Other equipment*	*Leasehold improvements*	*Total*
Cost						
1 January 2021	**2,994**	**5,137**	**561**	**688**	**4,405**	**13,785**
Additions	3	476	–	2	–	**481**
Disposals and write-offs	(831)	(881)	(215)	(155)	(800)	**(2,882)**
31 December 2021	**2,166**	**4,732**	**346**	**535**	**3,605**	**11,384**
Additions	14	310	180	–	15	**519**
Disposals and write-offs	(84)	(102)	–	(19)	(282)	**(487)**
31 December 2022	**2,096**	**4,940**	**526**	**516**	**3,338**	**11,416**
Accumulated depreciation						
1 January 2021	**(1,515)**	**(3,545)**	**(442)**	**(338)**	**(1,207)**	**(7,047)**
Depreciation charge	(438)	(714)	(74)	(89)	(829)	**(2,144)**
Disposals and write-offs	391	669	204	68	302	**1,634**
31 December 2021	**(1,562)**	**(3,590)**	**(312)**	**(359)**	**(1,734)**	**(7,557)**
Depreciation charge	(361)	(647)	(35)	(64)	(713)	**(1,820)**
Disposals and write-offs	77	84	–	15	205	**381**
31 December 2022	**(1,846)**	**(4,153)**	**(347)**	**(408)**	**(2,242)**	**(8,996)**
Net book value						
1 January 2021	**1,479**	**1,592**	**119**	**350**	**3,198**	**6,738**
31 December 2021	**604**	**1,142**	**34**	**176**	**1,871**	**3,827**
31 December 2022	**250**	**787**	**179**	**108**	**1,096**	**2,420**

As at 31 December 2022 fully depreciated items amounted GEL 4,100 thousand (2021: GEL 3,225 thousand).

JSC PASHA Bank Georgia Notes to the financial statements for 2022

(Amounts in tables are in thousands of Georgian lari)

10. Leases

The movement in right-of-use assets and lease liabilities during the year ended 31 December 2022 was as follows:

	Right-of-use assets Buildings	*Lease liabilities*
As at 1 January 2022	**5,412**	**6,147**
Additions	504	471
Disposals and write offs (gross)	(599)	(112)
Depreciation expense	(2,038)	–
Disposals and write-offs (accumulated depreciation)	487	–
Interest expense	–	228
Payments	–	(2,312)
Rent concessions	–	(35)
Foreign currency translation difference	–	(615)
As at 31 December 2022	**3,766**	**3,772**

The movement in right-of-use assets and lease liabilities during the year ended 31 December 2021 was as follows:

	Right-of-use assets Buildings	*Lease liabilities*
As at 1 January 2021	**8,921**	**10,528**
Additions	–	–
Disposals and write offs (gross)	(2,496)	(1,432)
Depreciation expense	(2,331)	–
Disposals and write-offs (accumulated depreciation)	1,318	–
Interest expense	–	405
Payments	–	(2,891)
Rent concessions	–	(99)
Foreign currency translation difference	–	(364)
As at 31 December 2021	**5,412**	**6,147**

Future lease payments for each of the next five years for the year ended 31 December 2022 and 2021 are as follows:

	Lease liabilities 2022	*2021*
Within one year	1,994	2,472
Between 1 and 2 years	1,682	2,288
Between 2 and 3 years	113	1,797
Between 3 and 4 years	113	–
Between 4 and 5 years	73	–
	3,975	**6,557**

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(Amounts in tables are in thousands of Georgian lari)

11. Intangible assets

The movements in intangible assets were as follows:

	Licenses	*Computer software*	*Total*
Cost			
1 January 2021	**149**	**6,349**	**6,498**
Additions	55	1,909	**1,964**
Disposals and write offs	–	(848)	**(848)**
31 December 2021	**204**	**7,410**	**7,614**
Additions	–	2,078	**2,078**
Disposals and write offs	–	(934)	**(934)**
31 December 2022	**204**	**8,554**	**8,758**
Accumulated amortization			
1 January 2021	**(105)**	**(2,152)**	**(2,257)**
Amortisation charge	(20)	(1,320)	**(1,340)**
Disposals and write offs	–	846	**846**
31 December 2021	**(125)**	**(2,626)**	**(2,751)**
Amortisation charge	(20)	(1,666)	**(1,686)**
Disposals and write offs	-	934	**934**
31 December 2022	**(145)**	**(3,358)**	**(3,503)**
Net book value			
1 January 2021	**44**	**4,197**	**4,241**
31 December 2021	**79**	**4,784**	**4,863**
31 December 2022	**59**	**5,196**	**5,255**

12. Other assets and liabilities

Other assets comprise:

	2022	*2021*
Other non-financial assets		
Repossessed collateral	604	372
Prepaid expenses	543	583
Inventory	291	228
Other prepayments	104	–
Prepaid taxes other than income tax	109	54
Prepayments for acquisition of property and equipment and intangible assets	22	–
Prepayments for short-term lease	19	78
	1,692	**1,315**
Other financial assets		
Derivative financial assets	390	186
Funds in settlement	363	133
Accrued commission receivable on guarantees and letters of credit	65	28
Other	344	157
	1,162	**504**
Total other assets	**2,854**	**1,819**

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(Amounts in tables are in thousands of Georgian lari)

12. Other assets and liabilities (continued)

The table below shows the fair values of derivative financial instruments, recorded as assets, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or liability and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	2022			*2021*		
	Notional amount	*Fair values*		*Notional amount*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Forwards/Swaps − foreign	–	–	–	48,246	53	7
Forwards/Swaps − domestic	163,943	390	935	24,313	133	325
Total derivative assets/liabilities		**390**	**935**		**186**	**332**

Foreign and domestic in the table above stand for counterparties where foreign means non-Georgian entities and domestic means Georgian entities.

Other liabilities comprise:

	2022	*2021*
Other financial liabilities		
Funds in settlement	1,169	1,963
Derivative financial liabilities	935	332
Payables and accrued expenses	384	452
	2,488	**2,747**
Other non-financial liabilities		
Payable to employees	3,738	2,428
Taxes other than income tax	36	–
Deferred income	28	11
	3,802	**2,439**
Total other liabilities	**6,290**	**5,186**

13. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	Note	*2022*	*2021*
Time deposits and loans from non-resident commercial banks		67,265	81,331
Loan from the National Bank of Georgia		16,044	20,026
Deposits from the Ministry of Finance		11,505	10,497
Overdraft from the Parent	24	7,379	8,241
Time deposits from resident commercial banks		4,326	3,001
Current accounts of the Parent	24	168	39
Amounts due to credit institutions		**106,687**	**123,135**

As at 31 December 2022 and 2021 the time deposits and loans of non-resident commercial banks are comprised of USD denominated deposits and loans of entity under common control and other non-resident bank.

