

ANNUAL REPORT
2021

Emerging Stronger – **moving forward**



TBC BANK
Group PLC

20
21



TBC BANK
Group PLC

TBC Bank¹ is the **largest banking group in Georgia**. TBC Bank is listed on the **premium segment of the London Stock Exchange** and is a FTSE 250 constituent. It is also a member of the **MSCI** United Kingdom Small Cap Index.

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1 TBC Bank Group PLC (the Company) is a public limited company registered in England and Wales. It is the parent company of JSC TBC Bank (the Bank) and a group of companies that principally operate in Georgia in the financial sector and other closely related fields, together referred as TBC Bank or the Group.

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STRATEGIC REPORT

Who We Are

We are the leading universal banking group in Georgia with diversified business across all major market segments. Since October 2020, we have expanded our banking operations to Uzbekistan, by utilizing our innovative fintech platform, Space, to exploit the exciting growth opportunities offered by the Uzbek market.

LEADING UNIVERSAL BANKING FRANCHISE IN GEORGIA¹

- 38.8% loan market share, down by 0.2 pp YoY;
- 40.4% deposit market share, up by 3.2 pp YoY;

BEST-IN-CLASS DIGITAL CHANNELS AND SUPERIOR CUSTOMER EXPERIENCE

- Award-winning internet and mobile banking applications;
- Space – our scalable fintech platform;
- One of the highest customer satisfaction among service companies in Georgia.

PRIMARY PAYMENTS PROVIDER IN GEORGIA

- 45.1%¹ market share by volume of POS transactions in our terminals, up by 1.8 pp YoY;
- Traditional payment channels such as e-commerce, POS and self-service terminals;
- Innovative payment methods comprising Apple Pay, QR payments and e-wallet.

A MARKET DISRUPTOR IN UZBEKISTAN

- The first fully digital bank in Uzbekistan branded as TBC UZ;
- One of the leading payments providers in Uzbekistan, Payme.

Our Mission

TO MAKE LIFE EASIER

is deeply embedded in TBC's culture and defines everything we do and the way we do it. By combining simplicity with excellence, we strive to create a truly unique experience for our customers.

Our Strategic Priorities

Continue steady growth in Georgia

Diversify our income streams

Harness the high growth potential of Uzbek market

Leverage our advanced digital capabilities

Deliver a superior customer experience

For more information, please refer to our strategy and business model sections.

¹ Based on data published by the National Bank of Georgia as of 31 December 2021

² Data is for FY 2021, source: www.napr.gov.ge, the National Agency of Public Registry

Group Highlights

2021¹

**Robust profitability
backed by solid capital**

**Diversified
earnings streams**

**Steady growth
in Georgia**

**Strong progress in
exploiting our growth
potential in Uzbekistan**

**Best-in-class
digital channels**

**Outstanding
employee and
customer experience**

24.4%

+ 12.7pp YoY

RETURN ON EQUITY

3.4%

+ 1.8pp YoY

RETURN ON ASSETS

13.7%

+ 3.3pp YoY

CET1 CAR

5.1%

+ 0.4pp YoY

NIM

+ 35.7% YoY

GROWTH IN NET F&C INCOME

GEL 17,047 mln

+ 12.2% YoY

TOTAL LOANS

GEL 15,038 mln

+ 19.6% YoY

TOTAL DEPOSITS

38.8%²

- 0.2 pp YoY

TOTAL LOANS MARKET SHARE

40.4%²

+ 3.2 pp YoY

TOTAL DEPOSITS MARKET SHARE

GEL 92.8 mln

LOAN PORTFOLIO OF TBC UZ

GEL 207.5 mln

DEPOSIT PORTFOLIO OF TBC UZ

1.1 mln

OF REGISTERED USERS OF TBC UZ

5.2 mln

+ 79.3% YoY

OF REGISTERED USERS OF PAYME

GEL 18.0 mln

+ 111.7% YoY

NET INCOME OF PAYME

97%³

+ 2 pp YoY

RETAIL OFFLOADING RATIO

44%³

+ 3 pp YoY

DAU/MAU

66%⁴

- 2 pp YoY

ENPS

56%⁵

N/A

NPS

1 Definitions and detailed calculation of the APMs are given on pages 363-367

2 Based on data published by the National Bank of Georgia as of 31 December 2021

3 These terms are defined in glossary on page 362

4 The Employee Net Promoter Score (ENPS) was measured for the Bank's employees by an independent consultant in October 2021

5 The Net Promoter Score (NPS) was measured based on the survey conducted by the independent research company IPM in December 2021

CHAIRMAN'S STATEMENT

Dear stakeholders,

2021 marked a new chapter in TBC's history as we successfully expanded our banking operations in Uzbekistan and took firm steps towards establishing ourselves as a digital innovator in the region. We believe our position as the leading bank in Georgia, coupled with our Uzbek business, will enable continued strong growth, while our digital business model will drive robust profitability going forward.

24.4% (2020: 11.7%)

RETURN ON AVERAGE EQUITY

GEL 809 mln (2020: GEL 322 mln)

NET PROFIT



As I write this, the war in Ukraine is ongoing. The Board and its committees, continue to monitor the economic impacts of the situation, as well as its effects on the regional safety and security. We hope for the quick resolution of the war and most importantly, the preservation of human life.

PERFORMANCE OVERVIEW AND STRATEGIC PRIORITIES

2021 was a successful year for the Group. Having overcome the challenges of COVID-19 in 2020, we emerged stronger and returned to our pre-pandemic profitability levels. Our net profit grew by 151% year-on-year to reach GEL 809 million, while our return on equity was 24.4%. Our solid capital base allowed us to resume the payment of dividends, and in September 2021 we paid an interim dividend of GEL 1.5 per share. The decision on the final dividend will be taken before the end of May.

Our robust performance proves we have chosen the right strategy by focusing on steady growth in Georgia, diversifying our income streams and pursuing strong growth in Uzbekistan. Our firm leadership position in the Georgian market across all major segments, product lines and sectors, has ensured the stability and resilience of our business, while diverse sources of income have supported our profitability, especially during volatile times. Meanwhile, our entry into the Uzbek market has unlocked new opportunities for growth and diversification.

We also continue to prioritise delivering superior customer experience and further strengthening our advanced digital capabilities. Both are essential ingredients of a successful customer service model, given the rapidly increasing presence of technology in the everyday lives of our clients, who are becoming ever more

demanding. I am delighted that our efforts have been acknowledged by our customers – evidenced by the high customer satisfaction scores we have achieved, both in Georgia and Uzbekistan – and that our digital banking capabilities have won multiple awards from renowned publications. For more details, please refer to our operating performance and stakeholder engagement review on pages 44-92.

In 2021, we streamlined our Group structure to better align it with our strategic priorities. As a result, most of our ecosystem companies were merged into a single entity, TBC Net. In addition, we established Space International as an independent subsidiary company and strengthened its capabilities to support our international expansion strategy.

OPERATING ENVIRONMENT

The Georgian economy grew by 10.4% in 2021¹, exceeding the 2019 level by 2.9%. The recovery was broad based, with only a partial contribution from the tourism sector, and was supported by a slightly more contractionary fiscal stance than in 2020. This outstanding performance once again highlighted the strong fundamentals of the Georgian economy. It is important to highlight that the Group's performance in Uzbekistan was even more promising, supported by the country's strong economic growth at 7.4% in 2021 after a 1.9% expansion in 2020².

This year, the Board undertook scenario planning to model the potential impact of global, and particularly regional, economic shocks. The Group's macro and micro risk management frameworks were enhanced to place more emphasis on stress testing and risk appetite. These capabilities will no doubt be tested in the coming months, given the instability in the region caused by the war in Ukraine.

CHANGES TO THE BOARD COMPOSITION

In 2021, three Directors left the Board and five new independent non-executive Directors were appointed. The details of these changes are outlined in the Directors' governance statement on pages 130-132. This completes the changes announced in our annual report for 2020. I am confident that the renewed Board is equipped with the expertise needed to steer the Group towards its ambitious strategic goals. In addition, I am happy to report that we have achieved the diversity and inclusion targets set by the Hampton-Alexander Review and the Parker Review.

As the Group evolves over the years ahead, I will continue to closely monitor the composition of the Board to ensure that we maintain the right mix of experience.

OUR ESG STRATEGY

It is important to us to uphold the highest corporate governance standards and responsible business practices towards employees, customers, the community and the environment. We measure our success not only by our financial performance but also by our contribu-

tion towards the common good. Therefore, this year we have decided to take our environmental, social and governance (ESG) efforts to the next level by developing a comprehensive ESG strategy and setting targets in the areas of sustainable lending, net-zero emissions, social procurement and women's empowerment. The Board approved the ESG strategy in November 2021 and will closely monitor progress towards achieving our KPIs. To this end, the Board has established a dedicated ESG and Ethics Committee. For more details, please refer to our ESG strategy on pages 26-37.

I am also proud that this year we were awarded a special prize for our outstanding efforts to champion the UN's Sustainable Development Goals (SDGs) in the country at the prestigious Corporate Responsibility Award Ceremony 2021, organised by Global Compact Network Georgia.

THE FUTURE

The remarkable progress that we achieved in 2021 has established a strong foundation for our future aspirations and inspires us to reach new heights for the benefit of our shareholders and other stakeholders.

While the global events of recent months have undoubtedly made the operating environment much more challenging, the proven resilience of our business model should help us navigate it successfully.

I am very grateful to the Board members, the management team and every single employee at TBC for their diligent work and commitment. I would also like to thank our customers, investors, regulator and all parties involved for their trust and cooperation during the year.



Arne Berggren
Chairman

13 April 2022

¹ According to Geostat

² According to UzStat

Note: For better presentation purposes, certain financial numbers are rounded to the nearest whole number.

Dear stakeholders,

2021 was a year of strong recovery for TBC, coupled with remarkable progress in Uzbekistan. Having successfully adjusted to the post-COVID reality, we concentrated our efforts on increasing and diversifying our income streams in Georgia, while continuing to invest in our Uzbek banking operations to support future growth. The macroeconomic environment was also supportive throughout the year. As a result, our net income amounted to GEL 809 million and we delivered a record high return on equity of 24.4% in 2021.

The past several weeks have been overshadowed by the Russian-Ukrainian war and the adverse implications of the military actions for the Ukrainian people. We hope that this war will come to an end and the parties will arrive at a peaceful solution in the nearest future. We are closely monitoring the developments in Ukraine and are assessing its possible impacts on the Georgian economy and our operations under different scenarios. The resilience of the Georgian economy and our diversified business model gives me assurance that we will be able to steer the company successfully through these challenging times.

A FIRM MACROECONOMIC RECOVERY, BUT CHALLENGES AHEAD

The Georgian economy demonstrated a firm recovery in 2021. For the full year, real GDP growth reached 10.4% according to the National Statistics Office of Georgia, which was an exceptional performance. Importantly, this growth was broad-based and was reflected in almost all sources of inflows as well as in domestic de-



mand, only FDI lagged behind, as investment demand takes longer to recover. Domestic demand was fueled by the normalization of saving levels after pandemic related highs and by low US\$ deposit rates, while the appreciation of the GEL in the second half of the year led to improved consumer and business sentiment. Furthermore, the 18% expansion in bank lending also provided much needed support to the economic recovery. While the Georgia economy entered 2022 with strong momentum, the current events in Ukraine and their impact on the global economy are likely to make 2022 a challenging year.

STRONG FINANCIAL RESULTS ACROSS THE BOARD BACKED BY THE SOLID CAPITAL

In 2021, our operating income amounted to GEL 1,452 million, up by 26% year-on-year, driven by an increase in both net interest income and non-interest income. The increase in the former was related to a higher net interest margin of 5.1%, compared to 4.7% in 2020, as well as 12% year-on-year growth in our loan book. Over the same period, net fee and commission income grew by an impressive 36%. The increase was broad-based and demonstrated the strength of our business model. In addition, other operating income (total non-interest income less net fee and commission income) grew by 47% and made a meaningful contribution to the overall profitability, mainly driven by FX operations and the sale of investment property. Our robust income streams were further supported by strong performance on the asset side across all segments, with the cost of risk standing at minus 0.3% (i.e. net recoveries) in 2021. This allowed us to continue investing in our Uzbek business, while keeping our cost to income ratio at 37.6% in 2021, slightly below the 2020 level of 37.9%. As a result, we recorded a return on equity of 24.4% and return on assets of 3.4% for the full year 2021.

Strong income generation, coupled with prudent management of our capital, allowed us to maintain strong

capital positions. Our CET1, Tier 1 and Total Capital ratios stood at 13.7%, 16.7% and 20.3%, respectively, and remained comfortably above the minimum regulatory requirements by 2.0%, 2.7% and 1.9%, respectively. At the same time, we continued to operate at high liquidity with the net stable funding (NSFR) and liquidity coverage (LCR) ratios standing at 127.3% and 115.8%, respectively, as of 31 December 2021.

A STEADY PROGRESS IN OUR CORE BANKING BUSINESS IN GEORGIA

We continue to be market leaders in total loans and deposits. In 2021, our loan book increased by 18% year-on-year in constant currency terms, in line with the overall growth of the banking sector, which translated into a 39% market share. Importantly, the quality of our loan book improved, with the non-performing loan ratio decreasing to 2.4% by the end of 2021, compared to 4.7% at the end of 2020. Over the same period, our deposit growth significantly outpaced market growth and increased by 25% in constant currency terms. As a result, our market share in total deposits amounted to 40% as of 31 December 2021, up by 3 pp year-on-year.

I am also delighted to report that our digitalization levels continue to increase. In the fourth quarter of 2021, the number of active retail digital users increased by 14% year-on-year and reached 744,000. In addition, we made significant progress in expanding the number of monthly and daily active digital users, which reached 644,000 (up by 16% year-on-year) and 285,000 (up by 24% year-on-year) respectively in December 2021. The proportion of digital sales of our consumer loans amounted to 45%, while the deposit sales offloading ratio stood at 73%.

Furthermore, to ensure the maximum safety of our customers and employees, we ran a wide-scale campaign to encourage our staff to get vaccinated. As a result, around 85% of all our employees were vaccinated, or were scheduled to receive a vaccine, by the end of 2021.

STRENGTHENING OUR POSITION ON THE UZBEK MARKET

I am very pleased with the progress that our fully digital Uzbek bank, TBC UZ, achieved in its first year of operations. Since launching our operations from scratch in Tashkent in October 2020, we have been steadily expanding our presence. By the end of 2021, we covered all major regions, representing around 97% of the country's population, through our 35 customer acquisition points and 10 showrooms, while the number of registered and monthly active users of our digital banking app reached 1.1 million and 141,000, respectively. By the end of the year, our customer proposition in Uzbekistan expanded to unsecured consumer loans, current accounts and savings deposits as well as various payment solutions such as P2P transfers, bill payments, debit cards and the ability to attach other banks' cards to our mobile app. In addition, we launched auto loans in a friends and family mode in December 2021 and introduced term deposits and virtual cards to a wider public. In 2021, our retail loan and deposit books grew

at a fast pace and reached GEL 93 million and GEL 208 million, respectively, as of 31 December 2021, which translated into retail market shares of 0.5% and 2.0% accordingly, based on data published by the Central Bank of Uzbekistan. I am also delighted that TBC UZ has been named "the Best Digital Bank in Uzbekistan 2021" by Global Economics.

In parallel, we continued to expand our Uzbek payments business, Payme, by introducing new products and services as well as increasing our network. In the fourth quarter of 2021, we launched a virtual Visa card and added payments capabilities for railway and plane tickets. In addition, we signed partnership agreements with large international retailers such as Carrefour and Magnum enabling QR payments with the Payme app in these stores. As a result, the number of registered users reached 5.2 million, while the number of monthly active digital users amounted to 1.1 million by the end of 2021. In 2021, the number and volume of transactions increased by 66% and 80%, respectively, year-on-year. In terms of financial results, revenues increased by 91% year-on-year and amounted to GEL 29 million, while net profit was GEL 18 million, up by 112% year-on-year.

OUTLOOK

Our outstanding results for 2021 provide me with much confidence that we are on the right track and that our strategy is working. While our Georgian banking business will remain core to our strategy, the Uzbek market should give us a competitive edge by providing a material contribution to our growth and diversification over the years to come.

We realize that the current events in Ukraine will have a negative impact on Georgian economy and impose challenges on our operations. For more information, please refer to our material existing and emerging risks section on pages 102-111.

Nevertheless, I would also like to re-iterate our medium-term guidance: ROE of above 20%, a cost to income ratio below 35%, a dividend pay-out ratio of 25-35% and annual loan growth of around 10-15%.

THANK YOU

I would like to close my letter by thanking our colleagues for their hard work and dedication and recognizing their individual contributions to our success. We have an exciting journey ahead of us and I am eagerly looking forward to it.

The strategic report, as detailed on pages 6 to 127, was approved by the Board and signed on behalf of the Board by:



Vakhtang Butskhrikidze
CEO

13 April 2022

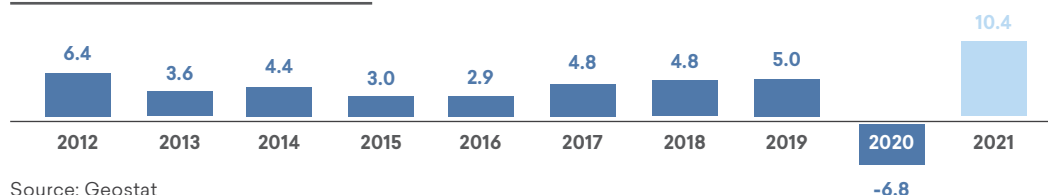
Note: For better presentation purposes, certain financial numbers are rounded to the nearest whole number.

Economic Overview

Economic growth

Starting in the second quarter of 2021, the Georgian economy has been rebounding from the pandemic at a remarkable speed. For the full year 2021, according to Geostat, the Georgian economy expanded by 10.4% year-on-year, surpassing the 2019 GDP level by 2.9%.

REAL GDP GROWTH (%)



Source: Geostat

External sector

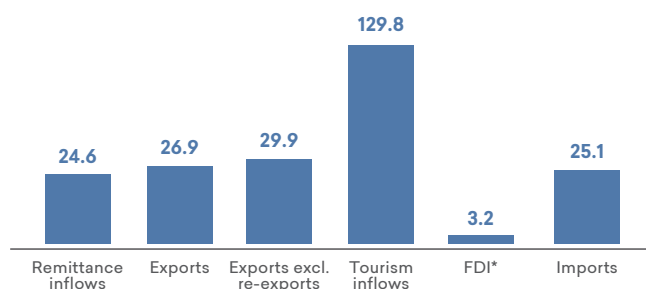
Although the tourism sector is still suffering from the pandemic-related crisis, external inflows recorded a strong performance in 2021. In 2021, exports of goods increased by 26.9% compared to last year and by 11.7% compared to 2019. Notably, despite re-exports having a lower base effect from a year ago, domestic exports still led the recovery with the share of domestic value-added exports in total exports increasing significantly, from 61.3% in 4Q 2019 to 76.2% in 4Q 2021. Despite the continuing recovery in tourism-related imports and re-exports, imports of goods also went up by 25.1% year-on-year in 2021 and by 5.8% compared to 2019. Importantly, the rebound of the trade in goods was broad-based, reflecting overall increased external and domestic demand.

Remittance inflows, which cushioned the pandemic's economic blow in 2020, performed solidly in the last year, increasing by 24.6% year-on-year and by 35.6% when compared to 2019. Although part of the rebound compared to 2019 can be attributed to border closures and the greater transfer of cash remittances through digital channels, overall growth has still been substantial given that the share of cash inflows is only likely to be around 10.0%-15.0%, according to the NBG's estimates.

Tourism inflows recovered moderately throughout the year. Despite the pace of the initial rebound stalling somewhat in August-September, the recovery continued gradually thereafter, with full year inflows amounting to 38.1% of their 2019 level. Annual growth reached a 129.8% year-on-year increase in 2021 on the back of the low base a year ago. Notably, this growth was primarily led by the recovery of high-spending countries.

FDI inflows are taking longer to recover. While they increased 3.2% year-on-year for the full year 2021, this was on the back of higher reinvested earnings as equity and FDI-related debt financing declined sharply in the same period.

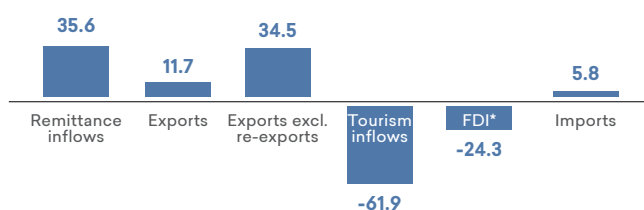
YOY GROWTH OF INFLOWS AND IMPORT (%)



* Sum of the first three quarters of the year

Source: Geostat, NBG

GROWTH OF INFLOWS AND IMPORTS COMPARED TO 2019 (%)



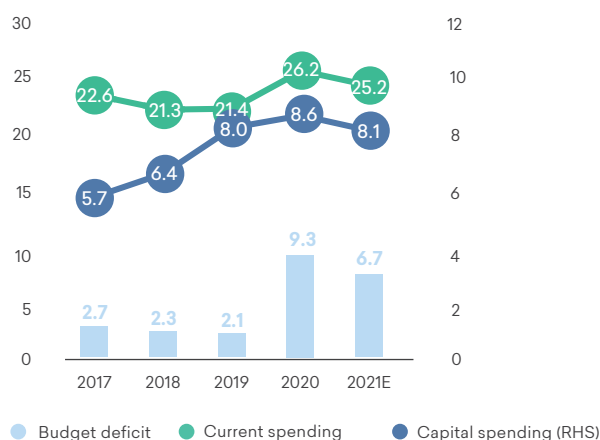
*Sum of the first three quarters of the year

Source: Geostat, NBG

Fiscal stimulus

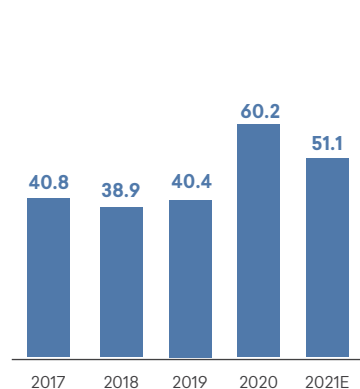
The fiscal stimulus, although still sizable, negatively affected growth in 2021 as the deficit amounted to around 6.7% of GDP, after an expansionary 9.3% of GDP in 2020. Importantly, the major source of deficit financing in 2020-2021 was external, largely compensating for the pandemic-related drop in net inflows. At the same time, government debt, which reached its mandated ceiling of 60% of GDP in 2020, has already normalized at an estimated 51.1% of GDP by the end of 2021.

BUDGET DEFICIT AND SPENDING BY TYPES (% OF GDP)



Source: MoF

GOVERNMENT GROSS DEBT (% OF GDP)



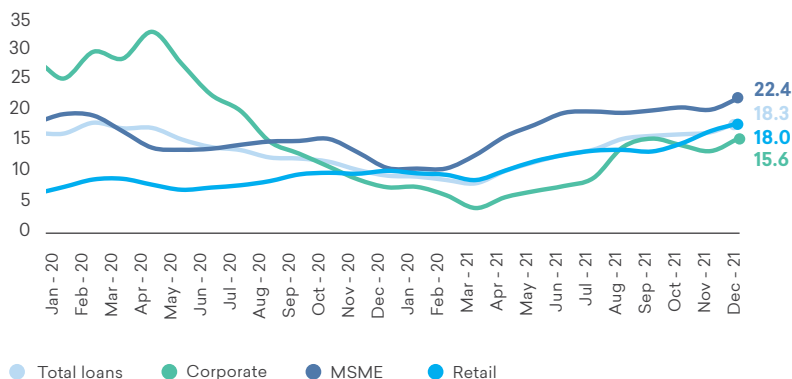
Source: MoF

Credit growth on a constant currency basis

By the end of 2021, bank credit growth increased to 18.3% year-on-year, compared to 9.1% year-on-year growth by the end 2020. In terms of segments, corporate and MSME lending growth increased markedly by 8.4 pp and 12.0 pp from 2020 to 2021 and amounted to 15.6% and 22.4% year-on-year, respectively. Expansion in the retail segment was also highly pronounced, up by 4.8 pp to 18.0% year-on-year growth at the end of 2021, though mostly on the back of stronger non-mortgage credit.

OUR MAIN OPERATING ENVIRONMENT - GEORGIA CONTINUED

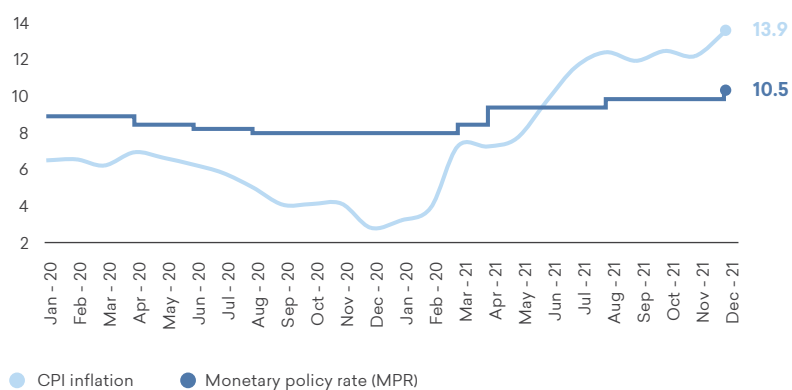
YOY GROWTH OF LOANS BY SEGMENTS EXCLUDING FX EFFECT (%)



Inflation, monetary policy and the exchange rate

Despite challenges such as the unprecedented weakening of the TRY, the GEL gained value in 2021, appreciating by 5.4% against the US\$ from 3.28 to 3.10, while the real effective exchange rate appreciated by 20.4%. By the end of 2021, however, annual inflation remained elevated at 13.9%, because of the low base effect a year ago due to the state subsidies on utilities. At the same time, monthly inflation dynamics are already around their target level. However, in December 2021, the NBG increased its policy rate again by 0.5 pp to 10.5%, raising the rate by 2.5 pp in total during the year.