As at 31 December 2022 time deposits of resident commercial banks comprise of deposit placed by one resident commercial bank, is denominated in GEL and matures in September 2023 (2021: time deposits of resident commercial banks comprise of deposit placed by one resident commercial bank, is denominated in GEL and matured in January 2022).

Loans from the National Bank of Georgia represent short-term GEL refinancing facilities used by the Bank to uphold its liquidity needs in GEL. As at 31 December 2022, GEL 16,142 thousand worth of investment securities were pledged as a collateral for the loan from the National Bank of Georgia (31 December 2021: GEL 20,102 thousand) (Note 8). Deposits from the Ministry of Finance represent GEL 6,024 thousand of short-term funds attracted from the Ministry of Finance as a refinancing facility similar to that of the National Bank of Georgia and GEL 5,481 thousand of the long-term deposit placed by the Ministry as the liquidity support measure in return for the similar term treasury bonds purchased by the Bank.

(Amounts in tables are in thousands of Georgian lari)

14. Amounts due to customers

The amounts due to customers include the following:

	2022	2021
Current and demand accounts	100,570	50,690
Time deposits (including certificates of deposit)	171,461	151,297
Amounts due to customers	**272,031**	**201,987**
Held as security against guarantees issued (Note 18)	3,471	2,634

As at 31 December 2022, amounts due to customers included balances with three major customers of GEL 105,564 thousand that constituted 38.81% of the total of customer accounts (31 December 2021: 86,102 thousand that constituted 42.63% of the total of customer accounts).

An analysis of customer accounts by economic sector follows:

	2022	2021
Insurance	85,101	68,665
Trade and service	79,575	62,810
Individuals	42,739	36,487
Non-banking credit organizations	26,802	12,515
Construction	20,200	9,401
Energy	13,365	9,863
Government agencies	1,330	402
Real estate management	584	414
Agro	376	22
Transportation and telecommunication	128	–
Mining	10	416
Other	1,821	992
Amounts due to customers	**272,031**	**201,987**

15. Subordinated debt

Subordinated loans consisted of the following:

	2022	2021
Subordinated loan from the Parent (Note 24	13,280	15,111
Subordinated loans from entities under common control (Note 24)	13,279	15,111
Subordinated loans	**26,559**	**30,222**

On 19 December 2019 the Bank received USD denominated subordinated loans with an interest rate of 5% p.a. maturing in December 2025 from the Parent and entities under common control. Management believes that as of the origination date of the loans the interest rate on the loans was below the market rate for similar instruments, therefore the loans were recognized at fair value using market interest rate. The difference of GEL 1,155 thousand between fair value and nominal amount of these loans was recognized as additional paid-in capital. Annual effective interest rate equals 5.88%. The loans are not redeemable until their contractual maturity.

The amortised value of the subordinated loans qualified for the inclusion in the Tier 2 capital under the NBG Basel III requirements, was GEL 10,817 thousand (31 December 2021: GEL 18,592 thousand).

16. Taxation

On 16 December 2022 amendments to the Georgian tax law in respect of corporate income tax for finance sector became enacted. The amendments became effective from 1 January 2023 and under the new regulation, corporate income tax will be 20% for banks, credit unions, microfinance organizations and lending entities.

The corporate income tax benefit for the year ended 31 December 2022 and 2021 comprised:

	2022	2021
Current tax expense	–	–
Deferred tax benefit	–	226
Income tax benefit	**–**	**226**

In 2022 and 2021 the income tax rate applicable to the Bank's income was 15%. The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax benefit on statutory rates with actual is as follows:

	2022	2021
Loss before income tax	**(2,263)**	**(4,232)**
Statutory tax rate	15%	15%
Theoretical income tax benefit at the statutory rate	**339**	**635**
Tax exempt income	109	129
Non-deductible expenses	(45)	(164)
Effect from change in tax legislation	35	–
Unrecognised tax losses carried forward	(438)	(374)
Income tax benefit	**–**	**226**

As the amendments were enacted the existing corporate tax rate for banks will be increased from 15% to 20% from 2023 going forward. In addition, with effect from 2023, taxable Interest Income and deductible expected credit losses on loans to customers (ECL) will be defined per IFRS, instead of local National Bank of Georgia regulations. Transition differences in ECL will be taxed one-off at 15%. The amended law lacks clarification in treatment of transition differences in interest income. The management considers it reasonable that approach similar to ECL on transition is applicable on interest income and calculates deferred tax respectively.

The Bank's accumulated tax losses as at 31 December 2022 equal GEL 27,641 thousand (31 December 2021: GEL 36,939 thousand) on which the Bank has tax loss carried forward GEL 4,146 thousand (31 December 2021: GEL 5,541 thousand), and respective allowance of GEL 3,708 thousand (31 December 2021: GEL 4,866 thousand).

Deferred tax liabilities/assets as at 31 December 2022 and 31 December 2021 and their movements for the respective period:

	2021	Through statement of profit or loss	2022
Tax effect of deductible temporary differences			
Tax losses carried forward	675	(438)	237
Right of use assets	972	407	1,379
Property and equipment	171	165	336
Amounts due from credit institutions	1	–	1
Other assets	25	–	25
Subordinated debt	50	60	110
Other liabilities	303	156	459
Deferred tax asset	**2,197**	**350**	**2,547**
Tax effect of taxable temporary differences			
Investment securities	(90)	(8)	(98)
Intangible assets	(140)	(31)	(171)
Loans to customers	(1,124)	239	(885)
Lease liabilities	(843)	(550)	(1,393)
Deferred tax liability	**(2,197)**	**(350)**	**(2,547)**
Deferred tax (liability)/asset	**–**	**–**	**–**

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(Amounts in tables are in thousands of Georgian lari)