CPI INFLATION AND MPR (%)



Going forward

Before the Russian invasion of Ukraine, TBC Capital estimated that the Georgian economy would grow by around 6.0% in 2022, 5.5% in 2023 and 5.0% in 2024 – close to its trend rate of around 5.2%. According to the World Bank's projections¹ as of January 2022, the Georgian economy was forecast to grow by 5.5% and 5.0% in 2022 and 2023, respectively.

The developments in Ukraine and Russia are expected to have adverse implications for the growth outlook of Georgia. Please refer to the material existing and emerging risks section on pages 102-111 for more details on the risks arising from the Russian invasion of Ukraine.

More information on the Georgian economy and financial sector can be found at www.tbccapital.ge.

¹ World Bank, Global Economic Prospects, January 2022

Our Business Model

We have a customer-centric business model focused on providing the best customer experience in servicing the everyday needs of our clients. Our strategy is centered on the core principles of sustainable development, digitalization, innovation and efficiency, and is designed to create value for all our stakeholders.

OUR MARKETS

GEORGIA

The leading universal financial institution in the country, offering a full suite of financial services:

- Retail banking
- Corporate and investment banking
- MSME banking
- Insurance
- Leasing

UZBEKISTAN

TBC is a market disrupter, offering innovative digital solutions via:

- TBC UZ, a newly established digital bank with a strong focus on innovative digital solutions, currently serving retail customers.
- Payme, one of the largest payments providers in the country.

OUR APPROACH

- **Strong focus on digitalization and innovation**

Our best-in-class digital capabilities, built over many years through continuous investment in new technologies, strengthen our ability to grow efficiently.

- **Advanced data analytical capabilities**

Our advanced data analytical capabilities, embedded into the development of our value proposition, help us to maximize customer value via personalized offerings.

- **Superior customer experience and strong brand awareness**

Customer satisfaction lies at the heart of everything we do and helps us build long-standing relationships of trust with our customers.

- **Excellent corporate governance and strong corporate culture**

Our exemplary governance standards set the right tone for every employee and foster responsible behavior in all our undertakings.

WHAT WE DELIVER

- **Strong business growth**
Supported by our leading Georgian banking franchise and rapidly expanding Uzbek operations.
- **Diversified income streams**
Driven by solid net interest margin and different sources of non-interest income.
- **Sound asset quality**
As a result of prudent risk management across all segments.
- **High levels of efficiency**
On the back of the high level of digitization and automation both in front and back offices.
- **Strong liquidity and a solid capital position**
Ensuring the stability of our business model and ability to withstand economic headwinds.

HOW WE SHARE VALUE

- **Customers**
Provide tailored solutions and a superior customer experience to our clients.
- **Colleagues**
Support our colleagues in their professional development and provide rewarding career opportunities.
- **Investors**
Generate sustainable returns for our shareholders and be a reliable partner for our debt holders.
- **Community**
Support business development and foster job creation, as well as take an active part in CSR activities.

Our Strategic Priorities

Our strategic priorities serve our mission to make people's lives easier by expanding our offerings beyond banking and beyond Georgia.

Each of these priorities has been carefully selected and thought through to ensure that they are interrelated and complementary to each other so that progress in one of them reinforces progress in the others.

In order to achieve growth in Georgia and abroad, we need to develop innovative products and services and create an unparalleled customer experience. This in turn requires building strong digital and data analytical capabilities. At the same time, our growth across different segments and products, together with our geographical expansion, supports our income stream diversification and strengthens our resilience. High levels of digitalization also allow us to improve our efficiency levels and reduce costs. This in turn allows us to concentrate our efforts on customer satisfaction and enhancement of our value proposition.

CONTINUE STEADY GROWTH IN GEORGIA

Our goal is to maintain our leadership position in Georgia and grow in line with the market. Despite the increased penetration level, the Georgian banking sector still offers attractive growth opportunities, especially in certain underpenetrated sub-segments such as mortgages and micro loans.

Our strong banking franchise in Georgia, underpinned by a superior customer experience, high brand awareness and advanced digital capabilities, has enabled us to retain our existing clients as well as attract new customers, which led to loan book growth of 12.2% in 2021 or 18.0% on a constant currency basis. This increase was mainly driven by growth in GEL denominated loans. In term of segments, the increase was broad based. The CIB and MSME segments grew by 12.3% (or 19.5% on a constant currency basis) and 17.6% (or 23.3% on a constant currency basis) year-on-year, respectively, while retail grew by 8.8% (or 13.2% on a constant currency basis) over the same period. The growth in the CIB segment was related to acquisition of both large and mid-corporate clients, while on the MSME side, we focused on increasing our presence in the small and micro sub-segments. At the same time, our retail book growth was underpinned by both mortgages and consumer loans.

In 2021, our deposit portfolio increased by 19.6% year-on-year, primarily on the back of growth in retail and CIB deposits, reflecting the strong loyalty and trust of our customers. On a constant currency basis, the growth was 25.1%.

As a result, we retained our market leadership position in both total loans and total deposits, which amounted to 38.8% and 40.4%, respectively, as of 31 December 2021, according to data published by the National Bank of Georgia.

DIVERSIFY OUR INCOME STREAMS

Our business model is diversified in a number of ways. We serve a wide spectrum of individual and business clients in Georgia, offering them a full suite of financial solutions as well as supplementary products and services through our ecosystem companies. Our main source of income is net interest income, which represented around 70% of our operating income in 2021 and is primarily driven by our lending operations. Our net fee and commission income is generated through payments, settlement operations, the insurance business as well as guarantees and letters of credit. As a predominantly cash-based society, Georgia provides an attractive growth opportunity for our payments

business, while our digital channels enable us to increase the scale and revenue-generating capacity of our operations in an efficient manner. In addition, we have been building a digital ecosystem of various businesses, including e-commerce, housing, auto and lifestyle, around the bank to support our interest income through lead generation and to provide additional fee income.

Furthermore, we have increased our geographical coverage since 2019 by entering Uzbekistan to fuel our growth. While our Uzbek banking operations are still at a start-up stage, our Uzbek payment business is already providing a meaningful contribution to our net fee and commission income, accounting for around 12% in 2021.

HARNESS THE HIGH GROWTH POTENTIAL OF THE UZBEK MARKET

Uzbekistan is a highly attractive market, offering significant growth opportunities due to its large population and the low penetration of banking services among retail and MSME customers. In addition, it has a high level of smartphone penetration, which supports our digital strategy.

In October 2020, we launched our banking operations in Uzbekistan by creating a completely new and unique digital experience for the Uzbek population. We offer a fully digital, mobile-only banking service to retail customers via our fintech platform, Space. In just one year, we have achieved impressive results. The number of downloads of the application exceeded 1.5 million in 2021, while the number of registered users reached 1.1 million as of 31 December 2021. As of the same date, our loan book amounted to GEL 92.8 million, while our deposit book reached GEL 207.5 million.

In parallel, we have continued to expand our payments business through our local payments subsidiary, Payme. Payme is the second largest payment service provider in Uzbekistan¹, supplying high-quality payment solutions to its 5.2 million registered users. In 2021, Payme continued its strong growth with the number and volume of transactions increasing by 66.4% and 79.6%, respectively, compared to the previous year.

LEVERAGE OUR ADVANCED DIGITAL CAPABILITIES

Our digitalization strategy spans the entire company from front to back office processes and encompasses both sales and transactional operations. We constantly invest in technology and develop new digital products to keep abreast of global trends.

A large part of our transactional business in the retail and MSME segments is conducted via remote channels, resulting in a retail offloading ratio above 97%, which means that less than 3% of all transactions are conducted in branches. Mobile and internet banking remains the preferred channel of communication for our customers, with the number of active retail digital users increasing by 14.1% in 2021 and reaching 744,000. At the same time, the daily engagement of our digital users has also increased and in December 2021, our average daily active users reached 285,000, up by 23.9% year-on-year. In parallel, we have been actively developing our digital sales channels for consumer loans and installments. By the end of 2021, the share of consumer loans issued through remote channels increased by 7 pp year-on-year and amounted to 45%. We continued to automate the approval process for smaller MSME loans in order to reduce “the time to yes”. For corporate borrowers, within the scope of the commercial excellence transformation project, we significantly sped up the analysis process by utilizing sophisticated IT tools.

Our advanced digital infrastructure also allows the vast majority of our back-office employees to work remotely without any disruption and have safe and real-time access to our IT system.

DELIVER A SUPERIOR CUSTOMER EXPERIENCE

We put customers at the heart of everything we do and strive to develop the most relevant products and services. This requires active engagement with our clients via various channels in order to receive their feedback about our service quality and value proposition, as well as to understand their preferences.

Moreover, we aspire to go one step further, anticipating our customers' needs and surprising them with tailored offerings before they ask for them. This is where our advanced data analytical capabilities come into play, providing an opportunities for creating the right product at the right time and the right price. In our retail business, we rolled out several new projects in this regard, including customer life-time value and loan pricing, while in the CIB segment, we continued to run a commercial excellence transformation project, which helped us better understand and capture the potential of existing and new clients.

During the year, we also strengthened our focus on digital offerings across all segments and created new remote products and services, as well as increased automatization of our internal processes. This not only increased customer satisfaction, but also resulted in improved efficiency.

¹ Based on number of registered users

Key Performance Indicators

We use a broad range of financial and non-financial measures in order to assess our performance and provide a balanced view, taking into account the interests of all our stakeholders. The Board regularly reviews the key performance indicators (KPIs) in order to ensure that they continue to show whether our strategy is working and ensures the long-term sustainable growth of the Group. Due consideration is also given to the selection of the most relevant KPIs for the executive management's remuneration in order to better align their interests with those of our stakeholders.

While certain KPIs changed compared to the previous year, the main strategic priorities remain the same. In addition, we added new KPIs related to Uzbekistan Business in line with our strategy. The summary of changes in given on page 368.

- 1 Definitions and detailed calculation of the APMs are given on pages 363-367
- 2 Cost to income ratio for 2020 does not correspond to the ratio disclosed in 2020 as it reflects the reclassifications made by the management between net impairment of non-financial assets and administrative and other operating expenses

Robust profitability

RETURN ON EQUITY

2021	24.4%
2020	11.7%
2019	22.9%

In 2021, we generated a record high return on equity, driven by robust income generation across the board, as well as a strong performance on the asset quality side.

Our medium-term target is to achieve ROE of above 20%.

Diversified income streams

NET INTEREST MARGIN

2021	5.1%
2020	4.7%
2019	5.6%

In 2021, the year-on-year increase in net interest margin was driven by a loan composition change and liability structure optimization.

We aim to support our NIM by optimizing our cost of funding structure and loan book composition.

Solid balance sheet

CET 1 CAPITAL RATIO

2021	13.7%
2020	10.4%
2019	12.0%

The increase in Tier 1 CAR in 2021 was mainly attributable to strong income generation during the year, which was partially offset by loan book growth. As a result, Tier 1 CAR remained comfortably above the minimum regulatory requirement of 11.7%.

FINANCIAL KPIS¹

RETURN ON ASSETS

2021	3.4%
2020	1.6%
2019	3.2%

In 2021, our return on assets recovered strongly on the back of robust income generation and a strong improvement on asset quality side.

We aim to achieve robust ROA in line with our mid-term ROE target of above 20%.

COST TO INCOME RATIO

2021	37.6%
2020 ²	37.9%
2019	39.9%

In 2021, due to our strong income generation, we managed to slightly improve our cost to income ratio compared to the 2020 level, despite expanding our operations in Uzbekistan.

Our medium-term target is to achieve the cost to income ratio below 35%.

GROWTH OF NET F&C INCOME

2021	35.7%
2020	-2.4%
2019	18.9%

In 2021, our net fee and commission income demonstrated a strong rebound across all major categories.

We aim to increase the share of net fee and commission income in our operating income.

LIQUIDITY COVERAGE RATIO

2021	115.8%
2020	134.2%
2019	110.1%

In 2021, we utilized the excess liquidity generated in 2020 while ensuring that our liquidity ratio remained above the regulatory minimum requirement of 100%.

NON-PERFORMING LOANS

2021	2.4%
2020	4.7%
2019	2.7%

By the end of 2021, our non-performing ratio improved significantly year-on-year, with a strong performance across all segments.

Our aim is to remain in the green zone of our risk appetite.

Steady growth in Georgia

LOAN BOOK GROWTH AT CONSTANT CURRENCY

2021	18.0%
2020	8.7%
2019	17.9%

In 2021, our loan book grew in line with the market, maintaining our leadership position. Our market share in total loans stood at 38.8% by the end of the year (based on data published by the National Bank of Georgia).

Our medium-term target is to grow by around 10-15% annually.

DEPOSIT GROWTH AT CONSTANT CURRENCY

2021	25.1%
2020	13.8%
2019	2.9%

In 2021, our deposit growth outpaced the market growth. As a result, our market share in deposits increased by 3.2 pp and reached 40.4% by the end of the year (based on data published by the National Bank of Georgia).

We aim to grow in line with the market, while also take into consideration our liquidity needs.

Strong progress in Uzbekistan

TOTAL LOANS

2021	GEL 92.8 mln
2020	n/a
2019	n/a

We started issuing unsecured consumer loans in Uzbekistan in March 2021. By the end of the year, our retail loan market share amounted to 0.5% (based on data published by the Central Bank of Uzbekistan).

TOTAL DEPOSITS

2021	GEL 207.5 mln
2020	n/a
2019	n/a

The growth of our deposit portfolio outpaced the loan book growth. By the end of 2021, our retail deposit share amounted to 2.0% (based on data published by the Central Bank of Uzbekistan).

NON-FINANCIAL KPIS

High employee and customer satisfaction levels

EMPLOYEE NET PROMOTER SCORE¹

2021	66%
2020	68%
2019	41%

The employee net promoter score measures employee loyalty and reflects the likelihood of our colleagues recommending their workplace to their friends and family. In 2021, our employee satisfaction levels remained high.

NET PROMOTER SCORE²

2021	56%
2020	n/a
2019	n/a

This year, we introduced a new metric to assess our customer satisfaction levels. The Net promoter score (NPS) measures how willing customers are to recommend our products and services to others.

Strong digital engagement with customers³

DAILY ACTIVE USERS/ MONTHLY ACTIVE USERS (DAU/MAU)

2021	44%
2020	41%
2019	n/a

The proportion of daily active users over monthly active users (DAU/MAU) measures our customers' daily digital engagement with us. In December 2021, the number of daily and monthly active users reached 285,000 (up by 23.9% YoY) and 644,000 (up by 16.0% YoY), respectively.

RETAIL OFFLOADING RATIO

2021	97%
2020	95%
2019	93%

The retail offloading ratios measures the share of transactions conducted in our remote channels, that is outside the branches. Our retail offloading ratio continued to grow in 2021, as we further strengthened our digital focus and introduced new digital products and services.

Growing customer base in Uzbekistan

OF REGISTERED USERS OF TBC UZ

2021	1.1 mln
2020	12,200
2019	n/a

In 2021, the number of registered users grew significantly, reflecting our increased coverage over the country. By the end of 2021, we were represented in all major regions.

OF REGISTERED USERS OF PAYME

2021	5.2 mln
2020	2.9 mln
2019	1.8 mln

In 2021, a strong growth in the number of registered users was followed an increase in the number of monthly active digital users, which reached 1.1 million users compared 0.7 million a year ago.

¹ The Employee Net Promoter Score (ENPS) was measured for the Bank's employees by an independent consultant in October 2021

² The Net Promoter Score (NPS) was measured based on survey conducted by the independent research company IPM in December 2021

³ These terms are defined in glossary on page 362

Our Environmental, Social and Governance (ESG) Strategy

Our aspiration to contribute to sustainable development comes from our role as a leading financial institution in Georgia's development. We are aware that we have an impact on the country's economy, business development, employment and the progress of the society, as a whole. This role is connected to our responsibility to contribute to a better future through innovation and technology in order to increase the accessibility of financial services and to enable our customers to be a part of the globalized economic society. While pursuing our aspirations, we guide our activities in line with international sustainability standards and principles, making them a part of the strategy, culture and day-to-day operations of our company.

This year, we took further steps to enhance the Group's environmental, social and governance (ESG) framework through the development of an ESG strategy. The ESG Strategy reaffirms our commitment to make a long-term, sustainable contribution to the country and the region. The ESG Strategy defines several key areas for the coming years: a strong ESG governance structure at the Board and executive level; a focus on sustainable financing, services and products; employee diversity, equality and inclusion; green and sustainable funding; and a system and approach for impact measurement and reporting.

VARIOUS INITIATIVES AND PROGRAMMES TO SUPPORT THE TARGETS SET BY THE ESG STRATEGY

ESG in TBC's governance and culture: 2021 was a milestone year in the establishment of the ESG governance structure, which spans different organizational levels. Two ESG-related committees were established – one at the board level, another at the executive management level. The ESG Coordination Department was established in TBC Bank to support and coordinate initiatives defined by the ESG strategy. TBC Bank initiated an ESG Ambassadors programme, which aims to strengthen environmental, social and governance structures and increase the involvement of TBC employees as focal points for these areas. Through this initiative, TBC employees will contribute to the quality of sustainability for customers, company, the environment and society as a whole.

Employee diversity: In order to expand our focus on diversity, gender and inclusion issues, we have developed a Diversity, Equality and Inclusion Policy (available at www.tbcbankgroup.com), which sets targets and establishes a methodology to advance diversity, equality and inclusion, integrating its approach into

the Group's operations and management processes and focusing on diverse areas including gender, multi-cultural, multigenerational and disability backgrounds. Gender equality and the empowerment of women and girls are important dimensions of the sustainability of the company and its stakeholders, including customers, employees, suppliers, partners and society as a whole. The policy takes into account the United Nations Women Empowerment Principles (WEPs) – a set of principles offering guidance to businesses on how to promote gender equality and women's empowerment in the workplace, marketplace and community. TBC Bank became a signatory of the UN WEPs in 2021.

Sustainable financing: TBC strives to increase its positive impact on society and the economy through introducing new financial products and services that are designed to deliver a specific social or environmental benefit. The ESG Strategy sets targets for the growth of our total sustainable loan portfolio, including financing energy efficient, renewable energy and resource efficient projects, women-led and women-owned business, startups and rural businesses.

Responsible procurement: Our responsible purchasing practices and relationships with suppliers can have a significant impact on the well-being, financial stability and development of suppliers, as well as on the economy as a whole. We pay special attention to small local suppliers and promote their inclusion in our supply chain. The ESG Strategy sets targets connected to green procurement initiatives, social enterprises, women-owned companies, startups and local business.

OUR ESG TARGETS

2022

- Some ESG KPIs linked to senior management remuneration in the medium term to reflect our mid-term strategy;
- Target volume of our sustainable loan portfolio¹ - GEL 750 million.

2023

- Measure the Group's direct performance towards the Paris Agreement targets for reduction of GHG emissions;
- Target volume of our sustainable loan portfolio¹ - GEL 1 billion;
- Target for women in middle managerial positions at the Bank level - 40%;
- Target for social impact procurement - GEL 5 million.

2025

- Net-zero GHG emissions (direct).

Climate-related Financial Disclosures 2021

In line with the UK Government's initiative to enshrine in law mandatory Task Force for Climate-related Financial Disclosure (TCFD) aligned requirements for premium and standard listed companies in the UK, we set out our first disclosure by the Group considering the implementation of TCFD recommendations. In 2020, we informed shareholders that TBC planned to introduce a TCFD framework to demonstrate our commitment towards taking active measures to mitigate climate change, to assess and mitigate climate risks, and identify climate opportunities. This report includes climate-related disclosures to align with the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), TCFD published guidance and the Financial Conduct Authority Listing Rules.

It should be noted, that the data we have used provides the best available approach to making progress, notwithstanding the challenges that exist in the data sets and methodologies required for the Georgian environment, which bears the largest part of our activities. We expect the availability and reliability of required data to improve over time, and we intend to integrate improvements into our reporting as it becomes available.

Below is the first disclosure prepared by the Group considering the implementation of TCFD recommendations.

Recommended disclosure	Status	Reference
Describe the organisation's governance around climate-related risks and opportunities	Disclosed	1.1
Describe management's role in assessing and managing climate-related risks and opportunities	Disclosed	1.2
Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term	Disclosed	2.1, 2.2
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	Disclosed	2.2
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	Disclosed	2.3
Describe the organisation's processes for identifying and assessing climate-related risks	Disclosed	3
Describe the organisation's processes for managing climate-related risks	Disclosed	3
Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	Disclosed	3
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	Disclosed	4
Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions and the related risks	Disclosed	4
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Disclosed	4

¹ Our sustainable loan portfolio includes energy efficiency, youth support and women in business loans financed by special purpose funds received from IFIs, as well as loans financing renewable energy, which include all hydro power plants financed by the Bank

OUR ESG STRATEGY AND CLIMATE-RELATED FINANCIAL DISCLOSURES **CONTINUED**

1. GOVERNANCE

1.1 Board's oversight of climate-related risks and opportunities

In November 2021, the Board of Directors approved the Group ESG Strategy in order to address specifically the Group's specific targets and initiatives related to climate change, its direct and indirect environmental impact and sustainable development across the Group. The ESG Strategy also covers customers, employees, suppliers, wider society, financial inclusion, employee relations and talent management, workplace diversity and inclusion. The Board of Directors retains the primary responsibility for overseeing the implementation of the strategy, as part of its commitment to having direct oversight over the Group's climate-related issues. The Board of Directors is supported by the Risk Committee. For example, progress against the reporting metrics such as the volume of the sustainable loan portfolio are overseen by the Risk Committee, which also received updates three times a year through the Chief Risk Officers (CRO) report. In 2022, we will incorporate a Climate Risk Appetite Statement in our Risk Appetite Framework (RAF).

In January 2022, the Group established an Environmental, Social and Governance ("ESG") and Ethics Committee at the Board level, as well as at the Supervisory Board level of the Company's main subsidiary, JSC TBC Bank, in line with the Company's "mirror boards" policy. This reflects the importance of sustainability in TBC's corporate governance and allows the Board members to dedicate more time and focus to ESG topics. The role of the Committee is formalized to support and advise the Board of Directors in its oversight of the implementation of (i) strategy (ii) policies and (iii) programs of the Company and its subsidiaries in relation to Environmental, Social and Governance matters and ensuring that the ESG strategy is implemented across all relevant businesses of the Group. Furthermore, the ESG and Ethics Committee supports the Board of Directors in promoting its collective vision of values, conduct and culture and overseeing management's efforts (i) to foster a culture of ethics (ii) appropriate conduct, and (iii) employee ethical engagement within the Group. The Committee will provide strategic guidance on climate-related matters and will report to the Board of Directors, which has overall oversight. The ESG and Ethics Committee will meet at least four times per year. Under the ESG oversight of the ESG and Ethics Committee are: a) periodical review of the Group's ESG strategy, including climate strategy, as well as implementation plans and monitor its execution; b) oversee Group's disclosures on ESG matters, including reporting in line with the TCFD principles, in the Annual Report and Accounts.

The Board of Directors of TBC Bank Group PLC has established a diverse and comprehensive training agenda, which is reviewed annually. The Group's Company Secretarial team creates a general training catalogue at the beginning of each year, which covers all relevant areas of Risk, Audit, Remuneration and Governance. In 2020 and 2021, additional attention was paid to ESG and, in particular climate-related matters, regulatory compliance, reporting, shareholder views and impact. The catalogue includes an effective mix of publicly available and client-tailored webinars, analytical materials, and opportunities for live discussion with industry participants. The providers of these training opportunities include the Big Four accounting firms, external legal advisors, chartered institutes (such as the Institute of Directors and the Governance Institute), and, where relevant, senior professionals with specific subject matter expertise. Directors use the training catalogue in order to create their bespoke training calendars and exchange knowledge during Board meetings or via the Group's dedicated Board platform. In 2022, further topic-specific training sessions on climate-related issues are planned that will equip members of the Board of Directors as well as the executive management of TBC Bank and other relevant employees with detailed knowledge about the TCFD and climate change-related risks and opportunities and the operative tools available to implement the ESG Strategy.

1.2 Executive management's role in assessing and managing climate-related risks and opportunities

At the executive level, responsibility for climate change-related risks and opportunities is assigned to the ESG Committee, which was established by the Management Board in March 2021 and is responsible for implementing the ESG strategy and approving the annual as well as separate, detailed action plans for key projects. At the first meeting of the ESG Committee in March 2021, the annual action plan covering various ESG matters for 2021 was approved. For major projects, such as the implementation of the recommendations of the TCFD, a separate action plan has been developed and key implementation steps defined. The progress and implementation status of action plans are monitored at the ESG committee's meetings. The implementation of the ESG strategy is supported by the various organizational functions responsible for ESG matters: Environmental and Social Risk Management Team, the ESG Coordinator and the ESG competence center. Among other matters, the ESG Committee's responsibilities include the review and monitoring of climate-related risks and opportunities as well as the establishment of an effective mitigation and control system to manage identified (material) climate related risks. The ESG Committee meets on a quarterly basis.

Furthermore, the Environmental Committee meets on a quarterly basis and oversees the implementation and operation of the Environmental Management System, which includes implementing an internal environmental management system and addresses the resource consumption and other environmental impacts of daily operations in TBC Bank. The Environmental and Social Risk Management Team regularly reports on the environmental management plans and results to the Environmental Committee. The Environmental Committee reports directly to the Chief Risk Officer.