16. Taxation (continued)

	2020	*Through statement of profit or loss*	*2021*
Tax effect of deductible temporary differences			
Tax losses carried forward	–	675	675
Right of use assets	622	350	972
Property and equipment	52	119	171
Amounts due from credit institutions	4	(3)	1
Other assets	24	1	25
Subordinated debt	9	41	50
Other liabilities	225	78	303
Deferred tax asset	**936**	**1,261**	**2,197**
Tax effect of taxable temporary differences			
Investment securities	(92)	2	(90)
Intangible assets	(113)	(27)	(140)
Loans to customers	(603)	(521)	(1,124)
Lease liabilities	(354)	(489)	(843)
Deferred tax liability	**(1,162)**	**(1,035)**	**(2,197)**
Deferred tax (liability)/asset	**(226)**	**226**	**–**

17. Equity

In March 2022 GEL 26,000 thousand of share capital was injected in cash by the Parent of the Bank. The ownership structure was not changed. As at 31 December 2022 the Bank's authorized, issued and fully paid capital amounted to GEL 129,000 thousands comprising of 129,000,000 common shares with nominal value of GEL 1.00 (2021: 103,000 thousand comprising of 103,000,000 common shares). Each common share entitles one vote to the shareholder.

In accordance with Georgian legislation, dividends may only be declared by the Bank's Parent from the net income as shown in the Bank's financial statements prepared in compliance with the NBG requirements. The Bank is obliged to officially inform the NBG of any dividends declared and the NBG reserves the right to suspend or restrict the disbursement of dividends should the Bank be in breach of the NBG regulations.

No dividends were declared or paid during the year ended 31 December 2022 and 2021.

Additional paid-in capital represents the difference between a fair value and a nominal amount at initial recognition of the subordinated loans received from the Parent and entities under common control.

18. Commitments and contingencies

Operating environment

The economic policies of Georgia in the last decade have been mostly consistent and effective in terms of investment and increasing short−term economic growth rates. Nevertheless, these policies failed for the most part in laying the foundations for increasing the competitiveness of the Georgian economy and ensuring long−term economic growth. Moreover, the rates of economic growth have not been sufficient to reach significant part of Georgian population and failed to have an impact on reducing unemployment and poverty levels. According to Georgia's socio−economic development strategy, the economic policy of Georgia is based on the principles of fast and efficient economic growth driven by development of the real sector of economy, implementation of economic policies that would facilitate inclusive economic growth and rational use of natural resources, ensuring environmental safety and sustainability. Georgia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. 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.

In line with the overall developments in the Georgian banking sector, the Bank has also suffered from the effects of the economic downturn caused by COVID 19 with deterioration of the performance and credit risk of the borrowers operating in the vulnerable sectors. This has resulted in the number of restructured loans and significant increase in the ECL rates across all portfolio segments, compared to the average rates existing in the pre−pandemic periods.

During the current reporting period the government lifted numerous COVID−19 related restrictions imposed earlier, releasing practically all of them. This has had a positive overall impact on the economy.

(Amounts in tables are in thousands of Georgian lari)

18. Commitments and contingencies (continued)

Operating environment (continued)

According to the preliminary estimates published by the National Statistics Office of Georgia, December 2022 growth of GDP amounted 11.0%, resulting in twelve−month average growth of 10.1%. Major contributing factors to the growth have been construction, manufacturing, transportation and storage, financial and insurance activities, trade, hotels and restaurants. Based on the preliminary findings of IMF staff mission to Georgia, the 2022 growth is expected to reach 10.0%.

As published by the National Statistics Office of Georgia, the level of inflation reached 9.8% year−on−year in December 2022. High inflation is a global economic challenge. In the post-pandemic period, Russia's invasion of Ukraine has further increased energy and food prices on international markets. As a result, consumer prices rose sharply all over the world. These globally increased prices were also transmitted to the Georgian market and remain the main reason for high inflation in the country. At the same time, economic activity in Georgia has been high, largely facilitated by the restoration of tourism against the backdrop of an increase in long-term visits by Russians and Belarusians. Strong economic activity increases the risk of demand-side inflationary pressure, although this has been partly offset by the recent appreciation of the lari exchange rate.

Moreover, food prices on world markets have recently been declining, which gives grounds for cautious optimism. As a result of the continued tight monetary policy and the exhaustion of supply-side shocks, the NBG expects that inflation will gradually decline to return to the target level from the second half of 2023. However, as uncertainty remains and inflationary risks are at a high level, during the reporting period the NBG has increased and kept the monetary policy rate tight at 11%.

Despite the negative effect of the pandemic and war the management maintains strong liquidity positions supported by the NBG's measures to strengthen banking sector resilience amidst the crisis. The Bank is working to decrease NPLs to reasonable levels using timely restructuring actions, continued support from the Parent and diligent collection actions.

The Bank has applied the latest available macroeconomic forecasts for the ECL measurement purposes.

Although the management of the Bank is strongly committed to the further expansion of the Bank on the Georgian market in line with the approved strategic plans, the major medium−term focus amidst the persisting uncertainties related to COVID−19 and Russian−Ukrainian war developments is to restore and preserve sufficient retained earnings to ensure strong platform for future growth and development.

Taxation

Georgian tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant tax authorities. It is possible that transactions and activities that have not been challenged in the past may be challenged in the future. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that its interpretation of the relevant legislation as at 31 December 2022 is appropriate and that the Bank's tax, currency and customs positions will be sustained.

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

(Amounts in tables are in thousands of Georgian lari)

18. Commitments and contingencies (continued)

Legal (continued)

Commitments and contingencies

As at 31 December 2022 and 2021, the Bank's commitments and contingencies comprised the following:

	2022	*2021*
Credit related commitments		
Unused credit lines	62,154	26,461
Letters of credit	260	–
	62,414	**26,461**
Performance guarantees issued		
Performance guarantees issued	61,119	25,731
	61,119	**25,731**
Less: ECL for credit related commitments	(356)	(195)
Commitments and contingencies (before deducting collateral)	**123,177**	**51,997**
Less: deposits held as security against guarantees issued (Note 14)	(3,471)	(2,634)
Commitments and contingencies	**119,706**	**49,363**

An analysis of changes in the ECL allowances during the year ended 31 December 2022 is, as follows (ECL for letters of credit is immaterial):

	Unused credit lines
ECL as at 1 January 2022	**(195)**
New exposures	(835)
Matured exposures	643
Foreign exchange and other movements	31
At 31 December 2022	**(356)**

All balances of guarantees issued and letters of credit are allocated to stage 1.

An analysis of changes in the ECL allowances during the year ended 31 December 2021 is, as follows:

	Unused credit lines
ECL as at 1 January 2021	**(395)**
New exposures	(1,900)
Matured exposures	1,594
Foreign exchange and other movements	506
At 31 December 2021	**(195)**

19. Net fee and commission income

Net fee and commission income comprise:

	2022	*2021*
Plastic card operations	1,403	473
Guarantees and letters of credits issued	963	756
Settlement operations	631	429
Cash operations	45	58
Fee and commission income	**3,042**	**1,716**
Plastic card operations	(1,070)	(1,021)
Settlement operations	(808)	(615)
Cash operations	(5)	(8)
Other	(131)	(16)
Fee and commission expense	**(2,014)**	**(1,660)**
Net fee and commission income	**1,028**	**56**

(Amounts in tables are in thousands of Georgian lari)

19. Net fee and commission income (continued)

Revenue from contracts with customers

The Bank's revenue from contracts with customers is mostly represented by fee and commission income. Revenue from contracts with customers recognized in the statement of profit or loss for the year ended 31 December 2022 amounted to GEL 3,042 thousand (2021: GEL 1,716 thousand).

The Bank recognised the following contract assets and liabilities in statement of financial position related to its contracts with customers:

	2022	*2021*
Deferred income (presented within other liabilities)	28	11

The Bank usually collects fees and commissions in advance of completion of the underlying transaction or shortly thereafter (for contracts where performance obligation is satisfied point in time, such as settlement transactions). For services provided over time (such as those related to fees for guarantees and letters of credit issued), the Bank usually charges upfront monthly, quarterly or annual fees covering respective portion of the overall contract period.

The Bank recognised GEL 11 thousand revenue from contracts with customers in the current reporting period that relates to carried-forward contract liabilities included in deferred income as at 31 December 2021.

20. Personnel, general and administrative expenses

Personnel, general and administrative expenses comprise:

	2022	*2021*
Salaries	15,038	12,847
Bonuses and other employee benefits	4,412	2,544
Personnel expenses	**19,450**	**15,391**
Professional services	3,881	3,008
Advertising costs (a)	3,132	989
Short-term leases	653	785
Communication	366	296
Office supplies	294	128
Insurance	178	195
Utilities	158	192
Personnel training	145	160
Membership fees	128	99
Charity costs	115	58
Corporate hospitality and entertainment	107	90
Transportation and business trip expenses	84	56
Maintenance and exploitation	67	62
Deposit insurance fee	44	18
Recruitment costs	42	31
Taxes other than income tax	36	55
Security expenses	25	29
Other	146	290
General and administrative expenses	**9,601**	**6,541**

(a) Increase in advertising costs is linked to the Bank's marketing campaigns related to its retail business.

Remuneration of the Bank's auditor, including under professional services fees, for the years ended 31 December 2022 and 2021 comprises (net of VAT):

	2022	*2021*
Fees for the audit of the Bank's annual financial statements for the year ended 31 December	120	130
Expenditures for other assurance services	51	56
Expenditures for other professional service	3	4
Total fees and expenditures	**174**	**190**

(Amounts in tables are in thousands of Georgian lari)

20. Personnel, general and administrative expenses (continued)

Fees and expenditures to other professional audit firms in respect of other professional services comprised GEL 9 thousand in 2022 (2021: GEL 28 thousand).

The average number of the Bank's employees during 2022 was 336, including average 4 top management employees, average 48 middle management employees, average 274 other full-time employees and average 10 employees under temporary service contracts (2021: 308, including average 4 top management employees, average 43 middle management employees, average 257 other full-time employees and average 4 employees under temporary service contracts).

21. Risk management

Introduction

Risk is inherent in the Bank'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 Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk. It is also subject to operating 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 Bank's strategic planning process.

Risk management structure

Supervisory Board

The Supervisory Board is responsible for the overall risk management approach and for approving the risk strategies and principles.

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Risk management

The Risk Management Department is responsible for determining, implementing and maintaining risk management framework.

Asset and Liability Committee

Asset and Liability Committee (ALCO) is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding, liquidity, interest rate, and capital adequacy risks of the Bank.

Internal Audit

Risk management processes throughout the Bank are audited by the internal audit function on a constant basis, which examines the adequacy of the procedures, their design and operational effectiveness, and the Bank's compliance both with the regulatory requirements and internal procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Audit Committee

The Audit Committee is responsible for the fundamental risk issues and manages and monitors relevant risk decisions and performance of control functions by other departments in the Bank pertaining to general control environment, manual, IT dependent or application controls, intentional or unintentional misstatement risks, risk of fraud or misappropriation of assets, information security, anti-money laundering, etc. Audit committee is comprised of three members, out of which two are independent.

Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities. The main body to which the risks are reported is ALCO. The respective meetings are held once a month.

(Amounts in tables are in thousands of Georgian lari)

21. Risk management (continued)

Risk management structure (continued)

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, 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 indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Actual exposure per borrower against limits is monitored on loans granted. The Credit Committee may initiate a change in the limits. Where appropriate, the Bank obtains collateral and corporate guarantees. The credit risks are monitored on a continuous basis and are subject to annual or more frequent reviews.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of guarantee. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

Impairment assessment

The Bank calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to the Bank in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD	The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
EAD	The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
LGD	The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The ECL allowance is based on the 12 months' expected credit loss (12mECL), unless there has been significant increase in credit risk since origination or other impairment indicators were identified, in which case the ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

(Amounts in tables are in thousands of Georgian lari)

21. Risk management (continued)

Credit risk (continued)

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument'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 Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: Loans considered credit-impaired. The Bank records an allowance for the LTECL.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers amounts due from banks defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate.

The Bank has defined certain criteria which should be met in order to consider asset as cured. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

Internal rating and PD estimation process

The Bank's Credit Risk Department operates its internal rating models. The Bank runs separate models for its corporate and commercial portfolios in which its customers are rated from Aaa to Ca-C using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilize supplemental external information that could affect the borrower's behaviour. Where practical, they also build on information from the national and international external rating agencies. PDs, incorporating forward looking information and the IFRS 9 stage classification of the exposure, are assigned for each grade. This is repeated for each economic scenario as appropriate. As for consumer portfolio, customers are rated from A to E3 using credit bureu rating tools.