The ESG governance structure



2. STRATEGY

The Group's objective is to act responsibly and manage the environmental and social risks associated with its operations in order to minimize negative impacts on the environment. In order to achieve this, the Group has clearly defined processes in place to identify and assess climate-related risks to our business. This approach enables the Group to reduce our ecological footprint by using resources efficiently and promoting environmentally friendly measures in order to mitigate climate change. Since banking is not a high-polluting activity, the implementation of an internal Environmental Management System to address the Group's resource consumption might not have a significant impact on the surrounding environment. However, TBC Bank has reviewed all of the operational activities, procured items, and outsourced services that it can control (present and planned), and has identified all of the material environmental aspects relevant to the business. The direct environmental impact of our business activity arises from energy, water, fuel and other resource usage, waste and emissions. The Bank has established a comprehensive internal environmental system to manage its GHG emissions and is committed to reducing them by closely monitoring its consumption of resources. In order to evaluate the significance of impact for each of the categories, we have developed a comprehensive evaluation methodology and applied it to the whole Group. Based on this, annual goals are defined and specific initiatives and programmes are elaborated to reach them. In 2020, the Bank obtained an ISO 14001:2015 certificate for its environmental management system; in 2021, the Bank completed the re-certification successfully. More information about the environmental management system can be found on pages 88-92.

In 2021, the Group took further steps to enhance its ESG framework and to demonstrate its commitment towards taking active measures to mitigate climate change. The ESG strategy was developed and approved by the Board in November 2021, as described above. Below are the five main pillars of TBC's ESG strategy.

Establish ESG governance framework until the end of 2021

Set-up a system for measuring impacts on sustainability across the Group, customers, employees and society

Access to green and other sustainable financing sources

Increase sustainable loan portfolio

Increase customer loyalty and employee motivation

TBC Group's ambition is to be a leading supporter of ESG principles in Georgia and region. We aspire to make our direct environmental impact net zero by 2025 and continue to develop our plan to enable our indirect environmental impact to also reach net zero as soon as practicable thereafter.

The long-term aspirations are supported by different measures outlined in the ESG Strategy. The key components for 2022 and 2023 are listed below:

- Increase of the sustainable loan portfolio, which largely consists of renewable energy and energy-efficiency loans (please see detailed breakdown of the portfolio on page 92);

¹ These terms are defined in the glossary on page 362

OUR ESG STRATEGY AND CLIMATE-RELATED FINANCIAL DISCLOSURES CONTINUED

- Implementation of the green loan framework which offers a tailored green financing for SMEs;
- Approach and system for data collection, segregation and analysis;
- Elaboration of a methodology to calculate financed emissions;
- Measure the Group's direct performance towards the Paris Agreement targets for the reduction of GHG emissions;
- Groups' Policy on Climate Change;
- Incorporation of ESG matters in the risk appetite;
- Excluding/limiting high-carbon activities (Please see our Exclusion List, available at www.tbcbankgroup.com); and
- ESG resource center for employees, customers and wider public in order to increase awareness and knowledge about the risks and opportunities of climate change.

Work is continuing to further embed climate-related risks and opportunities within our business. An ESG Competence Center will be established to help the Bank deliver its strategic objectives and bring all of its climate-related work together.

2.1. Climate-related risks

An overall climate risk profile was assessed based on the first climate risk assessment (please see more about the climate risk assessment in the chapter risk management below). The table below shows a summary of potential transitional and physical risks identified by the Group for the Georgian environment. The time horizons considered in the assessment are short – up to 3 years, medium – up to 8 years and long – above 8 years, with the levels of a possible impact – low, medium or high. While assessing the impact of climate change risks on a sector, a category – low, medium and high – was assigned compared to other sectors, as well as in comparison with other risk categories. Thus, the assessment results are not comparable with the same impact categories in other countries or regions.

Risk sources	Transition risks				Physical risks	
	Policy and Legal	Technology	Market	Reputation	Acute	Chronic
Types of risks	• Increased GHG emissions pricing in order to incentivise movement to renewable energy sources • Enhanced regulatory environment and mandated requirements: may introduce minimum standard or expectations on green credentials of product outputs or business operations, enhanced emissions-reporting obligations • Exposure to litigation resulting in the costs related to the compensations	• Substitution of existing products and services with lower emissions options, including requirements to replace manufacturing technology to cleaner alternatives • Unsuccessful investment in new technologies	• Changing customer behavior including deliberate move to lower carbon footprint products • Uncertainty in market signals • Increased cost of raw materials, increased volatility and costs, sourcing restrictions for carbon heavy raw materials	• Shifts in consumer preferences to green products • Stigmatization of sector, resulting in reduced revenue from negative impacts on workforce management and planning (e.g., employee attraction and retention) • Increased stakeholder concern or negative stakeholder feedback	• Increased severity of extreme weather events such as floods	• Changes in precipitation patterns and extreme variability in weather patterns affecting food production and living environment • Rising mean temperatures affecting working conditions, living conditions and local infrastructure • Rising sea levels affecting local ecosystems, increasing subsidence and flood risks
Time horizon	Long	Long	Medium	Long	Medium	Long
Level of potential impacts affecting customers and TBC	Low	Medium	Low	Low	Medium	Medium

The overall assessment of the impact of transitional policy measures

The Georgia's 2030 Climate Change Strategy¹ and Climate Action Plan lays out different policy measures on which TBC Bank based its identification of the potential impact of the policy measures on different economic sectors, which are financed by TBC. As a summary of the potential impact of the various transition risks and physical risks identified, the transitional risks in Georgia and on the TBC Bank's activities are low. The assessment considers, that trade and services dominate the Georgian economy, and the policy measures outlined in the Georgia's 2030 Climate Change Strategy will have overall low impact on the economic sectors, especially in short and medium term. The Georgia's 2030 Climate Change Strategy takes into consideration that Georgia is a transitional and growing economy, and therefore the government strategy is not to impede the growth of the GDP with policy measures and rather to support a smooth transition where necessary. It is worth noting, that the economic sectors most affected by transitional risks world-wide such as mining crude petroleum, natural gas and metal ores, manufacturing coke and refined petroleum products² are present to the extremely limited extend in Georgia, resulting in a low overall impact of transitional measures on economic growth, if any.

The overall assessment of the impact of the physical risks

The geographical location and natural conditions of Georgia – a small country with a mountainous landscape, a Black Sea coastal zone, and semi-arid areas in the Southeast – all contribute to the country's vulnerability to the physical risks of climate change. The sectors that are thought to be most vulnerable to climate change in Georgia include agriculture, forestry, tourism, and healthcare³.

The impact of physical risks on economic sectors, which are financed by the TBC Bank, will become material over the time. For the Group, the risks can materialise through the impairment of asset values and the deteriorating creditworthiness of customers, operating in Georgia. Certain geographic areas and economic sectors such as winter resorts, agricultural land are affected partially already and might deteriorate further in the medium time horizon. The overall assessment of the potential impact in Georgia and on the TBC Bank's activities is medium in long-term perspective. It is understood that climate change risks are largely associated with longer-term impacts; however, those longer-term impacts are unclear, especially considering the shorter-term maturity structure of the Bank's loan portfolio.

2.2. Climate-related risks and opportunities on the business and financial planning

We are working to incorporate climate and broader ESG considerations in our financial planning process. In 2022, we continue the development of measurement capabilities across the Group's opportunities and the advancement of the scenario analysis framework. Some qualitative considerations related to climate and ESG matters were incorporated in the financial planning cycle for 2022-2023. In 2022, the Group seeks to include considerations linked to business actions identified through scenario analysis as well as progress on climate-related opportunities, including the launch of new products and initiatives.

To encourage customers to invest in green products and services, the Group offers services, financing and funding solutions, as outlined in the table below:

Climate-related opportunities	Customer	Our progress	Impact
Renewable energy financing	Corporate	TBC bank is the leading bank in the local financing of renewable energy project with GEL 554 million	Contributing to Georgia's transition to low-carbon economy
Green Loan Framework - a standardized approach to sustainable finance, including energy efficiency, renewable energy and resource efficiency financing	MSME	In 2021, TBC bank developed the Green Loan Framework with the Green for Growth Fund (GGF) Technical Assistance Facility, represented by Finance in Motion GmbH and financed by the European Union under the EU4Energy Initiative.	Encourage customers to transition to low carbon activities
Long-term business loan for solar panels	MSME	In 2022, TBC launched a special long-term loan for solar power plants. The product considers different financial and non-financial benefits.	Encourage customers to optimize their costs and to support the transition to low carbon activities
Global Climate Fund (GCF) accreditation, enabling the Bank to have direct access to GCF funding GCF accreditation	All	In 2021, TBC Bank became the first commercial bank in the Caucasus region to receive accreditation by the Green Climate Fund (GCF).	The accreditation will enable the Bank to finance projects for adaptation to, and mitigation of, climate change and contribute to combatting climate change in Georgia
Energy efficiency loans	Retail	Financing of hybrid/electric cars, mortgages and energy efficient processing. The portfolio volume equals to GEL 15.5 million	Encourage customers to transition to low carbon activities

¹ [Georgia's 2030 Climate Change Strategy](#)

² [Key elements of the 2021 Biennial Exploratory Scenario: Financial risks from climate change | Bank of England](#)

³ [Georgia's Third National Communication to the UNFCCC](#)

2.3. Climate-related scenarios

TBC Group is taking significant steps to develop scenario analysis capabilities to better understand and act on the implications of climate-related risks and opportunities for our business and customers. The development of climate-related scenario analysis is complex, as climate data and sub-sector information availability, accessibility, and suitability for financial risk analysis, as well as climate-related risk modelling capabilities in Georgia are very limited and still evolving. This section summarises our first-time exercise to undertake climate scenario analysis for the Georgian context and the related qualitative results.

The starting point for the first exercise, which was carried out in 2022, are two climate scenarios - the Orderly scenarios of 1.5°C (Net Zero 2050) and below 2°C, developed by the Network of Central Banks and Supervisors for Greening the Financial System (NGFS). Orderly scenarios assume that climate policies are introduced early and become gradually more stringent. Both physical and transition risks are relatively subdued¹. Each of the scenarios includes a trajectory of carbon prices and emissions over time. They are drawn from a set of scenarios published by the NGFS. We used country-level downscaled data for Georgia considering the NGFS 1.5°C (Net Zero 2050) and below 2°C scenarios. While analyzing this data, we identified that the scenarios and underlying downscaled data show certain inconsistencies in relation to the local economic environment; some of the sector level downscaled results were implausible, e.g. hydro energy outputs were falling very heavily. However, we stayed within the NGFS scenario framework, adjusting only a few parameters, where reasonable, and after consulting an external knowledgeable consultant. In particular, we used the GCAM (Global Change Assessment Model) model as the main source of data for the scenario analysis. We used data from the model to project how climate change will affect net revenues of the sector for the period of 2020-2050. Certain modifications were applied to the model data in order to reflect the specifics of the country. Third party data was also used to better understand how carbon emissions are allocated to various sectors and subsectors. The major variables used from the model were carbon emissions, carbon price, secondary and final energy prices, and demand on the secondary and final energy. These were the only variables available on the sectoral level for Georgia from NGFS projections.

We examined the impacts of two scenarios on a selected sample from our corporate customers in the carbon-intensive sectors (energy and utilities, oil and gas), as well as in metals and mining. We stressed the latest available financial statements and projection results (where applicable) for the time horizon covering the remaining maturity of the respective exposure.

The selected sample of corporate customers included several hydro power plants (HPPs), electricity and gas distribution companies, a thermal power plant (the only TPP in the Group's portfolio) and a company in the metal industry. For the selection, we took companies with different sizes - small, medium and large HPPs and some leading companies in the respective sector. In summary, the results of the first stress scenario exercise showed those sectors had different sensitivity levels towards transitional risks. While the transitional risks for few cases might show negative impacts in accordance with two NGFS scenarios - largely due to the negative impact of the incorporated extremely high carbon taxes, it is understood that significant amendments to the scenario components and analysis need to be performed before the results can be considered in the risk management framework. It is important to consider that the transitional risks in Georgia are low, and policy measures, especially carbon taxes, are not among the measures foreseen by the Georgian government. At the same time, we analyzed the existing mitigation measures for those few cases, and identified a satisfactory level of the financial resilience, considering the publicly available Georgia's 2030 Climate Change Strategy and Climate Action Plan, as well.

Despite these limitations, the scenario analysis allows us to test a range of possible future climate pathways and understand the nature and magnitude of the risks they present. The purpose of scenario analysis is not to forecast the future but to understand and prepare to manage risks that could arise. In 2022, we continue working on the climate scenario framework in order to include other sectors, as well as the impact of physical risks. Furthermore, in 2022, the focus will be on developing of sectoral guidelines for climate related risks and opportunities, where deemed necessary. For more initiatives planned in 2022, please refer to the paragraph 3. Risk management part (p 33).

In addition to exposure sensitivity analysis, the Group has already started work on an aggregated level sensitivity analysis. To this end, we analyzed downscaled estimates for Georgia of two NGFS Climate Scenarios: Net Zero 2050 and below 2°C. The main initial observation appears to be that Georgia is grouped with high-carbon-emission countries under GCAM, MES-SAGEix-GLOBIOM² as well as REMIND-MAGPIE³ models. This implies that the downscaled data for Georgia should be used with care. In fact, when looking at downscaled estimates for a number of other countries with economies of a broadly similar structure in the context of climate change, the impact appears to be significantly different. In particular, e.g. in GCAM model, Georgia is grouped together with Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan, Turkmenistan, Uzbekistan, while the deviation in the stress scenario from the baseline scenarios is similar for all

countries in the group. Meanwhile, downscaled estimates for Croatia, which has rather similar characteristics of the economy to Georgia, looks completely different as compared with the group where commodity intensive economies prevail. TBC Group has started to conduct research to estimate more relevant downscaled scenario for Georgia. In this regard, the National Bank of Georgia plans to start working on climate scenarios based on the NGFS framework to estimate the potential aggregated impact on the financial sector in Georgia.

3. RISK MANAGEMENT

The risks associated with climate change have both a physical impact arising from more frequent and severe weather changes, and a transitional impact that may entail extensive policy, legal and technological changes to reduce the ecological footprint of the households and businesses. For the Group, both of these risks can materialise through the impairment of asset values and the deteriorating creditworthiness of customers, which could result in a reduction of the Group's profitability. The Group may also become exposed to reputational risks as a result of its lending to or other business operations with customers deemed to be contributing to climate change.

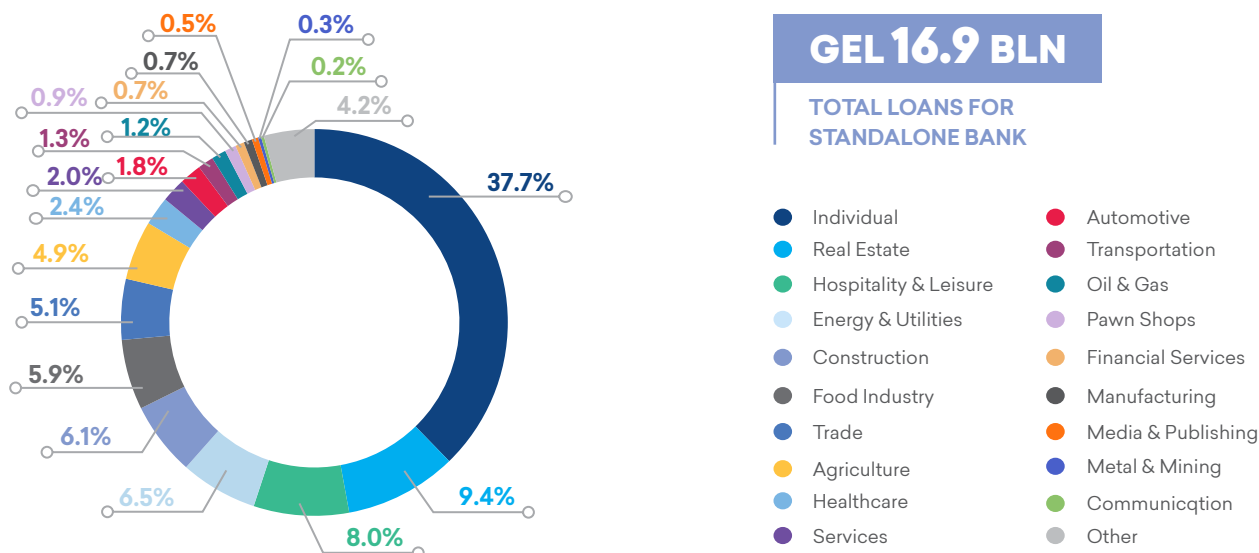
In order to identify, assess and manage risks associated with climate change, before the undertaking the climate risk assessment, the Group performed a general analysis in order to understand the maturity level of the ESG framework. The general analysis process covered the assessment of the existing policies and procedures, identification of areas for further development and a gap analysis. Furthermore, the gap analysis considered various international standards and concept papers (European Central Bank, European Banking Authority, TCFD, Global Reporting Initiative and the Four accounting firms), reports about climate change in Georgia, criteria of ESG rating agencies and expectations in relevant expert papers. Based on the analysis, the main focus areas were identified and reflected in the ESG strategy, considering the business strategy of the Group.

As mentioned above, climate risks can materialize, first of all, through the impairment of asset values and deteriorating creditworthiness of customers. Therefore, as a first step, we looked at the material subsidiaries of the Group by assets, considering the materiality level of the 1% share in assets. The Group has only one subsidiary, which takes above 1% of assets – JSC TBC Bank, the largest financial institution in Georgia. In order to increase the understanding of climate-related risks on its loan portfolio, the Bank performed a high-level sectoral risk assessment, as different sectors might be vulnerable to different climate-related risks over different time horizons. The risk assessment process and content is based on TCFD recommendations, climate-related documents published by the Bank of England, the climate change assessments of Georgia performed as part of the IPCC reports, and the targets and strategy 2030 defined by the Georgian government to achieve the National Determined Contribution of Georgia⁴. The risk assessment focuses on economic sectors such as: energy, oil and gas, metals and mining, tourism, agriculture, food industry, healthcare, construction and real estate. This assessment is the first exercise conducted with regards to overall climate change risks. Therefore, the assessment of levels and impacts might change in the future, based on further review of the methodology, deep dive analysis and increased understanding of the impact of climate change risks.

To define the climate-related economic sectors for the sectoral analysis, a key materiality threshold has been agreed above 1% of the loan portfolio. The sectoral assessment was performed with the involvement of the business and credit risk specialists responsible for the respective economic sectors in the Bank.

The sectoral distribution of the loan portfolio for standalone Bank as of the year end 2021 is given in the table below.

- 1 Net Zero 2050 is an ambitious scenario that limits global warming to 1.5 °C through stringent climate policies and innovation, reaching net zero CO₂ emissions around 2050. Some jurisdictions such as the US, EU and Japan reach net zero for all greenhouse gases by this point. This scenario assumes that ambitious climate policies are introduced immediately. Carbon dioxide removal (CDR) is used to accelerate the de-carbonisation but kept to the minimum possible and broadly in line with sustainable levels of bioenergy production. Net CO₂ emissions reach zero around 2050, giving at least a 50 % chance of limiting global warming to below 1.5 °C by the end of the century, with no or low overshoot (< 0.1 °C) of 1.5 °C in earlier years. Physical risks are relatively low but transition risks are high. Below 2 °C gradually increases the stringency of climate policies, giving a 67 % chance of limiting global warming to below 2 °C. This scenario assumes that climate policies are introduced immediately and become gradually more stringent though not as high as in Net-zero 2050. CDR is deployment is relatively low. Net-zero CO₂ emissions are achieved after 2070. Physical and transition risks are both relatively low.
- 2 The MESSAGEix-GLOBIOM Integrated Assessment Model is based on the MESSAGEix framework, an open- source energy systems optimization modelling environment including macro-economic feedback using a stylized computable general equilibrium model.
- 3 REMIND (Regional Model of Investment and Development) is a numerical model that represents the future evolution of the world economies with a special focus on the development of the energy sector and the implications for our world climate. REMIND is used in connection with other models to provide a detailed answer. One such model is MAgPIE (Model of Agricultural Production and its Impacts on the Environment).
- 4 [A nationally determined contribution \(NDC\)](#) is a national plan highlighting climate change mitigation, including climate-related targets for greenhouse gas emission reductions, policies and measures governments aim to implement in response to climate change and as a contribution to achieve the global targets set out in the Paris Agreement.

GROSS LOANS BY SECTORS

The maturity of assets are essential for defining the different time horizons for the analysis and for assessing the materiality of climate-related risks for different sectors. The maturity structure of the loan portfolio shows that the majority of assets is distributed in much shorter time horizons than the timeframe in which the impacts of climate change, especially of physical risks, may arise in Georgia.

Since 2012, TBC Bank has had a process to consider environmental and social risk, which was established in line with industry guidelines that aim to mitigate climate change. TBC Bank has developed E&S risk management procedures to identify, assess, manage and monitor environmental and social risks which are fully compliant with Georgian environmental legislation, follow international best practices and incorporate appropriate consideration of IFC Performance Standards, EBRD Performance Requirements (PRs) and ADB's Safeguard Requirements (SRs). These procedures are fully integrated into the credit risk management process and are routinely applied to SMEs and corporate customers. In collaboration with partner IFIs, a clear Environmental and Social (E&S) risk categorization matrix was developed. Projects that are to be financed are classified according to E&S categories (low, medium, high and A category) based on analysis; where necessary, deep dive analysis and due diligence are performed. When categorizing the transaction according to E&S risk category, priority is given to the higher risk. Additionally, external specialized companies are involved in the detailed assessment of E&S risks for A category projects, such as hydroelectric plants. The Environmental Management Policy and Procedure provides TBC with a good description of assessing environmental risks related to clients. More information about the environmental management system can be found on pages 88-92. It is worth noting that processes related to climate risks will continue to evolve as TBC embeds its approaches further. This process will be supported with the climate-related training to strengthen the Bank's capacity, knowledge and capabilities for managing climate-related risks across the business.

In order to further facilitate the integration of these risk identification processes into the Group's overall risk management, in 2022, the Group will undertake deep dive analyses to understand the extent to which climate-related risks are to be categorized as principal risks. The Group will develop a Policy on Climate Change, a risk appetite statement and risk appetite measures. The high-level sectoral assessment carried out during 2021 has provided insights into the potential impacts on specific sectors. In 2022, the focus will be on developing of sectoral guidelines for climate related risks and opportunities, where deemed necessary. Key initiatives will include further enhancement of the climate risk management framework and the development of ESG profiles for corporate clients covering ESG factors, including relevant climate-related risks and opportunities.

Climate risk might impact other, more traditional risk categories for banking such as: market risk, operational risk, liquidity risk and reputational risk. A summary of the assessment is given in the table below. Certain risk factors, which were identified for operational and reputational risks, are already covered under the existing risk management framework.

Banking risk types	Impact from Physical Risk	Impact from Transition Risk
Market risk	No material impact expected	No material impact expected
Liquidity risk	No material impact expected	No material impact expected
Operational risk	Extreme events that would cause damages to Group's own sites could affect the ability to provide services to its clients (e.g., lack of electricity supply, inability for employees to work in premises).	No material impact expected
Reputational risk	No material impact expected	Financing to high-emitting borrowers could affect brand image, as perceived by stakeholders

4. METRICS AND TARGETS

The metrics related to the Group's own operations are given in the environmental management system section on page 89 and include Scope 1, Scope 2 and Scope 3 GHG emissions.

In 2022, key initiatives will include further implementation of the TCFD recommendations, the development of the climate-related scenario analysis framework, the development of ESG profiles for corporate clients covering climate-related risks and opportunities and increasing our expertise in climate-related matters. These initiatives will also consider sectoral guidelines for climate related risks and opportunities, where necessary and feasible.

The climate action initiatives are part of the overall ESG strategy, which was approved by the Board of Directors in November 2021. The ESG strategy sets aspirational targets, such as Net-Zero GHG emissions¹ related to the direct environmental impact by 2025 and an increase in the sustainable loan portfolio, which consists of renewable energy loans, energy efficiency loans, and financing with social components, etc. As of Q4 2020, the total sustainable portfolio stays at GEL 676.3 million. Please see more details about the sustainable portfolio on page 92. The strategy and targets will be reviewed annually. Starting from 2022, the ESG-related KPIs are included in the long-term incentive plans for executive remuneration. For more details, please see the Remuneration Committee Report, page 184.

The following table sets out some key metrics and targets of our ESG strategy. The GHG emissions targets for 2023 will be defined during the annual review of the ESG strategy, as well as the targets of sustainable portfolio for the following years.

Metrics / Targets	2022	2023	2025
Total emissions (own operations)	Annual increase below 3%		Net-zero GHG emissions (direct)
Water consumption per employee (m3/pp)	Annual increase below 1.5%		
Sustainable portfolio	GEL 750 million – the target volume of the sustainable loan portfolio	GEL 1 billion – the target volume of the sustainable loan portfolio	
Management KPI	Long-term incentive plan (LTIP) for management linked to the total portfolio of sustainable assets	Long-term incentive plan (LTIP) for management linked to the total portfolio of sustainable assets	

The ESG strategy of the Group is evolving, therefore, the Group continues to develop additional targets and metrics to measure all identified risks and opportunities of the Group. The current targets and metrics are disclosed above.

¹ The Net-Zero GHG commitment refers to the direct impact of Scope 1, Scope 2 and Scope 3, which are defined on the page 90.



Network Georgia

Global Compact Network Georgia Award 2021

TBC Bank has been awarded a special prize for its outstanding efforts to champion Sustainable Development Goals in the country at Corporate Responsibility Award Ceremony 2021 organized by Global Compact Network Georgia.