Treasury and interbank relationships

The Bank's treasury and interbank relationships and counterparties comprise financial services institutions, banks. For these relationships, the Bank's credit risk department analyses publicly available information such as financial information and other external data, e.g., the external ratings, and assigns the internal rating, as shown in the table below.

(Amounts in tables are in thousands of Georgian lari)

21. Risk management (continued)

Credit risk (continued)

Corporate and commercial lending

For corporate and commercial loans, the borrowers are assessed by specialised credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention;
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond prices or press releases and articles;
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates;
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

Consumer lending

Consumer lending comprises of loans, credit cards and overdrafts offered to clients. Credit risk and relevant loan loss allowance on this portfolio is assessed on a collective basis for performing loans and individual basis in relation to non-performing loans.

The Bank's internal credit rating for corporate and commercial segments grades are as follows:

Internal rating Grade	*Internal rating*	*PD*	*Internal rating description*
Class 1	Aaa	0.0008%	High grade
Class 1	Aa1	0.0015%	High grade
Class 1	Aa2	0.0026%	High grade
Class 1	Aa3	0.0047%	High grade
Class 1	A1	0.0084%	High grade
Class 1	A2	0.0149%	High grade
Class 1	A3	0.0267%	High grade
Class 1	Baa1	0.0476%	Standard grade
Class 1	Baa2	0.0850%	Standard grade
Class 1	Baa3	0.1517%	Standard grade
Class 1	Ba1	0.2705%	Standard grade
Class 1	Ba2	0.4821%	Standard grade
Class 1	Ba3	0.8576%	Standard grade
Class 2	B1	1.5213%	Standard grade
Class 2	B2	2.6848%	Standard grade
Class 3	B3	4.6955%	Standard grade
Class 3	Caa1	8.0871%	Sub-standard grade
Class 3	Caa2	13.5793%	Sub-standard grade
Class 3	Caa3	21.9123%	Sub-standard grade
Class 3	Ca-C	33.3835%	Sub-standard grade
	Default	100.0000%	Impaired

The Bank's internal credit rating for consumer segments grades are as follows:

Internal rating Grade	*Internal rating*	*PD*	*Internal rating description*
Class 1	A	0.0150	High grade
Class 1	B	0.0200	High grade
Class 1	C1	0.0250	High grade
Class 1	C2	0.0350	High grade
Class 1	C3	0.0500	High grade
Class 2	D1	0.0700	Standard grade
Class 2	D2	0.0900	Standard grade
Class 2	D3	0.1200	Standard grade
Class 3	E1	0.1500	Sub-standard grade
Class 3	E2	0.2000	Sub-standard grade
Class 3	E3	0.2500	Sub-standard grade

(Amounts in tables are in thousands of Georgian lari)

21. Risk management (continued)

Credit risk (continued)

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

Loss given default

The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming restructured due to credit event. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition. Downgrade in credit rating is a SICR criterion.

When estimating ECLs on a collective basis for a group of similar assets, the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Grouping financial assets measured on a collective basis

Dependent on the factors below, the Bank calculates ECLs either on a collective or on an individual basis.

Asset classes where the Bank calculates ECL on an individual basis include:

- All Stage 3 assets, regardless of the class of financial assets except consumer portfolio;
- Stage 2 and Stage 3 corporate and commercial portfolio;
- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a credit driven debt restructuring.

Asset classes where the Bank calculates ECL on a collective basis include:

- The smaller and more generic balances of the Bank's commercial portfolio;
- Stage 1 and 2 consumer lending.

The Bank groups these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, for example internal grade, overdue bucket, product type, or borrower's industry.

Forward-looking information and multiple economic scenarios

In its ECL models, the Bank relies on a range of forward looking information as economic inputs, such as:

- GDP growth;
- Inflation.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

(Amounts in tables are in thousands of Georgian lari)

21. Risk management (continued)

Credit risk (continued)

The Bank obtains the forward-looking information from the sources published by the NBG, GeoStat, IMF, World and Regional Economic Outlooks, S&P Global Ratings and other. Experts of the Bank's Credit Risk Department determine the weights attributable to the multiple scenarios. The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations. The figures for "Subsequent years" represent a long-term average and so are the same for each scenario as at 31 December 2022:

			Subsequent years to 2022			*Subsequent years to 2021*		
Key drivers	*ECL scenario*	*Assigned probabilities, %*	*2023*	*2024*	*2025*	*2022*	*2023*	*2024*
GDP growth, %								
	Upside	25%	6.0%	5.0%	5.0%	6.0%	5.0%	4.5%
	Base case	50%	4.0%	5.5%	5.0%	5.0%	4.0%	4.5%
	Downside	25%	2.0%	4.0%	5.0%	2.0%	4.0%	5.0%
Inflation level								
	Upside	25%	5.0%	3.0%	3.0%	5.5%	3.0%	3.0%
	Base case	50%	5.3%	3.1%	3.0%	7.0%	2.5%	3.0%
	Downside	25%	9.0%	6.0%	3.0%	8.0%	4.0%	3.0%

Credit quality per class of financial asset

The credit quality of financial assets is managed by the Bank internal credit ratings, as described above. The table below shows the credit quality by class of financial assets as at 31 December 2022, based on the Bank's credit rating system:

	Note		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	5	Stage 1	24,811	33,190	218	–	**58,219**
Amounts due from credit institutions	6	Stage 1	3,472	43,455	–	–	**46,927**
Loans to customers	7		32,732	289,797	12,387	32,793	**367,709**
Corporate		Stage 1	–	183,587	218	–	**183,805**
		Stage 2	–	6,736	–	–	**6,736**
		Stage 3	–	–	–	162	**162**
Commercial		Stage 1	–	68,489	3,463	-	**71,952**
		Stage 2	–	13,792	6,718	-	**20,510**
		Stage 3	–	–	–	29,921	**29,921**
Consumer		Stage 1	32,375	16,649	1,738	–	**50,762**
		Stage 2	357	544	250	–	**1,151**
		Stage 3	–	–	–	2,710	**2,710**
Debt investment securities at amortized cost	8	Stage 1	–	44,199	–	–	**44,199**
Unused credit lines	18	Stage 1	34,636	25,171	995	–	**60,802**
		Stage 3	–	–	–	1,352	**1,352**
Letters of credit	18	Stage 1	–	–	260	–	**260**
Total			**95,651**	**435,812**	**13,860**	**34,145**	**579,468**