Stakeholder Engagement and Board Decision Making

OUR ENGAGEMENT

OUR CUSTOMERS

TBC's mission is to make people's lives easier. Our customers are key stakeholders in everything we do. We make our decisions on strategy, products and services with this mission in mind.

We engage with our customers every day through the multiple touchpoints we have developed to deliver our banking and ecosystem products. This year, we have continued to work with leading independent research companies to carry out a focused analysis of customer feedback in Georgia. Traditionally, we continue to monitor and respond to customer complaints through our robust framework of branches, award-winning digital channels, social media, and call centres in Georgia. In 2021, we also launched our banking operations in Uzbekistan and made sure to establish effective touchpoints with our consumers there. Our customers in Uzbekistan have appreciated our new Happiness Centres which serve as the main point of contact for our otherwise digital network. For more details please refer to the Our Customers section of the Our Stakeholders chapter on pages 82-83.

OUR COLLEAGUES

Our colleagues continue to drive our success and our Board makes all strategic decisions with a special emphasis on the Company's human capital.

TBC was early to recognise the changing nature of work during the COVID-19 pandemic. Our colleagues continue to work from home where this is possible. The Bank makes sure that our employees have the resources to remain physically and mentally healthy, motivated and safe.

Despite the challenges posed by remote working arrangements, our Board maintained active engagement with the workforce throughout the year. The designated non-executive Director for Workforce Engagement conducted multiple in-person focus groups, as well as targeted online surveys to better identify areas for improvement and to consistently bring the employee voice into the boardroom.

Our management board held monthly online meetings with the full workforce on various topics related to delivering strategy and achieving objectives, the importance of vaccination, workplace safety and mental health. We ran a wide-scale campaign to encourage our staff to be vaccinated against COVID-19. As a result, around 85% of all our employees were vaccinated, or were scheduled to receive a vaccine, by the end of 2021. Our colleagues had the opportunity to meet with prominent healthcare experts via Zoom and ask questions directly. TBC also continued to engage with the workforce through traditional annual opinion surveys. Through these engagements, we measure the workforce's happiness index and net promoter score, both of which remain high despite the pandemic-related challenges. For more details, please refer to the Our Colleagues section of the Our Stakeholders chapter on pages 74-81.

WHAT THEY TELL US

This year, our customers have shown resilience in their financial recovery and growth following the challenges of the COVID-19 pandemic. They have also remained welcoming of our expanding digital offerings. They appreciated business services and expertise that our staff provided to them during key moments of recovery and continue to rely support from TBC, as their main business partner. Our Uzbek call centre has been especially effective, receiving the highest customer satisfaction scores in the market. For more details please refer to the International Expansion Review section on pages 68-73.

OUR RESPONSE AND IMPACT ON BOARD DECISIONS

We maintained sharp focus on customer needs in the boardroom. In 2021, TBC created a separate department dedicated to our brand and customer experience, merging the two existing but separate functions. In April 2021 and November 2021, we strengthened our Board with new directors who have specific and relevant experience to our business and strategy, including banking, risk management, audit, IT expertise, and knowledge of the Georgian market. Our Risk Committee monitored the Bank's portfolio closely during monthly meetings with an emphasis on customer experience and recovery. We maintained our focus on ensuring that our products and services were available without interruption and we continued to develop new digital offerings. Additionally, we expanded our digital offerings to include an end-to-end online disbursement capability for consumer loans and an open banking offering that allows customers to access information on all their accounts from different banks in one app. More information on our offerings is available in the Our Customers section on pages 82-83.

Our colleagues have appreciated the continued flexibility to work from home during the pandemic. They were also interested in development opportunities for career progression. Our employees were particularly engaged with the educational opportunities offered by the Bank. Through our robust Workforce Engagement process, the Board learned that our employees were satisfied with the channels and opportunities available for raising their concerns to the attention of the senior management and the Board. Our workforce felt that employee interests were taken into consideration in the way the Board and the senior management made decisions. However, they indicated that more engagement was needed on matters related to the organisational grading system. More information on how the Board engages with the workforce and our approach to addressing their feedback is available in the Corporate Governance Statement on pages 141-150.

The Board's decision making maintains a special focus on our employees as key drivers and stakeholders in the Company's overall success. This year, the Board ensured that strategic decisions were supported by the appropriate talent availability, compensation and work arrangements. The Board made sure that a robust human resources strategy was in place at all levels of management to recruit, identify, train and promote talent throughout the Group. Additionally, the Board, with support from the Remuneration Committee, ensured that clear and competitive compensation policies and principles were in place for the Group, including in our subsidiary in Uzbekistan.

We continued to train our workforce internally through the free digital and in-person TBC Academy programmes, and we expanded the selection of modules on offer to our employees. In 2021, the Board also approved the updated Code of Conduct, which incorporated new work-from-home provisions. Our 2020 Sustainability report, published in June 2021 and available at www.tbcbankgroup.com provides detailed information on our diversity policy, and all the opportunities, benefits and protections available to our workforce. Furthermore, the Corporate Governance Statement on pages 141-150 provides additional information on how the Board responded to employee feedback.

OUR INVESTORS

We continue to create value through a strong and diverse business model and generate sustainable returns for our diverse shareholder base. We also work to maintain effective, long-term relationships with our debt investors and partners, as well with our shareholders.

OUR COMMUNITY AND ENVIRONMENT

Our continued success is placed in the context of the society and environment where our customers and employees live and work. We aspire to have a positive impact by investing in areas that will stimulate sustainable economic growth and prosperity in our community, as well as preserve the environment in which we operate.

OUR ENGAGEMENT

We run an extensive investor relations programme, which offers investors various opportunities to engage with senior management through quarterly financial results calls, post-results roadshow meetings, and regular participation in investor conferences. Given the pandemic-related travel restrictions, our engagement with investors took place online for most of 2021. However, starting from November 2021, we were able to resume in-person meetings with some of our investors.

During 2021, our new Board members actively engaged with the Group's Investor Relations function to enhance our annual investor relations communications strategy. The Board continues to emphasise transparency, openness and availability to increase stakeholders' understanding of our strategy, business direction and how we generate value for our shareholders through our various offerings. We continue to develop our reporting and disclosure actively as a means to achieve these ambitions.

As we disclosed in June 2021, four resolutions attracted more than 20% negative votes at our 2021 annual general meeting (AGM). In accordance with provision 4 of the UK Corporate Governance Code (the Code), the Board consulted with those shareholders who voted against to understand and discuss their concerns with respect to each of the Resolutions 2, 15, 16 and 17. More information on the results of this shareholder engagement is available on page 132.

TBC is an integral part of the communities where it operates. We depend on these communities and understand the positive role we can play in developing them. Strong corporate social responsibility has been in TBC's DNA since its founding. Ways in which the Board engaged with our community and environment during 2021 included:

- Regular updates on the process of developing our Environmental, Social and Governance (ESG) Strategy and setting ESG targets through the active work of the Risk Committee;
- Frequent updates from the Bank's Chief Economist on the macroeconomic dynamics in our primary markets of operation with a sustained specific focus on the impact of COVID-19;
- Updates from the Group CEO on bank-wide efforts to manage and respond to the post-pandemic challenges faced by our employees and customers;
- Creation of the ESG and Ethics Committee of the Board. More information on this new committee is provided in the Corporate Governance Statement on page 143.

WHAT THEY TELL US

In 2021, much like the previous year, investors were interested to know that the country, our Bank and customers were recovering from the pandemic. Investors' questions once again focused on asset quality and capital and liquidity positions, and they were pleased to see that our strong capital generation allowed us to distribute interim dividends in 2021. Investors were also interested in the progress achieved in terms of our focus on digital capabilities. Our investors asked questions regarding our alignment with the Hampton-Alexander gender diversity targets of 33% female representation on the Board of Directors. Investors were pleased to see that TBC achieved this target in November 2021, with the appointment of the third female non-executive Director, Nino Suknidze.

In addition, our robust profitability supported by strong revenue generation and recoveries in provisions was noted by investors.

Also, the level of interest in our Uzbek expansion increased considerably. In many instances, a substantial amount of time during meetings was dedicated to discussing our strategy, competitive landscape and achievements. TBC in Uzbekistan has delivered strong results, which are covered in detail in the International Expansion Review on pages 68-73.

OUR RESPONSE AND IMPACT ON BOARD DECISIONS

The Board, represented by the Company's Chief Executive Officer (CEO) and the Group Chief Financial Officer (CFO), and supported by the Investor Relations function of the Group, has remained actively engaged with our shareholders. Our disclosure to the market remains detailed and consistent, providing timely assurance of the strength of our business to our investors. On 16 July 2021, the Board announced that the improved macroeconomic outlook, coupled with a robust financial performance, placed TBC Group in a strong position to maintain solid capital levels and to continue with its growth strategy in both Georgia and Uzbekistan while, at the same time, providing the opportunity to resume paying dividends to shareholders.

The Board also approved the change in the dividend policy to include semi-annual payments (an interim and final dividend each financial year) and declared the first interim dividend payment in August 2021.

Communities in Georgia are primarily concerned with access to finance and education, development opportunities for the youth, and support for small business and entrepreneurship.

In November 2021, the Board approved our comprehensive and long-term ESG Strategy to integrate issues related to climate change, sustainable development, and financial inclusion into our daily work. In our ESG Strategy, we set ourselves ambitious targets around sustainable lending, net-zero emissions, socially responsible procurement and women's empowerment. While we recognise that this is a live document and will need continuous adjustment and improvement, we believe it is a strong statement of our commitment. This year, we also started reporting in line with the Task Force on Climate-related Financial Disclosures (TCFD) requirements. For more details, please refer to our ESG Strategy on pages 26-37.

We also continued to work actively with small businesses and entrepreneurs in Georgia. We continued to support young children with monthly financial assistance for their education, and we continue to collaborate with the Young Researchers and Innovators Annual Competition - Leonardo da Vinci, for high school students. We also continued to sponsor various projects in arts and culture, including our flagship literary award, Saba. Our employee health fund continued to display the inspiring capacity for charity and incredible team spirit of our workforce. More details about these and other initiatives are discussed on pages 82-145 of our 2020 Sustainability Report, available at www.tbcbankgroup.com.

Section 172 Statement by the Board

As set out in Section 172 of the Companies Act, the Board understands that its fundamental duty is to act in the way that will be most likely to promote the success of the company for the benefit of its members. In doing so, the Board continues to have regard, amongst other matters, to the six factors set out in Section 172 (1) (a-f). As it has done in previous years, the Board continues to identify our customers, employees, and investors, as well as the community and the environment we operate in, as our primary stakeholders. The Board recognises that these stakeholder groups can affect the company's ability to be successful in the long-term and are affected by the company's activities. So, the Board has undertaken a range of activities to engage with these groups, as described in the sections above, and has incorporated stakeholder considerations into its decision making.

During the year, the Chairman, supported by the Company Secretary, ensured that the Board received the necessary information on issues affecting its key stakeholders and had adequate time to discuss these issues at its meetings. In doing so, the Chairman set up the Board's annual schedule of work and the detailed agenda for each meeting specifically to incorporate stakeholder considerations when making decisions. The Chairman, together with the Company Secretary, also ensured that all Board members received relevant training on stakeholder-related matters, and that the induction received by new Directors was fit for this purpose. The Chairman provides more insight into the principal decisions taken by the Board during 2021, and Directors' training and induction, in the Corporate governance statement on pages 141 to 150

Engagement with key stakeholders: Our customers, community and employees in Georgia

The Board continued to address the economic recovery from challenges, caused by COVID-19, which affected all stakeholders and factored this into its decision making. The Board evaluated principal and emerging risks when making strategic decisions and considered the affect these might have on relevant stakeholder groups. More information on the Company's material existing and emerging risks is available on pages 102-111.

In addition to ensuring that stakeholder interests were clearly presented in Board materials and considered during the decision making process, the Board organised and attended meetings in Georgia to engage directly with the Company's customers and employees on-site. The Board members met the Company's clients and employee groups and visited communities where our work has the most impact.

During the Board's visit to Georgia, and when using online platforms, the Directors also engaged with and considered the interests of the Company's other stakeholders including engaging with the National Bank of Georgia, the regulating entity of the Company's biggest subsidiary, JSC TBC Bank.

Where it was not practical to engage with stakeholder groups directly, the Board relied on information from the management board. The CEO continued to hold monthly meetings with the Bank's employees using Zoom to discuss the Company's performance, strategic plans, significant new policies, such as the requirement to vaccinate against COVID-19, and other important matters affecting our workforce. The CEO reported the results from these meetings to the Board during his monthly Top of Mind updates.

The designated non-executive Director for workforce engagement, or our Staff Ambassador, Tsira Kemularia implemented an intensive engagement programme in 2021. She met with employees during in-person focus groups in Georgia, where pandemic-related regulations allowed for such meetings and where these were deemed safe. She also held online focus groups and conducted a wider online survey. Results of this engagement were delivered to the Board and the Remuneration Committee, in line with the requirements of the Code, and were duly incorporated into the decision making process for all relevant matters. More information is provided in the Workforce Engagement section on page 148.

Finally, the Board asked Tsira Kemularia to continue in her role as the Staff Ambassador. Given the addition of five new board members during 2021, the Board believes that the role would benefit from continuity during 2022 as well. The Board will consider rotating for the Staff Ambassador role from 2023.

Engagement with key stakeholders: Our investors

As noted above, the Company, represented by the CEO and the CFO of our biggest subsidiary, JSC TBC Bank continued to engage with shareholders through our robust investor relations programme during 2021.

In 2021, the Board engaged more actively with the Company's shareholders who had voted against certain resolutions at the 2021 AGM. This engagement process gave the Board an important opportunity to understand some of our shareholders' views on issuing additional capital and post-employment pay policies. More details on this engagement with shareholders is available in the Company's published disclosures at www.tbcbankgroup.com as well as in the Chairman's Governance Overview on pages 130-132 and the Remuneration Committee Chair's report on pages 175-177.

Engagement with key stakeholders: Our environment and climate change

The Board has overall responsibility for approving and monitoring the Company's ESG strategy, which it approved in 2021. In January 2022, the Board created an ESG and Ethics Committee, which will ensure the Company stays focused on the ESG issues that are key for all our stakeholders. The role of the Committee is to support and advise the Board of Directors as it oversees the implementation of the Company's and its subsidiaries' (i) strategy (ii) policies and (iii) programmes in relation to ESG matters and ensuring that the ESG Strategy is implemented across all relevant businesses of the Group. The ESG and Ethics Committee also supports the Board of Directors to promote its collective vision of values, conduct and culture, and to oversee management's efforts (i) to foster a culture of ethics, (ii) appropriate conduct, and (iii) ethical employee engagement within the Group.

The Committee will provide strategic guidance on climate-related matters and will report to the Board of Directors, which has the overall oversight. Within the scope of ESG oversight of the ESG and Ethics Committee are:

- a) Periodic reviews of the Group's ESG Strategy (including climate strategy) and, its implementation, and monitoring of its execution;
- b) Overseeing the Group's disclosures on ESG matters, including reporting in line with the TCFD requirements, in the annual report and accounts. Our TCFD disclosure is provided on page 27.

Our Board invests significant time and effort to develop the relevant skills and capacity needed among

its members to incorporate ESG-related risks and opportunities into its decision making process in a more comprehensive way. During 2021, the Board considered the following obstacles when addressing climate-related risks and respective decisions: generally, there is low awareness among businesses and the local society about climate change risks and opportunities, and there is an overall lack of technical knowledge, expertise and required technological resources in climate-related topics. Our ESG Strategy aims to resolve some of these issues over the medium to long-term. More information on the ESG strategy is available on pages 26-37.

The Company also established an ESG Committee at the Executive Committee level, which is responsible for implementing the ESG strategy. We also have a dedicated team closely monitoring and managing ESG parameters and strategy implementation on a day-to-day basis. For more details, please refer to our ESG Strategy on pages 26-37.

We discuss the Board's consideration of the interests of our primary stakeholder groups, as well as relevant actions and achievements of the Company in the Stakeholder Engagement section on pages 74-93, as well as in our Sustainability Report 2020, which is available at www.tbcbankgroup.com. Detailed information on our governance framework and the principal decisions taken by the Board is provided in Corporate Governance Statement starting on page 141.

Retail Banking

OVERVIEW

TBC Bank has established itself as a leading retail bank in Georgia over the past decade, serving around 1.5 million active clients. We have a strong presence across different customer segments, including mass retail and affluent customers, thanks to our customer centric approach and best-in-class omni-channel distribution platform. The latter is comprised of leading digital channels, modern branches, best-in-class call centers, as well as the wide-network of ATMs and self-service terminals, which serve as a strong substitute for bank branches.

MULTI-CHANNEL DISTRIBUTION NETWORK

147 (2020: 149)

OF BRANCHES

4.2K (2020: 3.9K)

OF SELF-SERVICE
TERMINALS

1.6K (2020: 1.6K)

OF ATMs¹

26K (2020: 18K)

OF ACTIVE
MERCHANT TERMINALS²

OUR DIGITAL PLATFORMS

744K (2020: 652K)

ACTIVE DIGITAL USERS

44% (2020: 41%)

DAU/MAU

4.9

MOBILE BANKING APP RATING ON BOTH
GOOGLE PLAY STORE AND APPLE APP STORE



Our goal is to be the first choice for individuals living in Georgia and Georgian citizens working abroad, by providing simple, convenient and relevant financial services by leveraging our advanced digital capabilities.

Tornike Gogichaishvili

In 2021, we focused our efforts on further refining our customer journey in digital channels by introducing new products and services, increasing the accessibility of our payments options, as well as upgrading our branches to create a more friendly environment for our clients. In addition, we continued to leverage our data analytical capabilities to generate more tailored offerings and increase our profitability. We also expanded our offerings to the young generation and started to target the Georgian diaspora.

In 2021, our gross retail loan book amounted to GEL 6,358 million, up by 13.2% year-on-year on a constant currency basis, driven by an increase in mortgage and consumer loans, which grew by 13.3% and 13.1% without the FX effect, respectively. Over the same period, our deposit portfolio increased by 23.6% year-on-year on a constant currency basis, reaching GEL 5,837 million. The net profit for the retail segment amounted to GEL 283.2 million. More information about the financial performance of the retail segment is provided in the financial review section on pages 94 to 101.

2021 HIGHLIGHTS

38.6% (2020: 39.4%)

RETAIL LOAN MARKET SHARE³

40.3% (2020: 39.5%)

RETAIL DEPOSITS MARKET SHARE³

37.3% (2020: 38.5%)

RETAIL SHARE IN TOTAL LOAN BOOK

38.8% (2020: 39.6%)

RETAIL SHARE IN TOTAL DEPOSIT PORTFOLIO

97% (2020: 95%)

RETAIL OFFLOADING RATIO

1.5 mln (2020: 1.4 mln)

NUMBER OF ACTIVE CUSTOMERS

56%

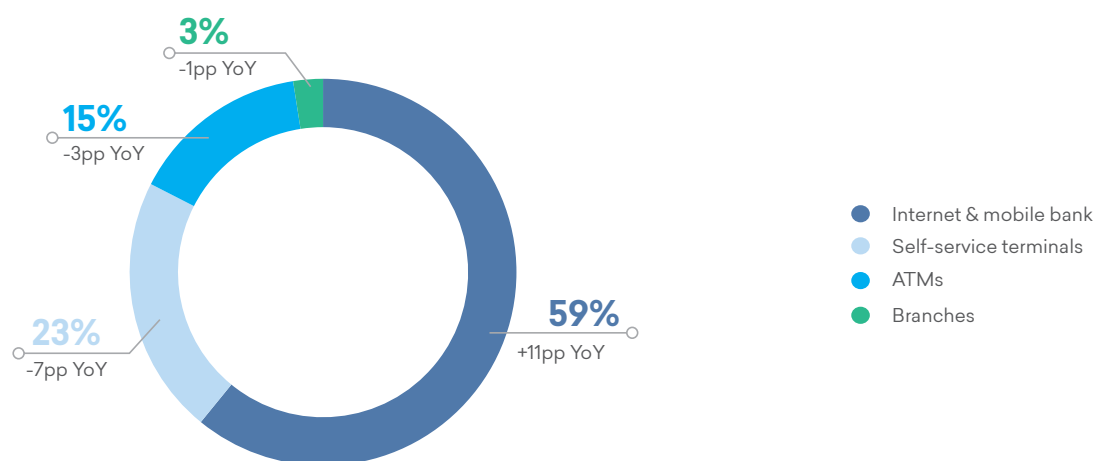
NET PROMOTER SCORE (NPS)⁴

OUR MAIN STRATEGIC PRIORITIES

Continue enhancing our advanced omni-channel platforms

During 2021, customer engagement in remote channels remained high, with 97% of transactions conducted via remote channels by retail customers, including 59% coming from our internet and mobile banking applications.

RETAIL OFFLOADING RATIO IN 2021



¹ Including partner banks

² Active merchant terminals include POS terminals and ecommerce with at least one transaction conducted during the month.

³ Based on data published by the National Bank of Georgia as of 31 December 2021; in this context retail refers to individual customers.

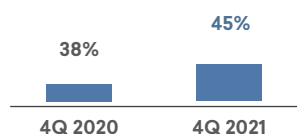
⁴ Based on survey conducted by the independent research company IPM in December 2021.

GEORGIAN BUSINESS REVIEW

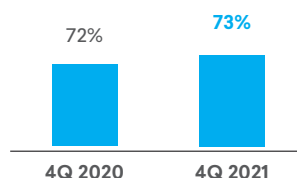
RETAIL BANKING **CONTINUED**

In order to increase the sale of consumer loans via digital sales, in August 2021 we launched an end-to-end lending process in our mobile banking. We also continued to polish our online lending platforms TBC credit (www.tbccredit.ge) and TBC installment platform (www.tbcanvadeba.ge). As a result, the share of consumer loans sold via remote channels grew from 38% in 4Q 2020 to 45% in 4Q 2021. Over the same period, the share of time and savings deposits being opened remotely stood at high 73%.

CONSUMER LOANS OFFLOADING IN DIGITAL CHANNELS



DEPOSITS OFFLOADING IN DIGITAL CHANNELS



In addition, we introduced open banking, which enables our customers to add other Georgian bank accounts to our mobile banking applications and manage their banking operations centrally. Furthermore, we enriched our digital banking with more handy features, including an IBAN scanner, which simplifies money transfers, as well as a transaction filter, which helps customers to quickly sort transactions by different parameters. In recognition of our efforts, we won “Best Integrated Consumer Bank Site in Central and Eastern Europe 2021” award from Global Finance magazine.

While we are driving our transactions and sales towards digital channels, the branches play an important role in nourishing customer relationships and communicating our vision: “to make life easier”. Therefore, this year we launched a branch redesign project with the aim of simplifying the customer journey in branches. According to the new concept, the branch is divided

into several core zones and is tailored to the needs of different customer segments. By the end of the year, we redesigned 13 branches in the capital city and 5 branches in the regions.

Making payments simpler than ever

After entering Tbilisi’s transport payments network in 2020, in 2021 we expanded our presence in three other large cities of Georgia – Kutaisi, Gori and Poti. In these cities, customers can now pay using any of our debit or credit cards, or by dedicated transport cards issued by TBC. Transport cards are very easy to obtain and use. They are nameless cards, which are not tied to any bank account and have no expiration date. The transport card can be purchased in our branches, as well as several store chains. At the end of 2021, the number of our active transport cards amounted to 47,100.

Another initiative on the payments side was the introduction of a simplified dispute process for unauthorized card transactions, which allows us to decrease the review period from 35 to 3 days. Furthermore, we increased the number of cases for which customers could get reimbursement in case of unauthorized card usage. These services are available for all insured cards, TBC Concept and wealth management customers, and they are also included in certain subscription options for our mass retail clients.

Getting closer to our customers

In order to better meet the needs of our customers and allow more flexibility, in the end of 2020 we introduced a subscriptions model for our mass retail. With the help of our advanced analytical capabilities, we have developed carefully selected packages for our customers and are constantly updating them based on customer feedback. We are also actively using various communication channels to explain the benefits of this subscription model to our customers and encourage them to subscribe. As a result, our subscription model has attracted 192,000 users by the end of the year, which represents around 13% of total active retail customers. Going forward, our goal is to shift customers from a classic banking service model to the subscription model, which will help us to provide more tailored offerings to our customers, increase their loyalty, reduce the churn rate, and generate more stable and long-term fee and commission income for the bank.

New Branch Design



Another important initiative during the year was the launch of TBC Z, a new sub-brand of TBC targeting the young generation, in October 2021. Under TBC Z, we offer a set of banking products and services tailored to customers between ages of 6-17 (pupils) and 18-23 (students) via our web platform www.tbcz.ge. Parents of pupils can track their children's accounts via internet and mobile banking, set maximum daily limits for their spending and withdrawals, and receive SMS notifications about transactions made by their child. The platform also offers various discounts and activities to cardholders tailored to their interests regarding education, entertainment, hobbies, transportation and so on. In the last three months of 2021, our youth segment reached 165,000 active customers.

Furthermore, this year we took up a new challenge – to become the number one choice for Georgian citizens working abroad – by providing simple, convenient and relevant financial services. For this purpose, we set up a dedicated team and started to explore the needs of the diaspora in order to create tailored products and services, as well as enhance the existing digital platforms to launch dedicated services for them. Today, there are around 1.3 million emigrants living abroad, which translates into 350 thousand potential clients, further supporting our growth, according to our estimates.

We also continued to run our wide-scale loyalty programme, Ertguli, which is part of our retail customer-centric approach and allows our customers to gather loyalty points by paying with TBC cards at more than 300 partner companies as well as access special offers and discounts. Customers gain more points by paying with credit cards compared to debit cards. This programme both helps us to build customer loyalty and facilitates payment business and card usage.

Continue to leverage our advanced data analytical capabilities

Within the scope of our three-year data analytical roadmap, which was developed in 2018 with the support of a leading global consultancy firm, we have launched and scaled up the following projects in the retail segment, generating an extra GEL 20 million in 2021.

Ongoing projects

- **Consumer and mortgage loan price optimization and process automation** – this is an on-going project, which is continuously fine-tuned. Based on detailed analysis of clients' spending behavior, risk profile and other characteristics, we determine the price sensitivity for each customer and develop tailored offerings for each individual client. The customer level price calculation process is fully

automated and integrated into the loan origination system.

- **Customer lifetime value** – this project is another very important step towards customer centricity, as it envisages assessment of such metrics as: customer engagement scores, customer churn, and estimating customer lifetime value.

Launched and scaled projects:

- **Subscriptions model for mass retail customers** – as described in our sub-section “getting closer to our customers” above.
- **TBC Concept service model for affluent customers** – as described in our TBC concept sub-section below.
- **Next best product in retail** – this project aims to increase conversions by developing tailored offers based on a state-of-art system algorithm, which is available in all our sales channels. The project proved to be very successful in increasing customer satisfaction levels and increasing the conversion rate.
- **Deposit pricing and profitability improvement** – this project envisages effective management of our retail deposits via tailored offerings to clients. When opening a term deposit, every single customer receives an alternative offer, which is the best possible proposition for him/her under the given conditions. In 2021, 32% of all newly opened or renewed term deposits were placed with alternative terms.

Further develop our affluent sub-segment, TBC Concept

In 2020, TBC's affluent banking moved from standard banking to an innovative, subscription banking business model, which offers our customers various subscription packages better tailored to their specific needs. Our "fully digital package" became especially relevant during the pandemic, as it allows our customers to manage their daily banking operations and receive financial advice online, while having access to all private banking customer benefits. In 2021, we also launched a new package, which is designed for individuals who need a wider range of financial tools and are interested in brokerage services to better manage their funds. In addition, within this package, we offered our clients two new premium cards: Visa Signature and Mastercard World Elite, which offer its holders a wide range of services, privileges, discounts and VIP services all over the world.

We also continued to successfully operate our TBC Concept Flagship space, which was opened in 2020 and allows us to seamlessly merge banking with lifestyle. As a conceptual space, it was strategically developed to have 80% lifestyle and 20% banking areas. The areas of the Flagship space include self-service and personal banking zones, exhibitions, library and co-working spaces as well as a cafe. As a result, the Flagship space became a favorite spot for banking, recreational activities and co-working for many of our Concept clients.

During 2021, TBC Concept has maintained its strong positioning in lifestyle offerings for its clients. With an increased data-centered approach, TBC Concept has offered its clients over 300 special offers and promotions throughout the year revolving around travel (discovering Georgia during the pandemic), shopping (mainly online), recreational activities, online platforms and much more. Furthermore, we continue to offer our Concept clients concierge services, which cover trip planning, studying abroad, restaurant reservation, flower delivery, dry cleaning, laundry, car service and much more.

We are also proud that our affluent banking services, together with the wealth management service offered by our CIB segment, won several prestigious awards:

THE BEST PRIVATE BANK IN GEORGIA 2021 from PWM and the Banker magazine

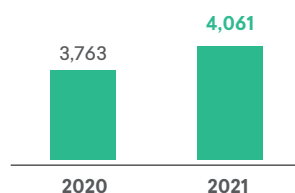
THE BEST PRIVATE BANK IN GEORGIA 2022 from Global Finance magazine

TBC CONCEPT

Loan Portfolio

(GEL million)

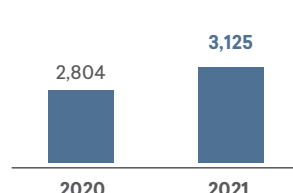
+7.9%



Deposit Portfolio

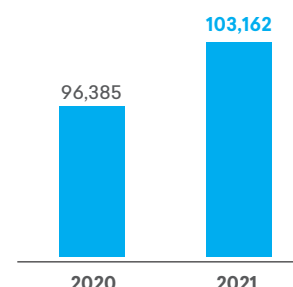
(GEL million)

+11.4%



of Customers

+7.0%



OUTLOOK

Going forward, in line with our aspiration to make life easier for our customers, we will continue to accelerate sales growth in digital channels. Furthermore, our focus is to further strengthen our position in the Georgian regions and increase the number of active clients, as well as increase the non-mortgage share of our total loan portfolio.

MSME Banking

OVERVIEW

Over the years, TBC Bank has established itself as a leading partner for micro, small and medium enterprises (MSMEs) by supporting their growth and development. As a result of our continuous efforts, 63%¹ of all newly-registered businesses in Georgia choose TBC.

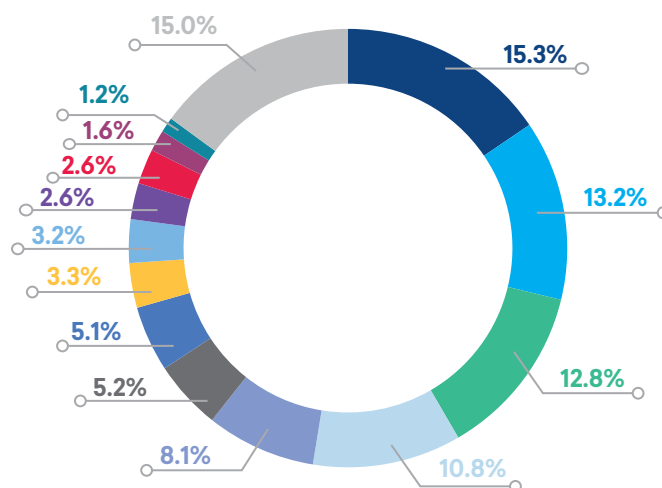
We continue to provide all-round support to businesses by offering them all the necessary tools and services in an environment still widely shaped by the COVID-19 pandemic. Our strategic priorities are expanding to digital and payment solutions, growing our share in the micro sub-segment, and enhancing our renowned business support programme.

Our efforts, combined with the revival of business activities, led to an increase in the MSME loan book of 23.3% to GEL 4,141 million during 2021, on a constant currency basis. Over the same period, the deposit portfolio increased by 18.7% and reached GEL 1,559 million, without the FX effect. In 2021, our net profit in the MSME segment mounted to GEL 164.5 million. More information about the financial performance of the MSME segment is provided in the financial review section on pages 94-101.

Our goal is to be a reliable partner and supporter of Georgian businesses from startups to well established enterprises, by providing a full range of convenient products and solutions at every stage of their development. We are also dedicated to developing a strong local business community by fostering various initiatives and programmes.

Tornike Gogichaishvili

DIVERSIFIED MSME PORTFOLIO WITH A STRONG PRESENCE IN THE AGRICULTURE, TRADE AND HOSPITALITY & LEISURE SECTORS



2021 HIGHLIGHTS

81K (2020: 73K)

NUMBER OF ACTIVE CUSTOMERS¹

63% (2020: 59%)

OF NEWLY REGISTERED LEGAL ENTITIES
CHOSE TBC BANK²

24.3% (2020: 23.2%)

MSME SHARE IN TOTAL LOAN BOOK

10.4% (2020: 10.9%)

MSME SHARE IN TOTAL DEPOSIT PORTFOLIO

98% (2020: 98%)

OF OUR ACTIVE CUSTOMERS USE
BUSINESS INTERNET OR MOBILE BANKING

OUR MAIN STRATEGIC PRIORITIES

Growing our presence in the micro sub-segment, while maintaining leadership in the SME sub-segment

As we strive to support MSME businesses of all sizes, this year we focused on increasing our presence among the smallest MSME clients, the micro sub-segment³. In order to increase our presence in this sub-segment, we undertook several initiatives:

- We continued the automatization of the loan approval process in the micro sub-segment, the implementation of which was hindered last year due to the pandemic. In 2021, we successfully launched fully automatic loan approvals so that loans up to GEL 100,000 could be approved automatically using pre-determined rules and a scoring model, thus significantly decreasing the time-to-yes period.
- We also changed the staff motivation system of our front-office employees with a higher focus on rewarding loan issuances with smaller ticket sizes.

As a result, our micro sub-segment loan portfolio grew by 26.9% in 2021.

On the SME side, in order to further streamline our processes, we implemented a financial statement automatization tool, which automatically generates a business entity's financial statements based on inputted data. This tool significantly speeds up the loan approval process, as well as eliminates the possibility of human error. As a result, the time-to-yes decreased by around two days for these loans.

¹ Out of which 40,000 are legal entities and 41,000 are individuals with business loans

² Data is for January-September 2021, source: www.napr.gov.ge, the National Agency of Public Registry

³ Includes business loans up to GEL 1 million

We are pleased that our consistent efforts towards innovation and digitalization have been recognized internationally with multiple awards from Global Finance:

Best Corporate/Institutional Online Portal 2021 in the world;

Best Corporate/Institutional Online Portal 2021 in Central and Eastern Europe;

Best Integrated Corporate/Institutional Banking Site 2021 in Central and Eastern Europe ;

Best Corporate/Institutional Mobile Banking App 2021 in Central and Eastern Europe ;

Most Innovative Corporate/Institutional Digital Bank 2021 in Central and Eastern Europe.

Increasing digitalization

In 2021, our digital services remained in high demand, as the trends set by the pandemic largely continued into this year. Around 98% of our active legal customers use business Internet or mobile banking, with DAU/MAU ratio standing at 26% by the end of 2021.

This year, the most notable innovation among our digital offerings was the introduction of open banking in our mobile banking application. Open banking brings together all the accounts of a client at various Georgian banks and allows them to check their accounts in one place. This functionality was particularly useful for our business clients, as around half of them have accounts in more than one bank. Previously, in order to check their balances and transactions, clients had to log into separate banking apps and switch between them.

We have also been actively upgrading our business app, which was launched in 2020 to make it more convenient for our MSME clients. A number of new features have been added to the app in order to better accommodate our customers' needs, such as implementing a new module for utility payments and automatic payments as well as allowing transfers using any foreign currency.

Fine-tuning our payments solutions

In 2021, we continued to introduce innovative and convenient payment solutions for our customers:

- In e-commerce, we launched an alternative payments method for small businesses, which allows merchants to process e-commerce payments in a simpler and cheaper way than using a traditional e-commerce checkout. After receiving an order from a client, merchants are able to generate a payment link through a dedicated platform and send the link to the customer. Upon clicking the link, the client then chooses a suitable payment option: any bank's mobile or internet banking, QR payment through TBC's mobile bank, Apple Pay, or payment with our loyalty programme Ertguli points.
- Furthermore, in order to facilitate online payments, we launched a new platform, Payments Space (available on www.tbcpayments.ge) for our merchants, which allows them to easily control their daily transactions, receive analytical reports and manage their payments products. The platform is free of charge.
- On the POS side, we introduced Android POS solution, which is a smarter alternative to the traditional POS, aimed primarily at small & medium businesses. Thanks to its operational system (Android), it is more flexible, allowing to add non-payment functionality to POS terminals and offering better customer experience for merchants and customers. As of 31 December 2021, we already had 100 active Android POS terminals.

Enhancing our business support programme

We are committed to facilitating the success of our business clients by providing them with a full-scale business support programme, enriched with extensive educational resources and technological tools, which are accessible from a single platform www.tbcbusiness.ge.

We have the largest business education programme in Georgia, which has attracted over 30,000 attendees through around 1,000 lectures over the past eight years. The programme has been developed in partnership with the Asian Development Bank and provides free access to live lectures on various relevant topics, such as technology, digital marketing, human resources etc.

In order to help businesses find and utilize the most suitable tools and software, we created an online platform www.businesstools.ge. This platform connects developers with users and offers a convenient way to find, compare and review various programmes created for accounting, IT management, project management and other fields.

We continue to offer our business customers Business Club, a unique subscription model that combines a bundle of financial products and services with extensive non-financial offerings, such as exclusive face-to-face and group meetings, seminars and workshops with market-leading specialists in various areas, as well as special offers from our partners. Around 30% of our MSME legal clients are Business Club members.

In order to reward innovation and creativity, as well as encourage entrepreneurs, we have established several renowned annual events:

- The Annual Business Award Ceremony, established back in 2015, aims to identify outstanding businesses in Georgia, help them develop, gain publicity and recognition and inspire other entrepreneurs. This year, the event was organized in partnership with EFSE and Forbes Georgia and attracted 41.3 million views in media, while top of mind awareness reached 70%¹. Over the years, the ceremony has attracted more than 3,000 businesses from various fields.
- The Annual Apps Challenge, which was first established in 2020. This year, 40 teams entered the competition with unique and innovative app ideas, for the chance to become one of three winners and receive funding to bring their ideas to life.

Additional support for startups and rural enterprises

Since 2017, we have run Startuperi, a start-up oriented project offering full-scale support to companies in an early stage of development. The programme aims to foster entrepreneurship by providing easily accessible funding, media & PR support, free educational programmes and conferences, as well as partnerships with large companies in Georgia. The outstanding portfolio of the programme is comprised of 493 active loans, in the total amount of GEL 196.9 million as of 31 December 2021.

In order to foster business development in rural areas and help to create new job opportunities, we are actively supporting local businesses by providing affordable finance. We partnered with three government programmes, "Produce in Georgia", "Host in Georgia" and "Preferential Agro Credit", to support agricultural and hospitality businesses. The programmes offer lowered interest rates through governmental subsidies. In 2021, we disbursed 2,096 loans in the amount of GEL 530.0 million within these programmes.

OUTLOOK

Going forward, we will stay focused on providing our clients with a superior customer experience, simplifying and digitalizing our products, increasing our presence in the small micro sub-segment in the regions, further developing our subscription model, as well as remaining the best business supporter in the country.

¹ Based on survey conducted by an independent research company, ACT



A dark blue world map is visible in the background, showing the outlines of continents and countries.

WORLD'S

BEST CORPORATE

INTERNET BANKING PORTAL



თობინი

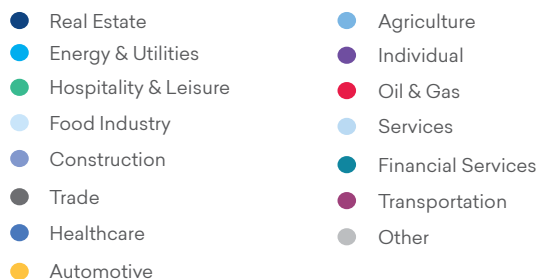
GLOBAL
FINANCE

CIB Banking

OVERVIEW

Over the past decades, TBC Bank's CIB business has been a leading provider of corporate and investment banking solutions in Georgia, helping businesses to optimize their funding structure and effectively manage their risks. We hold the number one market position across all major products including loans, deposits and trade finance products. We offer a full suite of lending and transactional products, advisory services in managing and structuring complex transactions, leading trade finance capabilities, strong sector expertise across all major industries of the economy, as well as additional financial resources via partnerships with International Financial Institutions and government programmes. Since January 2021, we have integrated our wealth management (WM) business into our CIB business in order to better serve our clients with a combined offering, as the majority of our high net worth individuals are shareholders and C-level executives in our CIB clients.

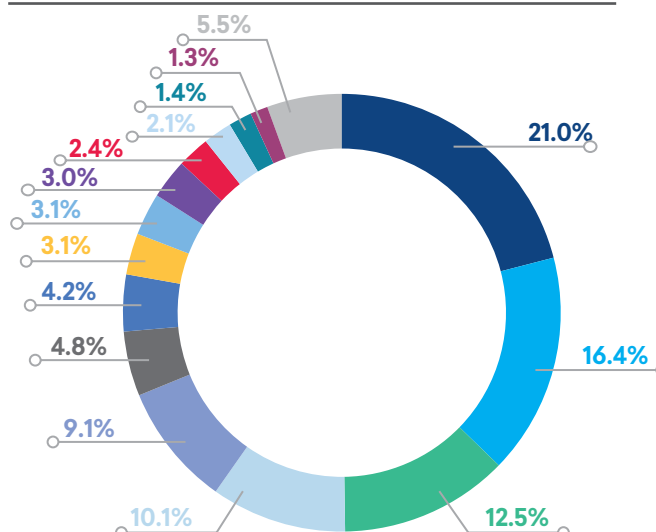
During 2021, we continued to expand our business and attract new large and medium corporate borrowers operating in different industries. As a result, our gross loan book amounted to GEL 6,548 million, up by 19.5% year-on-year on a constant currency basis, while the deposit portfolio stood at GEL 7,331 million, up by 33.7% year-on-year without the FX effect. Over the same period, the corporate guarantees and letters of credit portfolio amounted to GEL 1,939 million, broadly stable at constant currency basis. In terms of profitability, our net profit in the CIB segment amounted to GEL 380.3 million. More information about the financial performance of the CIB segment is provided in the financial review section on pages 94-101.



Our goal is to be the number one trusted strategic partner for large enterprises and high net worth clients by helping them to grow and prosper. We distinguish ourselves by sector specific, tailor-made solutions as well as strong industry and product expertise, which are the key value drivers for our clients.

George Tkheidze

A WELL-DIVERSIFIED LOAN PORTFOLIO WITH A STRONG PRESENCE IN ALL MAJOR SECTORS OF GEORGIAN ECONOMY



2021 HIGHLIGHTS

39.1% (2020: 38.6%)

CIB LOAN MARKET SHARE¹

40.5% (2020: 34.5%)

CIB DEPOSITS MARKET SHARE¹

38.4% (2020: 38.4%)

CIB LOAN SHARE IN TOTAL PORTFOLIO

48.7% (2020: 45.5%)

CIB DEPOSIT SHARE IN TOTAL PORTFOLIO

48.0% (2020: 52.4%)

CIB GUARANTEE AND LETTER OF CREDITS
MARKET SHARE¹

7K (2020: 6K)

NUMBER OF CUSTOMERS²

OUR MAIN STRATEGIC PRIORITIES IN 2021

Corporate banking

Improved client coverage model

In 2021, we revised our business model to ensure more focused coverage of our corporate clients and created three separate, dedicated divisions: strategic clients (top 50 groups of related companies), large and medium sized corporates (industry teams) and vulnerable clients. The new structure enabled us to better tailor our offerings to the needs of different customer groups and proactively manage our credit risk. As a result, the share of large and medium sized customers in our CIB portfolio increased by 5.7 pp to 38.1%, while our NPL ratio in CIB improved by 1.0pp and amounted to 1.4% by the end of 2021.

Increased focus on transaction banking

We also set up a new dedicated team to manage non-lending business covering FX transactions, deposits, cash management solutions and other non-lending products, with specific product expertise and sales capabilities, in order to better serve our CIB customers and diversify our non-interest income streams. One of the initiatives rolled out by this team includes the introduction of new bulk cash deposit machines to our branches, which provide a fast and secure way of depositing large amount of cash to bank accounts. By the end of 2021, we have already installed 38 new machines in our branches and clients' premises. Going forward, we are planning to add 12 more machines and expect to collect at least GEL 500 million in incremental cash from corporate clients per year.

In 2021, the volume of FX transactions from corporate clients amounted to GEL 14,266 million, up by 52% year-on-year, while cash management volumes from corporate clients increased by GEL 934 million or 23.5% year-on-year and amounted to GEL 4,906 million.

Commercial Excellence Transformation Programme

We achieved good progress in our commercial excellence transformation project, which was launched last year. In 2021, the project resulted in an additional c. GEL 10 million net banking income and reduced time spent on back office tasks by 15%.

Within the scope of this project, an advanced IT tool was developed that provides a 360 degree view on each client, based on industry benchmarks, publicly available and internal data. It also calculates customer profitability and conducts simulation analysis. As a result, our bankers are able to better understand and capture the potential of existing and target clients and use this information in account planning, customer profitability management, decision-making, and negotiations with clients.

¹ Based on data published by the National Bank of Georgia as of 31 December 2021; in this context, corporate refers to legal entities.

² Out of which 4,340 are corporate clients and 2,660 Wealth Management clients.

Investment Banking – TBC Capital

TBC Capital is a wholly-owned investment banking subsidiary of TBC Bank and a licensed brokerage firm. TBC Capital was established in 1999 and has been a leader in investment, brokerage and corporate finance solutions. As a member of TBC Group, the company is uniquely positioned to help clients of all backgrounds meet their financial objectives from structuring to executing deals or advising on complex corporate transactions. TBC Capital is also a shareholder in the Georgian Stock Exchange and contributes to the development of its infrastructure and the integration of the domestic capital market into international markets.

Staying active on bond markets

In 2021, TBC Capital maintained its leadership position in terms of total bonds issued on the Georgian market. As the economy rebounded from the pandemic, we conducted several milestone transactions including acting as a Joint Lead Manager, together with a number of leading international investment banks, on two Eurobond placements: US\$ 500 million by Georgian Railway and US\$ 75 million Additional Tier-1 Capital Bonds by TBC Bank and as a Co-Manager on US\$ 500 million Eurobond issued by Government of Georgia.

On the local market, TBC Capital acted as Sole Arranger for GEL 35 million bond placement by Nikora Trade and as a Joint Lead Manager on US\$ 12 million placement by Lisi Lake Development. TBC Capital was also active in private bond placements and acted as Sole Arranger on US\$ 31 million private bond placement for TBC PLC as well as three private bond placements for EBRD and FMO. As a result, the public and private corporate, as well as government bonds issued by TBC Capital during the year accounted for 52%¹ of total bonds issued.

In addition, this year, TBC Capital introduced a new real estate advisory service and already closed two deals with the total value of c. US\$ 26.4 million.

 LISI US\$ 12,000,000 3 YEAR PUBLIC PLACEMENT 6.50 % DECEMBER 2021 PLACEMENT AGENT	 EBRD GEL 87,000,000 3 YEAR PRIVATE PLACEMENT 3M TIBR NOVEMBER 2021 LEAD MANAGER	 NIKORA GEL 35,000,000 3 YEAR PUBLIC PLACEMENT 3M TIBR + 3.50 % NOVEMBER 2021 PLACEMENT AGENT	 JSC TBC BANK US\$ 75,000,000 ADDITIONAL TIER ONE PERPETUAL BONDS OCTOBER 2021 JOINT LEAD MANAGER	 TBC BANK GROUP PLC US\$ 31,000,000 3 YEAR PRIVATE PLACEMENT AUGUST 2021 PLACEMENT AGENT
 GEORGIAN RAILWAY US\$ 500,000,000 7 YEAR PUBLIC PLACEMENT 4.00 % GREEN NOTES JUNE 2021 JOINT LEAD MANAGER	 LISI GEL 157,500,000 1.5 YEAR PRIVATE PLACEMENT 3M TIBR JUNE 2021 LEAD MANAGER	 FMO GEL 34,000,000 5 YEAR PRIVATE PLACEMENT NBG 3M CD MAY 2021 LEAD MANAGER	 GEORGIA US\$ 500,000,000 5 YEAR PUBLIC PLACEMENT 2.75 % APRIL 2021 CO-MANAGER	

Enhancing our research services

TBC Capital's research division provides access to comprehensive data and analytical insights for large corporate borrowers and investors. Its coverage comprises regular macro, sectoral, equity market, and fixed income updates as well as in-depth analytical reports on significant developments and events. This year, the research division continued to provide corporate borrowers and investors with regular updates on the recovery of the Georgian economy through its regular, weekly, monthly and quarterly publications and online events. In addition, it successfully launched

coverage of equity markets and provided the audience with weekly updates on developments in global equity markets. Furthermore, our research division closely monitored the recovery of the tourism and real estate sectors through its monthly sector watch series. Overall, in 2021 TBC Capital published more than 200 publications. The full list of reports is available at www.tbccapital.ge.

The coverage of our reports continues to increase both locally and among international investors and analysts. Our macro updates are also broadcast on a regular basis via local business media online channel. Moreover, in 2021 TBC Capital started to produce regular video updates on some of the most important research findings and economic developments to diversify its format of content. In addition, throughout the year we organized several large-scale online conferences for our customers, covering challenges and trends in the Georgian economy from a macro as well as a sectoral perspective. In 2021, TBC Capital became research contributor to Bloomberg and Refinitiv, targeting wider international audience interested in Georgia.

Private Banking - TBC Wealth Management

TBC WM is Georgia's leading wealth management franchise, serving around 2,700 resident and non-resident high net worth clients. We offer a wide range of personalized banking, investment and insurance products that are carefully designed to meet the individual financial goals of our customers and maximize their wealth. In addition, our clients benefit from exclusive lifestyle offerings for major elite events happening in the country. We also have a representative office in Israel, TBC Invest, which acts as an intermediary with high net worth clients from Israel and offers fast and efficient consulting services on the ground.

In 2021, we rebranded TBC VIP to TBC Wealth Management and launched a dedicated WM webpage (www.tbcbwm.ge) for our existing and potential clients, which provides comprehensive information about our operations. In addition, we introduced a new product – Visa Infinite, Visa's most elite card, exclusively for WM clients. Considered a symbol of recognition, the prestigious Visa Infinite provides clients with comfort and bespoke benefits, both in Georgia and across the world.

- **Best Treasury and Cash Management Bank in Georgia 2022**
- **Best Trade Finance Provider in Georgia 2022**
- **Best Foreign Exchange Provider in Georgia 2022**
- **Best Private Bank in Georgia 2022**
- **Best Investment Bank in Georgia 2021**

Global Finance

- **Best Private Bank in Georgia 2021**

PWM and the Banker magazines

¹ Based on internal estimates

ENTRÉE

The Georgian bakery network “Entrée” has been present in the Georgian market since 2008 and has emerged as one of the country’s most successful fast casual dining concepts in recent years. We became Entrée’s partner in 2011 and have stood by their side since then. In summer 2021, with our support, Entrée opened a new facility in Notting Hill, London and serves customers with Georgian cuisine along with French dishes. This is our second cooperation with Entrée; the first was in 2015, when Entrée successfully launched its first café abroad in Baku.