(Amounts in tables are in thousands of Georgian lari)

21. Risk management (continued)

Credit risk (continued)

The table below shows the credit quality by class of financial assets at 31 December 2021:

	Note		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	5	Stage 1	739	36,897	–	–	**37,636**
Amounts due from credit institutions	6	Stage 1	–	50,666	–	–	**50,666**
Loans to customers	7		16,595	236,750	39,122	16,370	**308,837**
Corporate		Stage 1	–	113,579	613	–	**114,192**
		Stage 2	–	39,517	728	–	**40,245**
		Stage 3	–	–	–	–	**–**
Commercial		Stage 1	–	54,757	13,013	–	**67,770**
		Stage 2	–	21,697	23,819	–	**45,516**
		Stage 3	–	–	–	15,632	**15,632**
Consumer		Stage 1	16,500	7,007	918	-	**24,425**
		Stage 2	95	193	31	-	**319**
		Stage 3	-	-	-	738	**738**
Debt investment securities at amortized cost	8	Stage 1	–	42,401	–	–	**42,401**
Unused credit lines	18	Stage 1	14,110	8,968	1,771	–	**24,849**
		Stage 2	–	25	1,237	–	**1,262**
		Stage 3	–	–	–	350	**350**
Total			**31,444**	**375,707**	**42,130**	**16,720**	**466,001**

The geographical concentration of Bank's financial assets and liabilities is set out below:

	2022				*2021*			
	Georgia	*OECD*	*Other Non-OECD*	*Total*	*Georgia*	*OECD*	*Other Non-OECD*	*Total*
Assets								
Cash and cash equivalents	35,597	24,811	2,134	**62,542**	37,241	3,999	1,140	**42,380**
Amounts due from credit institutions	43,455	3,472	–	**46,927**	50,662	–	–	**50,662**
Loans to customers	338,501	–	12,384	**350,885**	294,695	–	278	**294,973**
Investment securities	43,861	–	–	**43,861**	42,059	–	–	**42,059**
Other assets	1,145	8	9	**1,162**	424	19	61	**504**
	462,559	**28,291**	**14,527**	**505,377**	**425,081**	**4,018**	**1,479**	**430,578**
Liabilities								
Amounts due to credit institutions	31,875	1	74,811	**106,687**	33,525	–	89,610	**123,135**
Amounts due to customers	168,995	1,231	101,805	**272,031**	114,038	232	87,717	**201,987**
Lease liabilities	3,772	–	–	**3,772**	6,147	–	–	**6,147**
Other liabilities	2,403	7	78	**2,488**	2,665	15	67	**2,747**
Subordinated debt	–	–	26,559	**26,559**	–	–	30,222	**30,222**
	207,045	**1,239**	**203,253**	**411,537**	**156,375**	**247**	**207,616**	**364,238**
Net assets/(liabilities)	**255,514**	**27,052**	**(188,726)**	**93,840**	**268,706**	**3,771**	**(206,137)**	**66,340**

(Amounts in tables are in thousands of Georgian lari)

21. Risk management (continued)

Liquidity risk and funding management

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. Funds attracted from the Parent provide sufficient sources for the Bank's operations in the foreseeable future. The Bank manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of corporate and Ministry of Finance bonds that can be pledged to the NBG in the event of an unforeseen interruption of cash flow. In addition, the Bank 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 Bank primarily on a standalone basis, based on the certain liquidity ratios established by the NBG.

The liquidity coverage ratio (LCR) is calculated as the ratio of high-quality liquid assets (HQLA) to net cash outflow. The Bank is required to maintain at all times the stock of liquid assets to enable it to cover its net cash outflows in the 30 calendar days stress scenario. The minimum LCR requirement set by the NBG is 100% for foreign currency and combined LCR and 75% for national currency LCR respectively. At 31 December the Bank reported the following LCR levels:

	2022, %	*2021, %*
GEL	234.6	161.8
Foreign currency	200.3	250.6
Combined	211.3	222.3

The net stable funding ratio (NSFR) requires the Bank to maintain a stable funding profile in relation to the composition of its assets and off balance sheet activities in order to reduce the likelihood, that disruptions to the Bank's regular sources of funding will significantly erode its liquidity position. The NSFR is calculated as the ratio of available amount of stable funding over the required amount of stable funding. At 31 December the Bank reported the following NSFR levels:

	2022, %	*2021, %*
NSFR	130.3	113.8

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank 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.

As at 31 December 2022	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to credit institutions	30,076	4,959	72,550	5,513	**113,098**
Amounts due to customers	113,786	69,111	103,215	–	**286,112**
Lease liabilities	533	1,461	1,981	–	**3,975**
Other financial liabilities	2,488	–	–	–	**2,488**
Subordinated debt	–	1,370	29,763	–	**31,133**
Total undiscounted financial liabilities	**146,883**	**76,901**	**207,509**	**5,513**	**436,806**

PASHA Bank

New heights. Together.

(Amounts in tables are in thousands of Georgian lari)

21. Risk management (continued)

Liquidity risk and funding management (continued)

As at 31 December 2021	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to credit institutions	36,740	84,206	2,102	6,038	**129,086**
Amounts due to customers	60,548	50,118	99,521	–	**210,187**
Lease liabilities	618	1,854	4,085	–	**6,557**
Other financial liabilities	2,749	–	–	–	**2,749**
Subordinated debt	–	1,570	35,691	–	**37,261**
Total undiscounted financial liabilities	**100,655**	**137,748**	**141,399**	**6,038**	**385,840**

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

	Note	*Less than 3 months*	*1 to 5 years*	*Over 5 years*	*Total*
2022	18	62,154	–	–	**62,154**
2021	18	26,461	–	–	**26,461**

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments. 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 table above. These balances are included in amounts due in less than three months in the tables above.

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.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has set limits on positions by currency based on the NBG regulations. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the GEL, with all other variables held constant on the statement of profit or loss. The pre-tax effect on equity does not differ from the effect on the statement of profit or loss. A negative amount in the table reflects a potential net reduction in the statement of profit or loss or equity, while a positive amount reflects a net potential increase.