TBC Insurance

2021 HIGHLIGHTS

37.3% (2020: 37.3%)

NON-HEALTH INSURANCE RETAIL
MARKET SHARE¹

22.2% (2020: 21.1%)

NON-HEALTH INSURANCE MARKET SHARE¹

GEL 114 mln (2020: GEL 86 mln)

GROSS WRITTEN PREMIUM(GWP)

65%

NPS²

300K (2020: 260K)

NUMBER OF CUSTOMERS

TBC Insurance is a wholly-owned subsidiary of TBC Bank, which was acquired by the Group in October 2016 and is the main bancassurance partner for the Bank, with a share of around 35.0% in its total gross written premium (GWP) as of 31 December 2021.

TBC Insurance serves its customers with a highly digitalized approach, which includes a website and a mobile app for health insurance. The company is represented in both non-health and health insurance segments. In 2021, TBC Insurance was well regarded by its customers with an NPS² of 65% - the best score among its peers.

TBC Insurance has a strong presence in the non-health insurance market, serving both individual and business clients. We have the leading position in the retail segment of non-health insurance with a market share of 37.3% as of 31 December 2021, stable on year-on-year basis. For the same period, our total non-health insur-

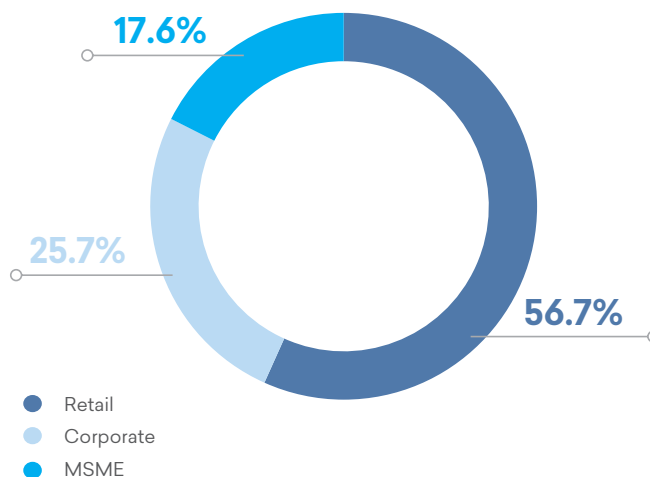
Our goal is to be a 5-star retail insurance company, easily accessible to every individual living in Georgia, providing services through our best-in-class client oriented digital channels

ance market share stood at 22.2%, up by 1.1 pp year-on-year. Our non-health services cover motor, travel, personal accident, life, property, business property, liability, cargo and agro products. In 2021, we also entered the retail life insurance market.

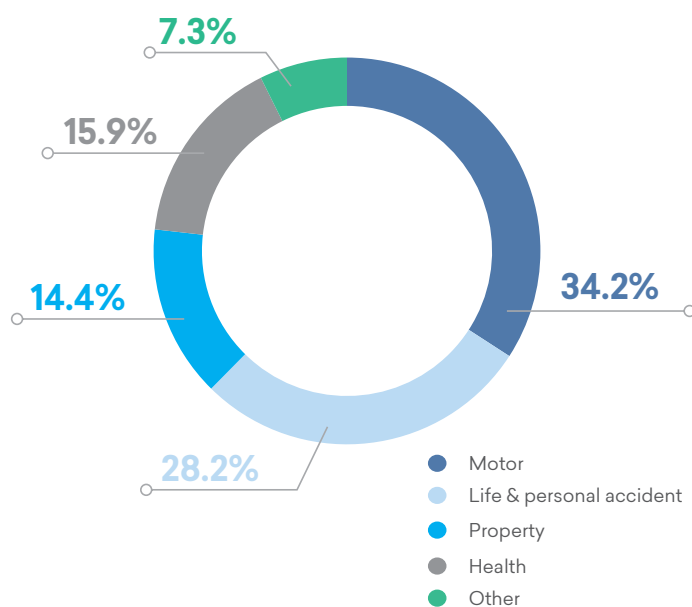
In 2019, we expanded our operations by entering the health insurance market, aiming to target the premium segment through convenient offerings, a best-in-class customer experience as well as a strong focus on digitalization. In 2021, the number of our health insurance clients reached 29,100, while our market share in the corporate segment amounted to 9.2%, up by 3.9 pp year-on-year.

The breakdown of TBC Insurance's GWP by segments and products is presented below:

TOTAL GWP IN 2021 BY SEGMENTS



TOTAL GWP IN 2021 BY PRODUCTS



Our focus remains to strengthen our non-health and health insurance businesses by leveraging our strong digital capabilities and superior customer experience as well as generating synergies between the two business lines.

The Georgian insurance market has high growth potential, as it is under-penetrated compared to the CEE region, with a total GWP to GDP ratio³ of 1.23% as of 2021. The non-health insurance market represents 60.5% of the total insurance market and has grown by 17.1% year-on-year in 2021. Over the same period, the health insurance market has grown by 14.4%.

MAIN ACHIEVEMENTS AND STRATEGY

In 2021, we remained committed to further strengthening our digital presence, as well as diversifying our product offerings.

Non-health insurance business

As the COVID-19 pandemic carried on into 2021, we continued to serve our customers with an increased focus on digital channels throughout the year. As a result, in 2021, the number of policies sold through digital channels increased by 23% reaching 79,230, leading to a sales offloading ratio of 70.4%⁴, up by 1.6 pp year-on-year. As for motor insurance, the claims reimbursement offloading ratio⁵ amounted to 74.4%, up by 5.0 pp year-on-year, while 58.6% of total motor policy renewals were made digitally.

In September 2021, we introduced a new voluntary life insurance product in the retail segment. We offer life insurance to our customers through two packages, individual and family. The policies can be purchased online, through our web platform. Over the four months to December 2021, we issued up to 767 policies collecting GEL 329 thousand in premiums.

As for the business segment, we significantly increased penetration in the untapped MSME market as GWP on our MSME bancassurance platform almost doubled year-on-year and reached GEL 5.4 million. This increase was due to a new staff motivation system, as well as an upgrade of the platform, which made it more user friendly and improved the sales process. In terms of the corporate segment, we have attracted several large companies operating in the energy and service sectors.

Health insurance business

We continue to provide our health insurance clients with convenient offerings through sophisticated digital channels. In 2021, based on our customer feedback, we carried out a complete redesign of the health insurance app in order to make it more user-friendly and intuitive. As a result, our digital users reached 9,600, while downloads of the app amounted to 12,130 by the end of the year.

In 2021, we also began expanding into the mid premium segment by offering customers tailored policies at a lower cost.

Over the year, the number of our health insurance clients reached 29,100, which was mostly due to attracting 182 new companies. The digital parameters remained high, with the claims reimbursement offloading ratio⁶ standing as high as 89.4%.

Financial Overview

In 2021, GWP of our non-health insurance business increased by 23.4% and amounted to GEL 95.8 million, while net earned premium increased by 16.7% year-on-year and stood at GEL 74.6 million. Over the same period, the gross written premium of our health insurance business increased by 106.8% and stood at GEL 18.0 million, while net earned premium increased by 73.2% and amounted to GEL 12.8 million.

In 2021, our total net combined ratio⁷ stood at 85.5%, down by 1.3 pp year-on-year, while respective ratio without health insurance business stood at 79.1%, down by 3.4 pp year-on-year. Overall, our net profit increased by 37.0% and amounted to GEL 13.8 million in 2021.

1 Market share without mandatory border motor third party liability insurance (MTPL). With mandatory border MTPL, retail and total non-health insurance market shares were 33.8% and 21.3% respectively. Source: www.insurance.gov.ge

2 The Net Promoter Score (NPS) was measured in January 2022 by an independent research company, Anova

3 Source: Geostat and www.insurance.gov.ge

4 The number of policies sold via digital channels divided by the total number of voluntary retail policies

5 The number of motor claims regulated distantly (by web & call center) divided by the total number of motor claims

6 The number of health insurance claims resolved distantly (by web & call center) divided by the total number of health insurance claims

7 Net insurance claims plus acquisition costs and administrative expenses divided by net earned premium

TBC Pay

TBC Pay is a leading payments provider in Georgia offering individuals and businesses convenient payment solutions. TBC Pay is a wholly owned subsidiary of TBC Bank and has been operating since 2008. TBC Pay offers a wide range of services including utility payments, mobile top-ups, loan repayments and money transfers through its wide and easily accessible distribution network.

TBC Pay mainly services its customers via self-service terminals conveniently distributed across the country. The number of self-service terminals amounted to c. 4,205 at the end of 2021, up by 300 compared to the last year. These terminals allow customers to conduct a range of payments instantly on a 24/7 basis, using both cash and cards.

In addition, TBC Pay operates a website (www.tbcpay.ge), along with a mobile app, which offers a simple and engaging interface. In 2021, we also added international cards to our digital payments channels. Overall, in 2021, the number of payments conducted through digital channels increased by 49% year-on-year, while number of active digital users reached c. 51,000.

For businesses with large cash operations, TBC Pay offers cash management services, in the form of specialized cash boxes. After depositing cash into these boxes, the sum is automatically transferred to the company's bank account. The cash boxes are secured through a strong authorization process.

In order to support the increased scale of business, the company is streamlining its processes and implementing new technologies. In 2021, TBC Pay successfully completed agile transformation in its IT department and started to roll it out in other departments as well. In addition, the company began implementing an enterprise-wide software, which is planned to be launched next year.

Over 2021, the volume of transactions conducted through self-service and cash management terminals as well as digital channels grew by 40% to GEL 5,636 million. Over the same period, net commission income reached GEL 38 million, up by 15% year-on-year, while EBITDA amounted to GEL 23 million, up by 8% year-on-year.

We aspire to become the largest payments provider in Georgia by further strengthening our digital capabilities as well as diversifying and fine-tuning our services. Additionally, we plan to become the largest payments aggregator in Georgia by implementing open banking capabilities.

2021 HIGHLIGHTS

4.2K (2020: 3.9K)

NUMBER OF SELF-SERVICE TERMINALS

+40% YoY

GEL 5.6 bln

VOLUME OF PAYMENT TRANSACTIONS

TBC Leasing

TBC Leasing, a wholly-owned subsidiary of TBC Bank, was established in 2003 and has since become a leading leasing services provider in the Georgian market with a market share¹ of 77% as of 31 December 2021, up by 5 pp year-on-year. TBC Leasing serves both individuals and business clients, offering them a full range of leasing solutions and advisory services, including financial leasing, operating leasing, sale and leasebacks tailored to customers' needs. TBC Leasing serves its retail customers at its service centers and at partner vendors' sales points. As for business clients, TBC Leasing actively leverages TBC Bank's digital channels and branches.

As of 31 December 2021, our leasing portfolio stood at GEL 254 million and remained broadly stable on a constant currency basis. 88% of the portfolio was related to legal entities, with strong positions in the construction, service and manufacturing sectors. The remaining 12% of the portfolio originated from individual clients and consisted of new and used cars, with respective shares in the total retail portfolio of 51% and 49%. In 2021, net profit of TBC Leasing amounted to GEL 11.6 million.

TBC Leasing continues its active engagement in financing of green, renewable and energy efficient assets. Over the past three years, our green leasing portfolio increased by 57% and amounted to GEL 5 million. In 2021, the company launched a PV solar panel grant programme in cooperation with the Green for Growth Fund (GGF), EU4Energy and Finance in Motion, which enables legal entities as well as individuals to significantly decrease the design and installation costs of solar panels.

In January 2021, Fitch credit rating agency maintained TBC Leasing's existing long term credit rating of BB-, which is the highest credit rating among Georgia's non-banking institutions, and, in April 2021, revised the outlook of the credit rating from Negative to Stable. This credit rating will increase TBC Leasing's creditworthiness and helps us to attract new creditors and lower the cost of funding. During 2021, the company successfully raised additional funding of US\$ 30 million, in the form of senior loans, from Development Financial Institutions as well as International Financial Institutions.

Finally, we remain dedicated to raising awareness among the Georgian population regarding the benefits of leasing solutions, as the Georgian leasing market is still highly underpenetrated with a leasing to GDP ratio of just 1%¹.

Our aspiration is to further strengthen our leading market position via developing tailored solutions, as well as dedicated digital offerings. In addition, our priority is to increase the share of green/renewable and energy efficient projects.

2021 HIGHLIGHTS

77% (2020: 72%)
MARKET SHARE¹

2,265 (2020: 2,846)
NUMBER OF CUSTOMERS

GEL 254 mln (2020: GEL 280 mln)
LEASING PORTFOLIO

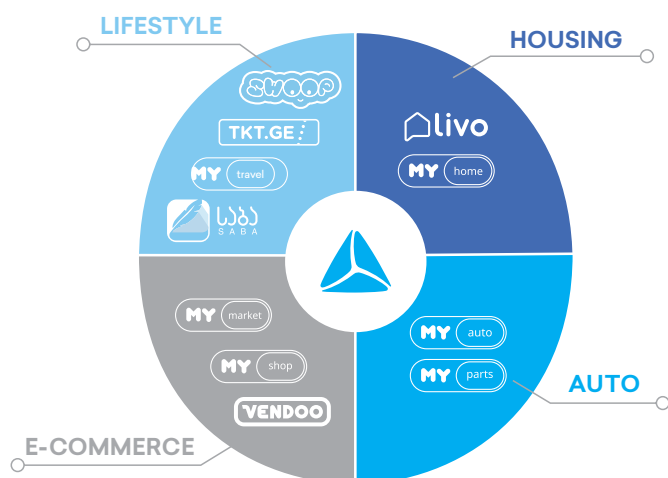
¹ Based on internal estimates

Creating a Digital Ecosystem

We seek to expand our value proposition beyond banking by building a digital ecosystem in four major marketplace verticals: e-commerce, auto, housing and lifestyle. This will allow us to capture most of our clients' daily needs and provide them with comfortable digital solutions supported by a variety of payment or installment options. Our ecosystem is an open platform, meaning that our clients are free to choose their preferred payment provider or request installments from the bank of their choice.

Our strategic priorities include increasing the ecosystem's gross merchandise value (GMV) and earnings by significantly enhancing our existing classified business model with new products and services, as well as operating a big data hub that will help us to increase lead generation and build customer loyalty via tailored offerings.

At the end of 2021, we merged most of our ecosystem companies into a single entity, TBC Net. While the individual platforms retained their brand names, operating them under the same entity will help us to achieve cost optimization and synergies. In 2021, we also launched a data hub that aggregates, processes and analyzes data and makes it available to third parties.



Our goal is to become the largest digital ecosystem in the country and an indispensable part of people's daily lives by providing a seamless customer experience.

2021 HIGHLIGHTS

1.7 mln

NUMBER OF UNIQUE VISITORS

127,000

NUMBER OF LEADS GENERATED

HOUSING

The housing part of our ecosystem consists of two platforms – [Livo.ge](#)¹ and [Myhome.ge](#)². In December 2021, together they held a 50% market share³ among comparable housing platforms based on the number of unique monthly visitors, which amounted to 249,000 and 479,000 for Livo.ge and Myhome.ge, respectively.

Livo.ge is a technology driven platform, offering its clients various traditional and innovative housing solutions ranging from basic property listing to real estate valuation via AI module and air pollution indication of the area. This year, Livo.ge launched a new service-housing auction, allowing any bank to sell its repossessed property online. During 2021, 173 auctions were successfully conducted.

Myhome.ge has been operating in the Georgian housing market since 2011 and is a leading classified digital platform, offering real estate listings for purchase and rent. In 2021, Myhome.ge introduced an improved real estate developers' module, allowing clients to find and compare projects with more ease.

Our aspiration for the housing platforms is to strengthen our position in the market by offering a full range of housing services for real estate owners and buyers.

E-COMMERCE

The e-commerce part of our ecosystem consists of two platforms – [Vendoo.ge](#)⁴ and [Mymarket.ge](#)². Together these platforms hold a 62% market share³ among comparable e-commerce platforms in Georgia, based on December data. Vendoo.ge is an online marketplace platform, with 202,000 monthly unique visitors in December, while Mymarket.ge is a well-established hybrid platform, offering its clients a classified listing service as well as an online marketplace, with 1,012,000 monthly unique visitors over the same period. In 2021, the GMV of both platforms amounted to GEL 10 million.

During the year, Mymarket.ge rolled out several new initiatives:

- Introduced online installments for the purchase of secondhand items in order to encourage C2C sales;
- Launched a dedicated mobile app for Mymarket in Q3 2021. The app has a personalized feed for every user based on his or her interests, and also offers a personal page with favorite items and order history. By the end of the year, the number of downloads reached 130,000.

Our aspiration for the e-commerce platforms is to enrich their value proposition by further diversifying our offerings, and to continue focusing on the online marketplace model for Mymarket.ge.

AUTOMOTIVE

The automotive part of the ecosystem consists of two platforms – [Myauto.ge](#)² and [Myparts.ge](#)². The platforms are market leaders in Georgia among comparable platforms and held a market share³ of 81% in December 2021, based on monthly unique visitors, which stood at 1,099,000 and 253,000 for Myauto.ge and Myparts.ge, respectively.

Throughout 2021, Myauto.ge continued to run auctions, with 68 successful auctions during the year. A dedicated app, which was launched last year also proved to be successful, with the number of downloads reaching 755,000 by the end of 2021.

We aspire to enrich our platforms with even more convenient auto-related services, such as allowing users to participate in auctions taking place abroad.

LIFESTYLE

The lifestyle part of our ecosystem includes [Swoop.ge](#)⁵, [TKT.ge](#)⁶, [Mytravel.ge](#)² and [Saba.com.ge](#)⁷. Their market share³ together amounted to 58% in December 2021.

Swoop.ge is a major Georgian couponing platform, offering various lifestyle discount coupons for restaurants, cinemas, beauty salons, entertainment centers as well as hotels. Number of unique visitors for Swoop reached 126,000 in December 2021.

TKT.ge is a leading Georgian online ticketing platform, where people can buy tickets for various events such as the cinema, the theatre or concerts as well as transport tickets. Number of unique visitors for TKT.ge reached 334,000 in December 2021.

Mytravel.ge was launched in 2021 and enables travelers to rent accommodation as well as car rentals through Myauto.ge. The platform aims to promote domestic travel destinations to Georgian travelers by offering convenient accommodation and transportation services.

Saba.com.ge is a Georgian e-book platform, offering users a wide selection of Georgian and translated literature. The platform is available through web browsers as well as a dedicated smartphone application.

We aspire to become even more engaged with our clients' lifestyles and provide them with more tailored offers and opportunities in the future.

- 1 In January 2019, we acquired a 90% share of the real estate platform LLC Allproperty.ge, a local real estate listing company, for US\$ 225,000 including taxes. This platform was used to launch Livo.ge. In November 2021, we acquired the remaining 10% for a consideration of GEL 945,000. Since 2021, Livo.ge has been merged to LLC TBC Net.
- 2 In August 2019, for a consideration of GEL 19.45 million, TBC Bank acquired a 65% stake in LLC My.ge, the leading classified e-commerce player in Georgia, trading under the My.ge Group ("My Group") name. My Group operates in three online marketplace verticals: automotive & automotive spare parts (Myauto.ge and Myparts.ge), consumer-to-consumer goods (Myshop.ge and Mymarket.ge) and housing (Myhome.ge). In September 2021, for a consideration of GEL 16.18 million, TBC Bank acquired the remaining 35% stake and became the sole owner of My.ge. Since 2021, LLC My.ge has been merged to LLC TBC Net.
- 3 Source: Similarweb; Market shares are calculated based on number of unique visitors
- 4 Vendoo was established in 2018 by TBC Bank.
- 5 In August 2018, we acquired a 100% stake in Swoop, a well-known Georgian online discount and sales company, for a consideration of US\$ 70,000. Since 2021, Swoop JSC has been merged to LLC TBC Net.
- 6 In May 2019, we increased our share in our associated company LLC Online Tickets ("TKT.ge") from 26% to 55%. Total investment amounted to GEL 1,700,000, including taxes.
- 7 In June 2021, we acquired a 100% share LLC Artarea.ge, a parent company of LLC Saba, an online e-book platform, for a consideration of GEL 26,000.

TBC UZ

Overview of our international strategy

At the heart of our international strategy lies our fintech platform Space, a digital banking as a service provider. Space was developed back in 2018 with the aim of using its platform in multiple international markets. It was first introduced and tested in Georgia, and it was subsequently launched in Uzbekistan in 2020.

The platform itself is a cloud-based modular solution with on-premises deployment options. It has a single source code and flexible IT architecture, which supports fast deployment and low-cost adaptation to local regulatory requirements. Operationally, Space is run centrally by a Georgian-based team, which owns the backlog for the development of the global platform and its products, while a local team in Uzbekistan is responsible for business operations. This approach ensures the efficiency and scalability of our business model and also facilitates entry into new markets. In addition, it simplifies future maintenance and upgrades of the system.

Why Uzbekistan?

Uzbekistan is the first international market that we decided to enter due to its large population size, low banking penetration and high smartphone usage, thus offering us significant growth opportunities. The country has a growing population of 34.7 million, while the retail loan penetration ratio¹ was as low as 10.9% in 2021. In addition, around half of the population uses smartphones, with even higher usage among youth. Furthermore, Uzbekistan has been implementing market-oriented economic reforms since 2017, turning it into an attractive country for investment. In 2021, Uzbekistan showed a strong post-COVID recovery, with annual real GDP growth at 7.4% after positive 1.9% expansion in 2020, according to the statistics office of Uzbekistan. The Russian invasion of Ukraine will likely have an adverse impact, particularly given Uzbekistan's exposure to remittances from Russia. However our expectation is that this will be to large extent mitigated by an increase in the value of commodity exports of Uzbekistan.

TBC BANK IN UZBEKISTAN (TBC UZ) – THE FIRST DIGITAL BANK IN THE COUNTRY

Overview

TBC UZ is the first digital bank in the country, with the ambition of transforming traditional daily banking into a much simpler, more transparent and intuitive experience, as well as allowing customers to be in complete control of their finances through best-in-class payment,



Our international strategy envisages deploying an asset-light and highly digitalized business model for retail and MSME customers in carefully selected markets, based on our scalable and technologically sophisticated fintech platform, Space.

Nikoloz Kurdiani

savings and loan products that are only a click away.

TBC UZ obtained its banking license in April 2020 and in October 2020 launched its retail banking operations to the wider population. TBC UZ serves retail customers through its online banking app, which is based on our fintech platform, Space, while its smart, next-generation showrooms and smaller, more compact customer acquisition points are meant for client advising and consulting purposes. As of 31 December 2021, TBC UZ had 10 showrooms and 35 customer acquisition points in all major regions of Uzbekistan, covering around 97% of the country. At the end of the year, TBC UZ employed 794 full time employees.

TBC UZ runs a Happiness Center to boost customer experience and build loyalty to the Bank. It is an omni-channel service that provides customers with real-time, on-demand 24/7 consultation and welcome calls via chatbots, social media channels and Mobile/SMS texting. In addition, it conducts outbound sales for pre-scored customers. As of 31 December 2021, TBC UZ had 102 Happiness Center operators. Our superior customer service is getting noticed and, after only several months of operations, our call center and online support services received the highest customer satisfaction score among 27 Uzbek banks according to an independent survey conducted by Bank.uz² in July 2021.

2021 HIGHLIGHTS

GEL 92.8 mln

LOAN PORTFOLIO

GEL 207.5 mln

DEPOSIT PORTFOLIO

1.1 mln

NUMBER OF REGISTERED USERS

1.5 mln

NUMBER OF DOWNLOADS

BEST DIGITAL BANK IN UZBEKISTAN 2021 by The Global Economics

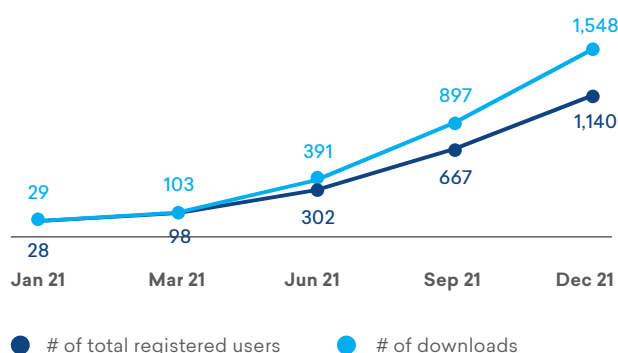
By the end of the year, our customer proposition in Uzbekistan expanded to unsecured consumer loans, current accounts, savings and term deposits as well as various payments solutions such as P2P transfers, bill payments, physical and virtual debit cards and an ability to attach other banks' cards to our mobile app. In addition, we offer gamification features to increase client engagement. In 2022, we plan to add more products and services including remittances, VISA international cards, car loans & POS loans, legal entity accounts and sole entrepreneur & micro loans, amongst others.

TBC UZ is a subsidiary of TBC PLC, which owns 60% of the entity, while the remaining 40% is equally split between the IFC and the EBRD. On 30 September 2021, TBC PLC entered into a partnership agreement with IFC and EBRD, as a result of which IFC and EBRD each invested US\$ 9.2 million into TBC UZ in exchange for 20% equity interest each. In addition, IFC and EBRD have agreed, subject to certain conditions, to make additional capital injections of up to US\$ 34.3 million, in aggregate, during the period up to 2024 in proportion to their existing holdings.

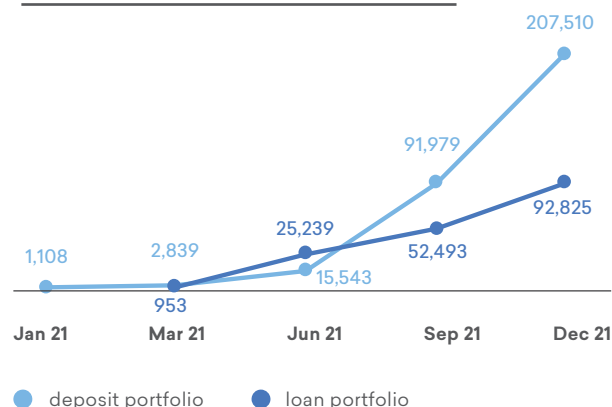
2021 achievements

Throughout 2021, TBC UZ demonstrated impressive results that were above our expectations. The respective number of registered users and downloads reached 1.1 million and 1.5 million at the end of December, while our loan and deposit portfolios amounted to GEL 92.8 million and GEL 207.5 million, respectively. TBC UZ's payment metrics also showed strong progress, with the number and volume of transactions increasing to 8.2 million and GEL 510.7 million in 2021. Over the same period, the number of TBC UZ cards reached 224,000, while the number of other banks' cards attached to our mobile app stood at 386,000.

REGISTERED USERS AND DOWNLOADS ('000)



GROSS LOAN AND DEPOSIT PORTFOLIO³ (GEL '000)



¹ Penetration ratio equals respective retail loans divided by GDP. According to our estimates based on UzStat, CBU preliminary data.

² An information resource center, which provides information about all banking services in Uzbekistan

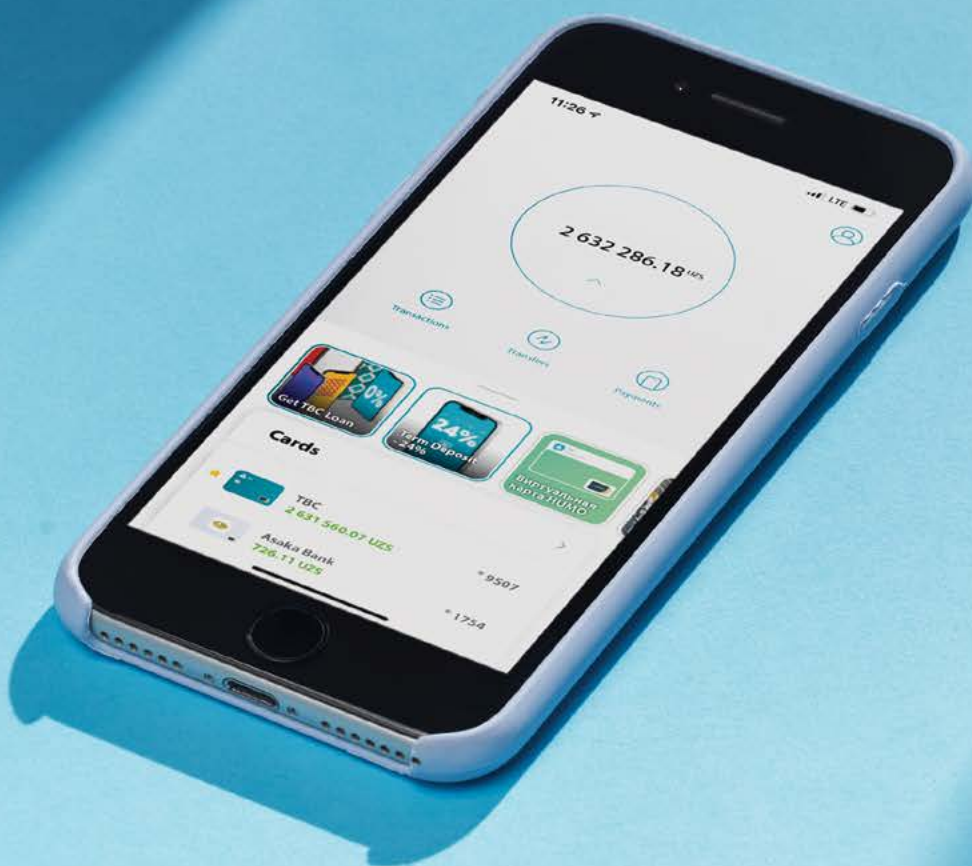
³ Loans and deposits in Uzbekistan are disbursed in local currency





TBC BANK

The Best Digital Bank in Uzbekistan



Payme

2021 HIGHLIGHTS

5.2 mln

NUMBER OF REGISTERED USERS

1.1 mln

NUMBER OF MONTHLY ACTIVE USERS

+66.4% YoY

NUMBER OF TRANSACTIONS

+79.6% YoY

VOLUME OF TRANSACTIONS

Overview

Payme (legal name - LLC Inspired) is the second largest payments provider in Uzbekistan¹, which supplies high-quality payment solutions to its retail and business customers. In 2019, TBC Bank acquired a 51% stake in Payme, while the founders retained the remaining 49%. TBC Bank has also entered into a put/call arrangement for the remaining 49% of Payme, which, in normal circumstances, may only be exercised between the fourth and seventh anniversary of the date of completion of the transaction. The exercise price will depend on a set of parameters including Payme's revenue, EBIT and the number of active customers that Payme achieves.

The company handles digital wallet, P2P transfers, utility payments, USSD payments, e-commerce payments, QR payments, invoice payments, cross border money remittances as well as loan repayments. Furthermore, Payme supplies payment solutions to merchants, by offering them e-commerce and QR payment solutions and invoicing services. Additionally, a dedicated app, Payme Business, allows merchants to view and manage their payment transactions in an easy and convenient way. As of 31 December 2021, the number of merchants doubled on year-on-year basis and reached 19,300.

Payme differentiates itself by a user-friendly interface and superior customer service and constantly works on fine-tuning its offerings. In recognition of its efforts, Payme won several awards in 2021.

PAYME AWARDS

BRAND OF 2020 AMONG PAYMENTS SYSTEMS IN UZBEKISTAN - awarded by the Antimonopoly Committee of the Republic of Uzbekistan and the Uzbekistan Marketing Center in May 2021.

THE MOST WIDESPREAD MOBILE APP - awarded by The Ministry for Development of Information Technologies and Communications of the Republic of Uzbekistan in June 2021.

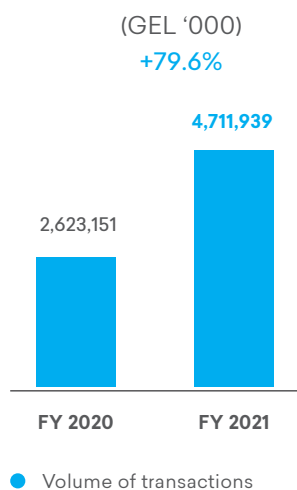
2021 achievements

In 2021, we continued to expand our Uzbek payments business by introducing new products and services as well as increasing our network.

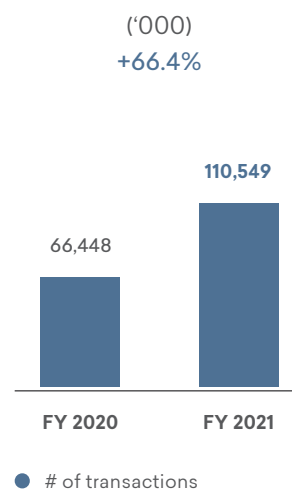
Payme is well represented in Tashkent, although it is less known in the regions. Therefore, in order to increase Payme's coverage across the country, we launched sales initiatives in several regions to better familiarize the Uzbek population with the benefits of our convenient payments services and attract more users. We plan to expand our efforts to more regions in 2022.

As a result, its number of registered users reached 5.2 million, while the number and volume of transactions increased by an impressive 66.4% and 79.6% year-on-year, respectively. Consequently, its revenue and net profit for the year amounted to GEL 28.8 million and GEL 18.0 million, increasing by 91.0% and 111.7% respectively, over the same period.

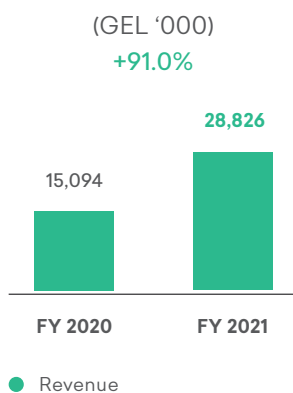
VOLUME OF TRANSACTIONS



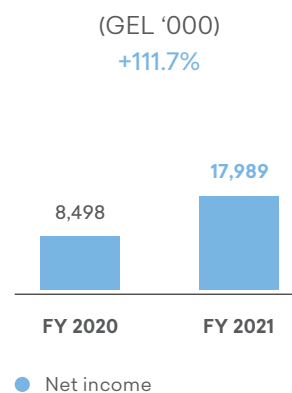
NUMBER OF TRANSACTIONS



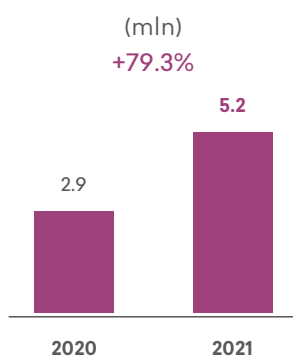
REVENUE



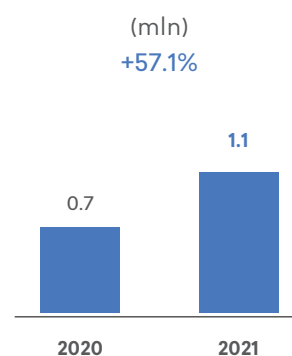
NET INCOME



REGISTERED USERS



MONTHLY ACTIVE USERS



¹ Based on number of registered users of Payme; internal estimates

Our Colleagues

OVERVIEW

We aspire to be most desired employer in the country, attracting and developing top talent, nourishing our corporate values and keeping our employees engaged and motivated in order to support the Group in achieving its ambitious strategic goals. We also work closely with each business division in order to better understand their needs and assist them in overcoming their individual challenges.

In the post-pandemic world, more and more companies are moving towards remote or hybrid working conditions. We were one of the first companies in Georgia to allow all our back-office employees to work remotely. Our HR campaign “work from where you want” was very well received by our employees and today the vast majority of our back-office employees work outside the office. Importantly, this initiative not only resulted in improved employee satisfaction levels, but also increased efficiency across the Group. In order to maintain close contact with our employees in this new digital reality, our senior management regularly holds online meetings with employees to update them regarding the Group’s achievements and future plans, and address any concerns that they might have.

In addition, we continue to expand our agile working practices to the wider organization in order to become even more flexible and efficient in today’s fast changing environment.

For more information about our HR practices, please refer to pages 84-109 of our Sustainability Report, which is available at www.tbcbankgroup.com.

OUR MAIN STRATEGIC PRIORITIES

Talent acquisition and development

Our goal is to attract the best talent on the market, with the support of an extensive selection process, tailored to the specific needs of each position and role. We actively monitor the labour market both in Georgia and abroad, to maintain a pool of prospective qualified talents for key roles including but not limited to: finance, business, tech positions and other.

This year we launched a talent management programme, which aims to identify top talent within the company and support their development. Within the

Engaged and happy colleagues are key to our successful and sustainable development. We are committed to providing a safe and inclusive work environment with equal opportunities for learning and career advancement

2021 HIGHLIGHTS

66% (2020: 68%)

EMPLOYEE NET PROMOTER SCORE¹

85% (2020: 85%)

EMPLOYEE HAPPINESS INDEX²

19% (2020: 14%)

INTERNAL PROMOTIONS

38% (2020: 33%)

WOMEN IN MIDDLE MANAGERIAL POSITIONS³

scope of this programme, we introduced an extensive leadership programme for middle management in partnership with a leading international training company. This programme includes four modules: a strategic mindset, managing change, cross-functional trust, and leadership. Going forward, we plan to introduce tailored development programmes for selected candidates and offer targeted rotations to expand the required skill sets.

In order to support our highly digital business model, we have increased our focus on building strong technical capacity in-house. Currently, around 600 of our workforce at the Bank are IT specialists. Our initiatives in this regard include establishing an IT academy in 2019, which offers courses in front-end and back-end development, Android and iOS mobile development, as well as user experience research and strategy. This programme is free of charge for selected candidates and is run by experienced staff members and leading professionals from relevant fields. Since its establishment, we have trained up to 580 people and recruited 230 people. In addition, we have strengthened our IT team with international expertise by hiring leading specialists from abroad. We also plan to introduce special development programmes and career maps for our IT specialists in order to ensure a high retention rate.

For low-level positions, we run a wide-scale internship programme to attract the best students from Georgia's leading universities. After successful completion of a one-year internship, the brightest candidates are offered employment in various departments, including finance, risks, corporate, marketing, IT and data analytics. Overall, since its establishment back in 2011, we have recruited up to 500 students within this programme.

We offer competitive remuneration packages to our employees, which are comprised of a fixed salary, performance based bonuses and a benefits package, which includes medical insurance, critical disease and life insurance, paid annual and sick leave, as well as six months of fully paid maternity and paternity leave. Additional benefits include monetary gifts in case of marriage and childbirth, as well as extra day-offs for employees with three and more children.

Since 2011, we operate TBC Academy, which provides a wide range of learning programmes to our employees. During 2021, more than 1,000 employees participated in various courses such as business development, banking, change management, leadership, financial analytics and many more. In addition, we provide financial support to our employees to attend various external courses and gain international certifications such as MBA, CFA, FRM, ACCA and others. Furthermore, we run mandatory training for all employees of the bank in the areas such as code of conduct and ethics, information security, environmental issues and operational risks.

Performance management

Through our effective performance management system, we strive to promote a growth mindset, boost employee productivity and reinforce a feedback culture.

Our performance management system is based on three core principles: clarity, fairness and integrity. We make sure that our colleagues have a clear understanding of their role in the company and are actively engaged in setting their personal goals. Employees are also given appropriate coaching by their supervisors to help them achieve these goals. Regular employee feedback and constructive dialogue are important parts of our performance appraisal system and have been incorporated into middle management's KPIs starting from 2021.

We use different assessment systems for front and back office staff, depending on the positions held. We assess our back office staff with the management by-objectives (MBO) system, a personnel management technique where managers and employees work together to set, record and monitor goals for the financial year. Goals are written down annually and are continually monitored by managers to check progress, including semi-annual direct feedback from supervisors. Rewards are based on the achievement of goals. We have a uniform scoring system for all employees within the MBO, which ensures fairness throughout the organization.

For our middle managers, as well as employees who are part of the agile structure, we also run a 360-degree feedback system that provides each employee with the opportunity to receive performance feedback from his/her supervisor, peers and subordinates. 360-degree feedback allows our employees to understand how their performance is viewed by others; it also helps them to identify their strengths and weaknesses and develop new skills. This year, 360-degree feedback was extended to other roles as well.

For front-office employees we use a target-based performance assessment system, wherein performance is linked to specific KPIs, including quantitative and qualitative components. Within the target-based system, employees are assessed monthly, quarterly or annually depending on their positions.

- 1 Employee Net Promoter Score was measured in October 2021 by an independent consultant for the Bank's employees.
- 2 The index was measured in July 2021 for the Bank's employees by an independent consultant.
- 3 Branch managers, division and department heads, as well as directors of the Group's subsidiaries.





OUR STAKEHOLDERS

OUR COLLEAGUES CONTINUED

Employee engagement and motivation

Our goal is to create a value driven organization, in which employees share the same values and are led and driven by the common mission “to make life easier” for our customers. We also strive to create a family-friendly environment, in which employees can better balance their family and work.

Our key initiatives in this regard are as follows:

- Our CEO plays an important role in promoting our corporate culture through active, regular communication about our core values in-person and online.
- Top management regularly conducts online meetings with employees to keep them up-to-date on the Group’s strategy, performance and recent achievements. Staff have an opportunity to ask questions and share feedback. In addition, we conduct an open dialogue with our staff via a Facebook group, in which we regularly share the Group’s achievements, as well as success stories of individual employees.
- We also strive to create a positive and collaborative working environment by offering maximum flexibility to back office employees in terms of working hours and remote working conditions. In addition, our agile structure supports open communication between various teams and encourages employee empowerment.
- We care for our employees’ development and encourage them to actively participate in internal selection process for higher grade positions. In 2021, the promotion rate in the bank was around 19%, up by 5 pp compared to the last year.
- To accurately measure our employee satisfaction and engagement levels, we run an annual feedback survey in partnership with leading international universities and research firms. The results of the survey are thoroughly analyzed and presented to the management board to plan future actions.

Equality and diversity

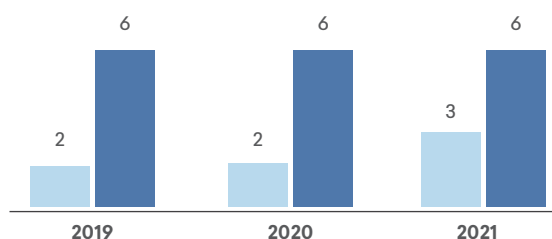
We have created a sustainable and successful business in which all employees are treated equally and fairly and are supported and coached to succeed. We provide a safe work environment free from any kind of discrimination in which each and every employee is valued, respected and treated equally regardless of gender, age, marital status, sexual orientation, race, ethnicity, religious and political beliefs or disability. We take special care of our colleagues with disabilities and strive to improve our workplace to make it more flexible for them. Furthermore, we support them to have the same access to learning, development and job opportunities.

We put a special emphasis on promoting and supporting women in their careers.

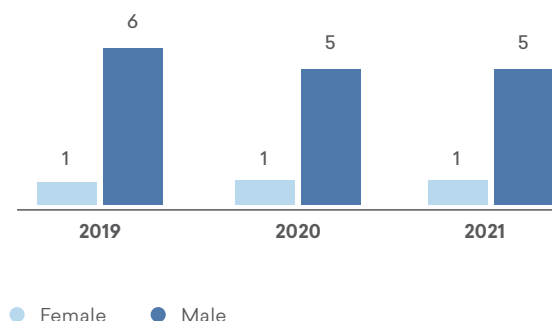
In 2021, we developed a gender policy, which provides clear guidance for ensuring the proactive and consistent integration of gender equality in all aspects of the Group’s work, inside the Group, in the marketplace and in the community at large. The ultimate goal is to achieve gender equality, develop TBC’s own approach to integrating a gender perspective in company’s work and apply gender equality principles when working with stakeholders and partners. The full policy is available at our www.tbcbankgroup.com. We have also developed a KPI and action plan at the Bank level to increase the number of women in middle managerial positions from the current level of 36% to 40% by 2023. In 2022, we will expand our approach to other subsidiaries of the Group and work on elaboration of separate action plans.

To demonstrate our commitment to this course, since August 2021, TBC has become a signatory to the UN Women Empowerment Principles (WEPs)¹.

BOARD OF DIRECTORS

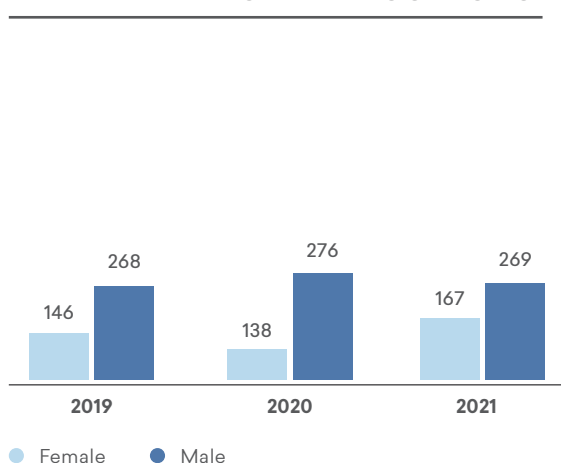


SENIOR MANAGEMENT

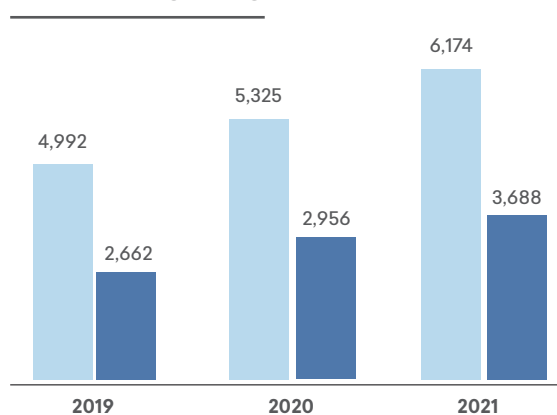


¹ For more details about these principles please refer to www.weps.org

MIDDLE MANAGERIAL POSITIONS¹

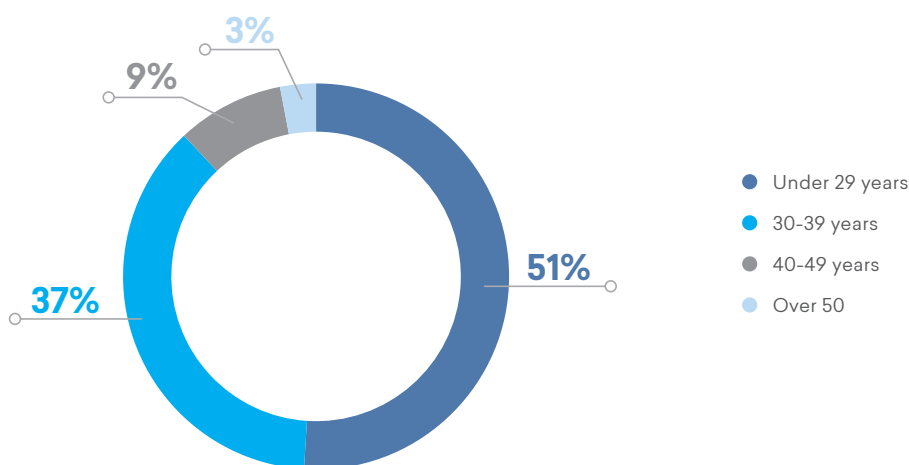


ALL EMPLOYEES



We have a good mix of people comprised of employees with extensive work experience and young and bright talents with innovative and fresh ideas who have just graduated from top universities in Georgia and abroad. We believe that age diversity creates a more dynamic and high-performing team that leads to better results.

AGE DIVERSITY STATISTICS OF 2021



GENDER PAY GAP

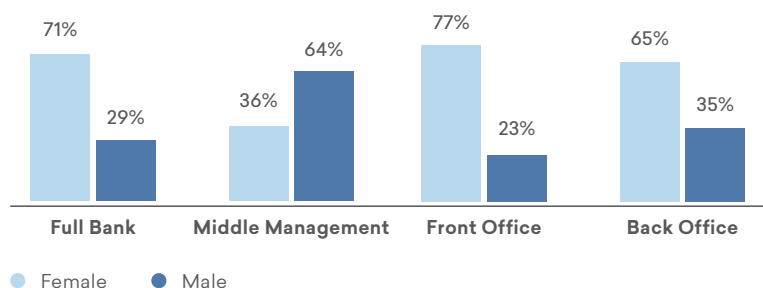
We regularly review our pay levels and make sure that men and women are paid equally for doing the same type of job. 63% of our colleagues are women.

As shown in Table 1 below, the average gender pay and bonus gaps are in favour of men. This is mainly due to the higher number of women being employed in junior roles, including customer service positions at front office, which is related to our business model (as shown in the gender distribution chart below).

We remain committed to achieving a better gender balance and increasing the proportion of women working in senior roles.

¹ Branch managers, division and department heads, as well as directors of the Group's subsidiaries

GENDER DISTRIBUTION ACROSS DIFFERENT POSITIONS¹



Gender pay and bonus gap statistics²

The gender pay gap is based on data from April 1, 2021 to April 30, 2021.

The gender bonus gap is based on data from April 6, 2020 to April 5, 2021.

TABLE 1

Bank full	2021	2020
mean gender pay gap in hourly pay	43.0%	44.0%
median gender pay gap in hourly pay	42.9%	33.0%
mean bonus gender pay gap	48.8%	53.3%
median bonus gender pay gap	33.6%	41.7%

TABLE 2

Middle management	2021	2020
mean gender pay gap in hourly pay	-4.3%	10.9%
median gender pay gap in hourly pay	-14.5%	-9.9%
mean bonus gender pay gap	12.4%	-6.4%
median bonus gender pay gap	-24.8%	-89.1%

TABLE 3

Front Office Employees	2021	2020
mean gender pay gap in hourly pay	53.9%	43.0%
median gender pay gap in hourly pay	50.6%	27.2%
mean bonus gender pay gap	62.7%	64.1%
median bonus gender pay gap	61.1%	69.4%

TABLE 4

Back Office Employees	2021	2020
mean gender pay gap in hourly pay	20.7%	24.7%
median gender pay gap in hourly pay	15.4%	17.7%
mean bonus gender pay gap	25.8%	25.9%
median bonus gender pay gap	2.6%	1.2%

ETHICAL STANDARDS, RESPONSIBLE CONDUCT AND SAFETY AT WORK

TBC Bank is committed to running a business that promotes high ethical standards, values and respect toward human rights, and encourages its employees to act with integrity and responsibility towards each other and other stakeholders.

We have in place a set of internal policies and procedures and we closely monitor their execution. These policies lead to greater awareness of unacceptable behavior and promote a 'speak up' culture in which all employees feel listened to and protected when reporting any suspected misconduct. These policies and procedures consist of the following:

- Code of Ethics;
- Code of Conduct;
- Anti-Bribery, Anti-Corruption and Prevention of the Facilitation of Tax Evasion Policy;
- Incident response policy;
- Human rights policy.

These policies apply to all employees of the Group and can be found on our IR website at www.tbcbankgroup.com.

The Compliance Department regularly conducts employee training sessions in order to raise awareness and highlight the importance of anti-corruption, anti-bribery and ethical and human rights issues. Periodic audits are also conducted by the Internal Audit Department to identify any violations or inappropriate behavior. No such material instances were identified during 2021.