Currency	*Change in currency rate 2022*	*Effect on profit before tax 2022*	*Change in currency rate 2021*	*Effect on profit before tax 2021*
USD	15%/(15%)	442/(442)	15%/(15%)	393/(393)
EUR	15%/(15%)	239/(239)	15%/(15%)	1,210/(1,210)

(Amounts in tables are in thousands of Georgian lari)

21. Risk management (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 reasonable possible change in interest rates, with all other variables held constant, of the Bank's statement of profit or loss.

The sensitivity of the statement of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December.

Currency	*Increase/(decrease) in basis points 2022*	*Sensitivity of net interest income 2022*
GEL	100/(100)	1,323/(1,323)

Currency	*Increase/(decrease) in basis points 2021*	*Sensitivity of net interest income 2021*
GEL	100/(100)	1,072/(1,072)

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 Bank cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools 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.

22. Fair value measurements

Fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) 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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Fair value measurement using			
At 31 December 2022	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets for which fair values are disclosed				
Cash and cash equivalents	62,542	–	–	**62,542**
Amounts due from credit institutions	–	–	46,927	**46,927**
Loans to customers	–	–	347,315	**347,315**
Investment securities	–	6,746	37,315	**44,061**
Assets measured at fair value				
Other assets − derivative financial assets	–	390	–	**390**

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22. Fair value measurements (continued)

At 31 December 2022	*Level 1*	*Level 2*	*Level 3*	*Total*
	Fair value measurement using			
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	29,615	77,072	**106,687**
Amounts due to customers	–	111,409	160,772	**272,181**
Lease liabilities	–	–	3,772	**3,772**
Subordinated debt	–	–	26,559	**26,559**
Liabilities measured at fair value				
Other liabilities − derivative financial liabilities	–	935	–	**935**

At 31 December 2021	*Level 1*	*Level 2*	*Level 3*	*Total*
	Fair value measurement using			
Assets for which fair values are disclosed				
Cash and cash equivalents	42,380	–	–	**42,380**
Amounts due from credit institutions	–	–	50,662	**50,662**
Loans to customers	–	–	294,973	**294,973**
Investment securities	–	5,338	37,538	**42,876**
Assets measured at fair value				
Other assets − derivative financial assets	–	186	–	**186**

At 31 December 2021	*Level 1*	*Level 2*	*Level 3*	*Total*
	Fair value measurement using			
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	–	123,135	**123,135**
Amounts due to customers	–	–	201,987	**201,987**
Lease liabilities	–	–	6,147	**6,147**
Subordinated debt	–	–	30,222	**30,222**
Liabilities measured at fair value				
Other liabilities − derivative financial liabilities	–	332	–	**332**

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2022	*Fair value 2022*	*Unrecognised gain(loss) 2022*	*Carrying value 2021*	*Fair value 2021*	*Unrecognised gain(loss) 2021*
Financial assets						
Cash and cash equivalents	62,542	62,542	–	42,380	42,380	–
Amounts due from credit institutions	46,927	46,927	–	50,662	50,662	–
Loans to customers	350,885	347,315	(3,570)	294,973	294,973	–
Investment securities	43,861	44,061	200	42,059	42,876	817
Other financial assets	1,162	1,162	–	504	504	–
Financial liabilities						
Amounts due to credit institutions	106,687	106,687	–	123,135	123,135	–
Amounts due to customers	272,031	272,181	150	201,987	201,987	–
Other financial liabilities	2,488	2,488	–	2,747	2,747	–
Lease liabilities	3,772	3,772	–	6,147	6,147	–
Subordinated debt	26,559	26,559	–	30,222	30,222	–
Total unrecognised change in fair value			**(3,220)**			**817**

(Amounts in tables are in thousands of Georgian lari)

22. Fair value measurements (continued)

Valuation techniques and assumptions

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 financial statements.

Assets and liabilities for which fair value approximates carrying value

The carrying amounts of cash and cash equivalents, amounts due from credit institutions and amounts due to credit institutions, are considered to approximate their respective fair values due to their short-term maturities, liquid nature and as such continues repricing to market terms. Considering the nature and characteristics, the cash and cash equivalents are classified as Level 1 of the fair value hierarchy.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing models, using present value calculations. The models incorporate various inputs including foreign exchange spot and forward rates.

Financial assets and financial liabilities carried at amortised cost

Fair value of the quoted notes and bonds is based on price quotations at the reporting date, as such they fall under Level 2 fair value hierarchy. The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions, amounts due to credit institutions, subordinated debt and other financial assets and liabilities, is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

23. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to their contractual maturities. See Note 21 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2022			*2021*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	62,542	–	**62,542**	42,380	–	**42,380**
Amounts due from credit institutions	46,927	–	**46,927**	50,662	–	**50,662**
Loans to customers	146,055	204,830	**350,885**	109,574	185,399	**294,973**
Investment securities	14,525	29,336	**43,861**	6,463	35,596	**42,059**
Property and equipment	–	2,420	**2,420**	–	3,827	**3,827**
Right of use assets	–	3,766	**3,766**	–	5,412	**5,412**
Intangible assets	–	5,255	**5,255**	–	4,863	**4,863**
Other assets	2,250	604	**2,854**	1,408	411	**1,819**
Total	**272,299**	**246,211**	**518,510**	**210,487**	**235,508**	**445,995**
Amounts due to credit institutions	34,174	72,513	**106,687**	117,654	5,481	**123,135**
Amounts due to customers	177,398	94,633	**272,031**	106,210	95,777	**201,987**
Provisions	356	–	**356**	240	–	**240**
Lease liabilities	320	3,452	**3,772**	–	6,147	**6,147**
Other liabilities	5,696	594	**6,290**	5,186	–	**5,186**
Subordinated debt	45	26,514	**26,559**	–	30,222	**30,222**
Total	**217,989**	**197,706**	**415,695**	**229,290**	**137,627**	**366,917**
Net	**54,310**	**48,505**	**102,815**	**(18,803)**	**97,881**	**79,078**

(Amounts in tables are in thousands of Georgian lari)

24. 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 effected on the same terms, conditions and amounts as transactions between unrelated parties.

The outstanding balances of related party transactions are as follows:

	2022				2021			
	The Parent	*Key management personnel*	*Entities under common control*	*Other*	*The Parent*	*Key management personnel*	*Entities under common control*	*Other*
Cash and cash equivalents	227	–	1,694	–	284	–	3,946	–
Amounts due from credit institutions	–	-	3,472	–				
Loans to customers	–	252	–	3	–	322	–	2
Other assets	–	–	1	–	–	–	–	–
Amounts due to credit institutions	(7,547)	–	(13,982)	–	(8,278)	–	(16,960)	–
Amounts due to customers	–	(4,727)	(88,425)	–	–	(9,066)	(86,502)	–
Other liabilities	–	–	(17)	–	–	–	(3)	(7)
Subordinated debt	(13,280)	–	(13,279)	–	(15,111)	–	(15,111)	–

The Bank's liabilities towards related parties amount to 34% of its total liabilities as at 31 December 2022 (2021: 41%), which represents a significant concentration.

The income and expense arising from related party transactions are as follows:

	2022				2021			
	The Parent	*Key management personnel*	*Entities under common control*	*Other*	*The Parent*	*Key management personnel*	*Entities under common control*	*Other*
Fee and commission income	5	–	11	–	2	–	2	–
Fee and commission expense	(2)	–	(1)	–	(2)	–	(5)	–
Interest income on loans to customers	–	14	–	–	–	21	–	–
Interest income on amounts due from credit institutions	(2)	–	43	–	(2)	–	7	–
Interest expense on amounts due to credit institutions	(35)	–	(567)	–	(21)	–	(711)	–
Interest expense on amounts due to customers	–	(259)	(3,186)	–	–	(314)	(3,121)	–
Interest expense on subordinated debt	(739)	–	(739)	–	(816)	–	(816)	–
Professional fees	–	–	(56)	(8)	–	–	–	(18)
Charity costs	–	–	–	(27)	–	–	–	–

The Bank's interest expense on liabilities towards related parties is 33% of its total interest expense (2021: 37%).

(Amounts in tables are in thousands of Georgian lari)

24. Related party disclosures (continued)

Compensation of key management personnel was comprised of the following:

	2022	*2021*
Salaries and other short-term benefits	2,506	2,275

Key management personnel as at 31 December 2022 comprised of 5 members of the Supervisory Board and 3 members of the Board of Directors of the Bank (2021: 5 members of the Supervisory Board and 4 members of the Board of Directors).

25. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the NBG in supervising the Bank.

The primary objectives of the Bank's capital management are (i) to ensure that the Bank complies with externally imposed capital requirements set by the NBG and (ii) to safeguard the Bank's ability to continue as a going concern. Compliance with capital adequacy ratios set by the NBG is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Accountant or Chief Financial Officer and subsequently submitted to the NBG.

During year ended 31 December 2022 the Bank followed externally imposed capital requirements.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

NBG capital adequacy ratio

Under the capital framework, capital requirements are divided into Pillar 1 Requirements for Common Equity Tier 1, Tier 1 and Regulatory Capital and additional buffers under Pillar 1 and Pillar 2.

Pillar 1

- The capital conservation buffer (which was incorporated in minimum capital requirements) is separated and set at 2.5%;
- A countercyclical capital buffer is currently set at 0%;
- A systemic risk buffer will be introduced for systematically important banks over the 4 years period.

Pillar 2

- A currency induced credit risk (CICR) buffer replaced conservative weighting for un-hedged FX loans denominated in foreign currencies;
- Concentration buffer for sectoral and single borrower exposure will be introduced;
- A net stress buffer will be introduced based on stress testing results provided by the Bank;
- A General Risk-assessment Programme (GRAPE) buffer defined by the regulator, based on the Bank's specific risks.

NBG special supervisory plan

On 31 March 2020, NBG announced its supervisory plan to combat the negative effects of COVID−19. The plan alleviates the regulatory burden on commercial banks in the period of distress in order to enable them to carry on their businesses and continue lending to real economy. In particular, NBG has allowed commercial banks to use their capital buffers by eliminating the 2.5% conservation buffer and decreasing the foreign currency induced credit risk buffer by 2/3. NBG has also put in place a moratorium on any regulatory breaches of commercial banks caused by external factors such as additional credit losses, foreign exchange rate fluctuations and so on. In March 2022, as described in Note 17 to this financial statements, GEL 26,000 thousand additional share capital was injected by the Parent of the Bank. As a result of this, the Bank stopped using capital buffers.

(Amounts in tables are in thousands of Georgian lari)

25. Capital adequacy (continued)

The NBG requires the Bank to maintain a minimum total capital adequacy ratio of 18.53%, Tier 1 Capital ratio of 13.63% and Core Tier 1 Capital ratio of 10.84% of risk-weighted assets, computed based on Basel III requirements. As at 31 December 2022 and 2021 the Bank's capital adequacy ratio on this basis was as follows:

	Notes	31 December 2021 Per the NBG	31 December 2022 Per the NBG
Share capital	15	103,000	129,000
Retained earnings		(26,983)	(33,136)
Less: intangible assets, net	9	(4,863)	(5,255)
Current period loss		(6,153)	(2,131)
Core tier 1 capital		**65,001**	**88,478**
Tier 1 capital		**65,001**	**88,478**
Tier 2 capital		18,592	10,817
Supplementary capital		5,256	6,223
Total regulatory capital		**88,849**	**105,518**
Risk weighted assets		**475,591**	**556,153**
Capital adequacy ratio		18.68%	18.97%
Core Tier 1 capital / Tier 1 capital adequacy ratio		13.67%	15.91%

As at 31 December 2022 the Bank's capital adequacy ratio is close to the minimal requirement. The Bank is undertaking several initiatives aimed at improving its capital adequacy, including, but not limited to, the following:

- The Bank is expecting to obtain capital injection from the Parent in a range of GEL 13,000-16,000 thousand during first half of 2023;
- The Bank is expecting to reschedule its subordinated debt and extend maturity from 2025 until 2029.

Management believes that the combination of the aforementioned initiatives will provide the Bank with necessary capital to continue its operations beyond 2023. The Bank's management is of the view that it is appropriate to prepare the financial statements on a going concern basis. This basis of preparation presumes that the Parent has both the ability and intention to implement the financial support that will allow the Bank to realize its assets and discharge its liabilities in the ordinary course of business.

PASHA Bank

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