Given that the Group does not have a demonstrable business presence in the UK, TBC Bank is not required to publish a statement under section 54 of the Modern Slavery Act. The Group nonetheless is fully committed to the eradication of all forms of modern slavery and maintains comprehensive policies to prevent modern slavery in its countries of operation.

¹ The data in the given table is presented for the Bank only

² The data on the gender pay gap is presented only for the Bank, which accounts for the 74.0% of the Group's total number of employees. A negative gap indicates a percentage pay gap in favour of women, while a positive gap indicates a percentage pay gap in favour of men.

Our Customers

MEETING THE NEEDS OF OUR CUSTOMERS

We operate an advanced omni-channel distribution model, which allows our customers to conduct their banking operations seamlessly and is comprised of a wide network of modern, customer-centric branches, award-winning internet and mobile banking platforms, contemporary payment infrastructure as well as a call center.

Our services are available even in remote areas of the country through our online banking, which also enables fully digital onboarding for retail and MSME customers. As Georgia is still largely a cash-based society, especially in the regions, the availability of self-service terminals and ATMs is also essential for fostering financial inclusion.

In the post-COVID world, the demand for digital solutions has remained high. Therefore, we have continued to enrich our digital offerings with more innovative products and services. In 2021, we launched an end-to-end fast consumer loans disbursement process in our mobile banking, which allows our customers to receive loans online. In addition, we upgraded our online lending platform www.tbccredit.ge, giving more flexibility to our clients. Furthermore, we implemented “open banking” for both retail and business clients, which enables them to check the balances on accounts opened in other Georgian banks, as well as receive analysis of their income and expenses via our online banking. For more information regarding our new digital services, please see the Georgian business review on pages 44-67.

While digitalization remains one of our top priorities, we also make sure to keep our branches as accommodating and comfortable as possible. For this reason, in 2021 we began remodeling our branches, creating a more open and inviting atmosphere in order to facilitate communication with less formality. More information regarding our new branch concept is given in the retail section of the Georgian business review on pages 44-49.

Equally important is the provision of affordable financing to our clients. For this purpose, we have run a large-scale start-up support programme since 2017. For more information, please refer to our MSME section on pages 50-55. In addition, since September 2021, we have enrolled into the governmental programme of

As a customer-centric company, we strive to provide our customers with a superior experience by offering them relevant, innovative and affordable products and services through our convenient and flexible distribution channels.

subsidized mortgages. This programme offers interest payment subsidies on mortgages up to GEL 200,000, issued to families with three or more children, or families with a child born between 1 September 2021 and 1 September 2022. As of 31 December 2021, we have disbursed 425 mortgages with a total amount of GEL 49.1 million under this programme.

In order to ensure the safety and well-being of our customers and employees, our branches and offices are equipped with all the necessary safety measures in line with the recommendations of the World Health Organization and National Center for Disease Control and Public Health of Georgia. In addition, we ran extensive awareness campaigns and introduced various incentives to encourage vaccination among our employees. By the end of the year, around 85% of our employees were vaccinated or were scheduled to get a vaccine.

CUSTOMER SATISFACTION COMES FIRST

Providing an unparalleled customer experience and ensuring the satisfaction of all of our customers is one of our core values. First and foremost, we treat our customers fairly by providing them with full information regarding our products and services, inform them of significant risks and give advice with the client's best interests in mind. Our Code of Ethics, which is available at www.tbcbankgoup.com, defines TBC's expectations in terms of transparency and fairness in our relationships with our customers.

In case our customers are left unsatisfied with any aspect of our service, they may file a complaint through various channels, including call centers, branches, internet bank or the website www.tbcbank.ge. Complaints are discussed and addressed by customer support and complaint management groups, who analyze each complaint, prepare recommendations and address the people responsible. Clients are notified of the outcome of their complaints in due course.

In order to evaluate the quality of our services, we conduct various external surveys and request feedback from our clients on regular basis. Collecting this data allows us to analyze our performance and set goals for continuous improvement. In addition, we conduct internal surveys of different scopes across various divisions of the Bank. These internal surveys help us to further pinpoint issues on a more detailed level and address them more thoroughly.

In 2021, we launched an innovative Customer Experience Appetite and Pain Management project across the Bank. This project envisages three-week workshops, in which each team selects the metrics to best evaluate its customer service and rates its performance against these metrics in order to assess their current progress and find further areas of improvement. Furthermore, the project helps to determine problematic or “pain” areas for the customers. Once these problems are identified, they are assigned to the people responsible, who are tasked with resolving them. We believe that this project will bring our customer experience to a new level.

WE TAKE CUSTOMER INFORMATION SECURITY AND DATA PRIVACY SERIOUSLY

With the rise of digitalization, it is more and more crucial for us to ensure that our customers' personal information is well-secured. For this reason, we constantly fine-tune our cyber security measures and procedures in order to stay well ahead of any data security threats and risks. Our cyber security procedures are regulated by an Information Security Policy.

We operate a dedicated Information Security Department, which reports to the Chief Risk Officer and the Information Security Steering Committee. The latter was established in order to improve information security and business continuity management processes as well as minimize information security risks.

In order to prevent and mitigate various cyber security risks, we have several dedicated tools and control mechanisms in place:

- The Security Operations Center continuously monitors unusual occurrences across the organization's network in order to detect potentially negative incidents and respond to them effectively.
- The Data Leak Prevention System automatically identifies data leakage, blocks the process and notifies a responsible person.
- We conduct an annual, full-scale information and cyber security threat assessment against regional

and international best practices, and we regularly perform cyber attack readiness exercises among our employees.

- To further increase our employees' awareness of cyber security risks, we annually conduct mandatory trainings and testing for all employees of the bank. In addition, we run different simulations on regular basis, in order to prepare our employees for various real life situations and threats.
- We operate a 24/7 customer hotline, which addresses our clients' concerns in a timely manner. In addition, we help our customers to develop safe banking habits, by regularly informing them regarding the risks of phishing and other fraudulent activities via social media and digital channels.
- In addition to our layered defense system, we have cyber insurance policy in place, covering all relevant cyber, privacy and multimedia liabilities and expenses of TBC in order to manage contingencies and recover from possible serious disruptions.

TBC Bank has not experienced any material information security breach in the last three years.

We are fully compliant with the National Bank of Georgia's cyber security requirements, such as the Cyber Security Framework Document, which is based on the National Institute of Standards and Technology (NIST) Cyber Security Framework. In 2021 we also adopted Payment Service (PSD2) Directive (EU) 2012/2366, which further aligned our operations with international and local best practices and enabled us to offer open banking capabilities to our clients.

In November 2021, the Bank achieved ISO 27001 certification of our Information Security Management System. Furthermore, in December 2021, Ernst & Young Tbilisi office conducted two audits, assessment against Cyber Security Management Framework and assessment against SWIFT CSCF for the Bank. As a result, no critical findings and major non-compliances were identified during these exercises. Cyber Security Management Framework is defined by National Bank of Georgia.

Equally important is protecting our customers' privacy and data integrity. We only process personal data for specific business purposes and do so lawfully, fairly and in a transparent manner. Our clients are provided with information regarding the processing of their data and are informed of their rights, which they may exercise through defined communication channels. Our Global Data Protection Policy is in line with applicable laws imposed by Georgian government and also meets certain relevant requirements of EU General Data Protection Regulation (GDPR). The full policy is available on our IR website www.tbcbankgroup.com.

Our Community

ENCOURAGING MSME BUSINESS DEVELOPMENT AND ENTREPRENEURSHIP

TBC distinguishes itself through advocacy and support for startups and MSME businesses. In order to address the social and economic challenges in the country, the development of small and medium businesses is vital. It contributes to the reduction of unemployment and boosts economic growth. We assist businesses through the provision of both financial and non-financial support, including: easing access to capital, sharing knowledge and expertise, and developing products and services specially customized for business needs. For this reason, in 2021, TBC partnered with international organizations for the following initiatives:

- TBC Bank has been a crucial contributor to USAID's new initiative of establishing the Grace Hopper Award, which intends to recognize and inspire more Georgian women in the information and communication technology (ICT) industry. This year, several female startup representatives were recognized for their outstanding performance in the ICT field. TBC Bank helped the development of the project via a large scale communications campaign, awarded winners in two categories (emerging leader and tech startup), and provided skills and business development opportunities specifically tailored to the needs of the award winners.
- TBC Bank has signed a memorandum with UNDP Georgia to support early-stage social entrepreneurs, to empower young people and improve access to finance in the regions. This programme focuses on educating students in the field of social entrepreneurship and offers them a ten-month training course to implement their own business ideas. TBC Bank provided monetary awards, as well as media and marketing support.

For more information about our business support programmes, please refer to our MSME section on pages 50-55.

PRIORITIZING LOCAL BUSINESSES AMONG OUR SUPPLIERS

We are committed to responsible purchasing practices and work with companies that uphold our values and comply with our procurement standards and code of ethics. Furthermore, we prioritize local suppliers¹ in order to support Georgian businesses. In 2021, around

We are committed to creating a better future for our community by rolling out large-scale, high impact projects in the following areas: business development, youth support and the preservation of cultural heritage.

90% of the Bank's suppliers were Georgian companies, accounting for around 85% of the total spent during the year. This year, as part of our ESG strategy, we set a specific target for social impact procurement, which should amount to at least GEL 5 million by the end of 2023. For more details, please refer to our ESG strategy on pages 26-37.

For more information about our supply chain management, please refer to pages 148-151 of our Sustainability Report available at www.tbcbankgroup.com.

SUPPORTING THE YOUNG GENERATION

We aspire to support our young generation in their professional development through various initiatives and projects:

- "TBC Scholarship" is one of our largest social responsibility projects, which was introduced in 2018 and aims to discover and support young talents. Since the launch of the project, TBC has supported 350 talented youth in receiving proper education and advancing their professional development. This year, 45 more people joined the programme. The project participants include artists, athletes, scientists and inventors.
- Since 2019, TBC Bank has sponsored the Tbilisi International Book Festival, the largest event in the country in the book sector bringing together writers, publishers and readers. This year, the 23rd Tbilisi International Book Festival was held.
- For the last seven years, TBC Bank has been the main partner of the "Leonardo da Vinci" Young Re-

searchers and Innovators Annual Competition for high school students. The purpose of the competition is to popularize STEM among students and help them develop creative thinking and practical skills. TBC Bank provides marketing support for the competition, allocates its facilities, and awards the winners. Since the beginning of the partnership, TBC Bank has awarded 24 students.

- Furthermore, we run several academies for students in different fields, such as IT and Risk, in order to help them master professions that are in high demand. All courses are offered free of charge and are run by experienced staff members. We also continue to run TBC Camp, a programme that was established in 2019 and envisages the conduct of a Stock Pitch Competition for fourth year finance students. This competition is integrated in the syllabus of the university's curriculum and is comprised of intensive online lectures, trainings and the preparation of real investment cases in selected companies, which are presented to a panel of judges. Selected teams are awarded special prizes.
- This year, TBC launched a new subscription model "TBC Z", which is tailored to the specific needs of the young generation and includes student cards with special benefits, cashbacks and various discounts. For more details, please refer to the retail section of our Georgian business review on pages 44-49.

PRESERVING CULTURAL HERITAGE

TBC has always played an active role in preserving Georgian heritage. Our major current projects include the following:

- Since 2003, TBC has been the major sponsor of the Saba Literary award, which is the most important literary event in the country. This year, up to 300 books were reviewed and the winners were revealed in ten categories. We also run www.saba.com.ge, the largest online platform for Georgian electronic and audio books, which was established in 2012 and provides access to over 6,700 audio and electronic books to around 380,000 users.
- Our cooperation with the Georgian National Museum and Vani Archeological Museum, one of the first archeological museums in the Caucasus region, started in 2019. We support the museums in presenting national treasures in modern and digital formats to the public. This year, the Vani Archeological Museum, together with TBC Bank, hosted a unique archeological exhibition from the Pompeii Archeological Park.
- We have been promoting Georgian textile in cooperation with the Art Palace of Georgia since 2020. The project aims to give new life to the traditional and historical textiles of Georgia that were worn centuries ago. This year more than 1,000 items were

created by new startups and designers.

- This year we supported a new project, which aims to further promote the Georgian textile, as well as support women in the rural communities. Adjarian embroidery is a part of dowry tradition in the remote mountainous villages of a Georgian region Adjara. This craft was created and mastered by the local women, who have passed it down to generations for centuries. Within the scope of this project, a documentary film was created as well as exhibition and a panel discussion were held to popularize this lesser-known tradition.
- The Georgian Fonts Competition "Georgian -A" was launched in 2017 and aims to adapt the Georgian alphabet to the modern world in order to spread and popularize it both inside the country and abroad. Within the framework of the competition, the participants are requested to develop new Georgian fonts, with the winning fonts being digitalized with TBC's support. Since the launch of the project, about 350 fonts have been developed and 30 have been digitalized.

Following our international expansion, we decided to foster arts and culture in Uzbekistan as well, through the following projects:

- In 2021, TBC UZ signed a memorandum of cooperation with the famous Nukus Museum of Art. TBC Bank intends to create new digital content about the history of the museum, including holding events on site, organizing online excursions and much more.
- This year, TBC Bank announced a social project called Ornaments. The goal of the project is to create a digital catalog of applied historical arts and folk art ornaments of Uzbekistan and make it accessible for companies and individuals to use these ornaments in branding their future products or projects.

SUPPORTING UKRAINIAN PEOPLE

We would like to demonstrate our support to the Ukrainian people over the recent events. TBC is involved in a number of initiatives in these regards. We have waived the fees on international bank transfers from TBC Bank to Ukraine. We have also set up a local banking account, which allows our customers to make donations to the Ukrainian charity fund. On its part, TBC has allocated GEL 200,000. In addition, we have offered free health and travel insurance to Ukrainian people staying in Georgia as well as facilitate delivery of humanitarian aid to Ukraine.

¹ Local suppliers include Georgian resident companies that sell locally produced, as well as imported goods or services.

UZBEKISTAN

This year, TBC Bank announced a social project called Ornaments. The goal of the project is to create a digital catalog of applied historical arts and folk art ornaments of Uzbekistan and make it accessible for companies and individuals to use these ornaments in branding their future products or projects.





Our Environmental Management System

TBC Bank has a comprehensive Environmental Policy in place, which governs our Environmental Management System (“EMS”) within the Group and ensures that we comply with applicable environmental, health and safety and labour regulations, use sound environmental, health and safety, and labour practices, and take reasonable steps to make sure that our customers also fulfill their environmental and social responsibilities. Our Environmental Policy is fully compliant with Georgian environmental legislation and follows international best practices (the full policy is available at www.tbcbankgroup.com).

Our Environmental and Social Risk Management (ESRM) team is comprised of three full-time employees and is part of the SME and Corporate Business Credit Risk Department, which reports directly to the Chief Risk Officer. Our ESRM team is responsible for overseeing the operation of our EMS across the Group. It also provides assistance to our subsidiaries on environmental and social issues and conducts trainings on a regular basis. The ESRM team reports environmental management plans and results to the Environmental Committee on a quarterly basis.

Our EMS is based on four pillars:

- Internal environmental activities;
- Environmental and social risk management in lending;
- Sustainable finance; and
- External communications.

Since 2020, the Bank has held ISO 14001:2015 certification, which serves as testament that our EMS is in full compliance with international standards.

In 2021, TBC Bank released its second full-scale Sustainability Report, which was prepared in reference to Global Reporting Initiative (GRI) standards and helps the company to understand its role and influence on sustainable development issues such as climate change, human rights and social welfare.

As the largest financial institution in the country, we believe that we can make a positive contribution towards tackling the climate change and accelerating transition to a low-carbon economy.

CALCULATION OF GREENHOUSE GAS (“GHG”) EMISSIONS

Since banking is not a high-polluting activity, the implementation of an internal EMS to address the Group’s consumption of resources is not expected to have a significant impact on the surrounding environment. However, TBC Bank has reviewed all the operational activities, procured items, and outsourced services that it can control (present and planned), and has identified all the material environmental aspects relevant to the business. These are sub-categorised into indirect and direct environmental aspects, analyzed based on a comprehensive scorecard, and managed accordingly.

TBC Bank has established a comprehensive internal environmental system to manage and report its GHG emissions within the Group and is committed to reducing its GHG emissions by closely monitoring its consumption of energy, water and paper. The guidelines for documenting environmental data were developed and responsible staff was assigned in subsidiary companies to collect and provide the required data. TBC Bank also commissioned G&L Management LTD, an independent Health, Safety, and Environment (HSE) consulting company, to verify the measurements of its GHG emissions.

Total GHG emissions (CO2) (tonnes) and KPIs	2019	2020	2021	2022 KPI (increase)
Scope1*				
Fuel Combustion (heating, vehicles, generators)	3,164	3,272	3,281	Below 4%
Scope2				
(Electricity consumption)	1,260	1,614	1,712	Below 2%
Scope3				
(International flights)	697	144	72	-
Total emissions (tCO2)	5,121	5,030	5,065	Below 3%
Total emission per full time employee (tCO2/pp)	0.69	0.63	0.56	Below 3%
Water consumption per employee (m3/pp)	11.90	9.71	9.11	Below 1.5%
Printing paper per person in reams	11.11	12.14	12.05	Below 0.4%

*Scope 1:

- 1,581 CO2e emissions in tonnes (from combustion of fuel (NG) from owned operation and facilities of TBC) in 2021 compared to 1,657 tCO2e in 2020 and 1,443 tCO2e in 2019.
- 1,596 CO2e emissions in tonnes (from owned vehicles of TBC Bank) in 2021 compared to 1,538 tCO2e in 2020 and 1,631 tCO2e in 2019.
- 104 CO2e emissions in tonnes (from owned generators of TBC Bank) in 2021 compared to 77 tCO2e in 2020 and 90 tCO2e in 2019.

Intensity Ratio	2019	2020	2021
Revenue (tCO2/US\$)	0.000013	0.000014	0.000011
EBTDA (tCO2/US\$)	0.000022	0.000040	0.000016
Net Income (tCO2/US\$)	0.000027	0.000049	0.000020

Compared to other companies listed in the United Kingdom, the Group is a low energy user in the United Kingdom and does not consume more than 40,000 kWh of energy. Therefore, it is a voluntary disclosure..

Energy consumption in kWh	2021
The annual quantity of energy consumed from activities for which the Group is responsible, including:	
• The combustion of fuel	427,933
• The operation of any facility	7,830,694
The annual quantity of energy consumed resulting from the purchase of electricity, heat, steam or cooling by the company for its own use.	15,807,649

Scope 1 - In 2021, this indicator remained broadly stable compared to 2020 on the Group level (versus the 2021 target level of 6% reduction). On standalone basis, the Bank managed to reduce it by 6% (93,000 CO2kge) year-on-year. However, this positive impact was offset by increase of fuel consumption by the vehicles of our subsidiary companies.

Scope 2 - In 2021, total electricity consumption of the Group increased by 6% year-on-year (compared to the 2021 target level of 5% reduction), while the Bank managed to reduce it by 7% (around 95,800 CO2kge) over the same period. The increase is mainly due to business expansion/branch network development in Uzbekistan, which resulted in additional electricity consumption as well as several Georgian subsidiaries.

Scope 3 - Due to the COVID-19 pandemic, business flights decreased by around 50% compared to 2020.

Overall, total emissions remained broadly stable in 2021 compared to 2020 levels, while total emission per full time employee decreased by 11% over the same period, compared to the 2021 target level of 5% reduction.

In 2021, the water consumption per employee decreased by 6% year-on-year compared to the 2021 target level of 5% reduction, while usage of printing paper remained broadly the same.

The Group has undertaken the following energy-efficient measures:

- Energy usage is one of the most significant sources of our direct environmental impact. It comprises electricity consumption of our premises and equipment, the usage of heating and cooling systems, transportation and more. To reduce our impact on environment, we use energy-efficient approach during renovation and construction of our offices and branches, as well as consider green and energy-efficiency recommendations to the extent possible.
- We use energy-efficient LED lighting and operate energy efficient heating and cooling systems in the Bank's offices. This has helped us to reduce the consumption of energy in the previous years.

OUR STAKEHOLDERS

OUR ENVIRONMENTAL MANAGEMENT SYSTEM **CONTINUED**

- The Bank operates green car fleet, comprised of electric and hybrid vehicles, which positively affects fuel consumption and reduces GHG emissions.
- The efficient and sustainable usage of water is described in the Environmental Policy and is applied to the whole Group. Our Code of Ethics regulates water consumption as well.
- In previous years, the Bank installed water-pressure control devices in several locations, which resulted in water usage reduction.

Calculation methodology

To calculate the GHG inventory, we took following steps: we set the organizational boundaries, established the operational scope, and developed a structured approach for data collection and the calculation of carbon dioxide (CO₂) equivalent. This report describes all emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 (Scope 1 and 2) and, additionally, the emissions under Scope 3 that are applicable to the business. In preparing emissions data, the emissions factors from the UK Government's Greenhouse Gas Conversion Factors for Company Reporting 2017 and National IPCC emission factors for electricity (tCO₂*/ MWh) were used. The required data was collected and a report was developed for the TBC Bank's main activities, as follows:

Scope 1 (the combustion of fuel and operation of facilities) includes emissions from the combustion of natural gas, diesel and/or petrol in equipment at TBC Bank's owned and controlled sites. The combustion of petrol, diesel fuel, natural gas etc. in TBC Bank's owned transportation vehicles.

Scope 2 (purchased electricity for own use (lighting, office appliances, cooling, etc.) includes emissions from the use of electricity at TBC Bank's owned and controlled sites. To calculate the emissions, the conversion factor for National IPCC emission factors for electricity (tCO₂*/MWh) was used.

Scope 3 includes emissions from air business travels (a short haul, a medium haul, a long haul and an international haul); it should be noted that information on the travel class was considered and an "economy class" conversion factor has been used for the emissions calculation from the following link: www.atmosfair.de.

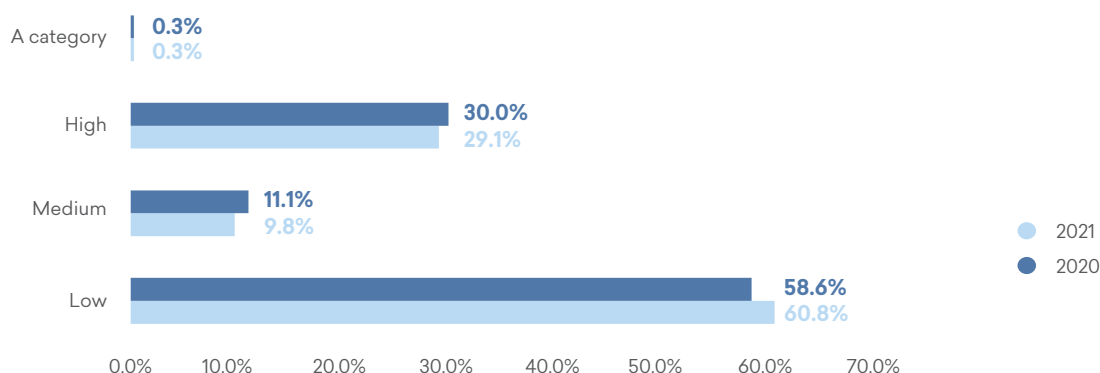
Intensity Ratio - we calculate intensity ratios in line with the Streamlined Energy and Carbon Reporting (SECR) guidelines, www.secrhub.co.uk

ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT IN LENDING

We are committed to ensuring that our customers fulfill their environmental and social responsibilities. For this purpose, we have Environmental and Social Risk Management (ESRM) Procedures in place, which are fully integrated into the credit risk management process and ensure that appropriate, risk-based, sector specific, environmental and social risk assessment is applied to our commercial lending activities. Our procedures incorporate appropriate consideration of IFC's Performance Standards and EBRD's Performance Requirements. This approach enables us to effectively manage credit and reputational risks that could arise from the environmental and social non-compliance by our clients.

We closely screen and assess our business portfolio distribution in terms of environmental and social risk categories and strive to reduce the share of impactful industries. In some cases, E&S risk categories differ. When categorizing the transaction according to E&S risk category, priority is given to the higher risk.

BUSINESS LOANS PORTFOLIO BREAKDOWN BY E&S CATEGORIES



Low Risk – transactions with minimal or no adverse social or environmental impacts, which are not generally subject to further assessment (beyond their identification as such), except for the requirement for customer's [assent/certification/disclosure] of compliance/non-compliance with local and national environmental, health and safety and labour laws and regulations.

Medium Risk – transactions with limited potential for adverse social or environmental impacts that are few in number, generally site-specific, largely reversible, clearly evident at the time of the assessment, and readily addressed through mitigation measures, which typically require a limited or focused environmental and/or social assessment, or straight-forward application of environmental sitting, pollution standards, design criteria, or construction standards.

High Risk – transactions with potentially highly significant, negative and/or long-term environmental and/or social impacts, the magnitude of which may be difficult to determine at the loan application stage, which typically require analysis of environmental and social risks and impacts in the context of the total area of influence of the customer's operations. As part of the risk assessment, the client will identify individuals and groups that may be differentially or disproportionately affected by its operations.

Category A – transactions with potentially significant adverse social or environmental impacts that may be diverse, irreversible or unprecedented, the assessment of which usually requires inputs from independent external experts and may require the involvement of IFI E&S specialists in the due diligence assessment process.

In addition, we strive to make a positive contribution to the development of private companies and assist them in proper management of environmental and social risks related to their business activities. In case we identify any non-compliance with local legislative requirements and/or TBC's standards, we develop an Environmental and Social Action Plans (ESAP) for our clients to assist them in enhancing their environmental performance and closely monitor its implementation.

GREEN LENDING DEVELOPMENT

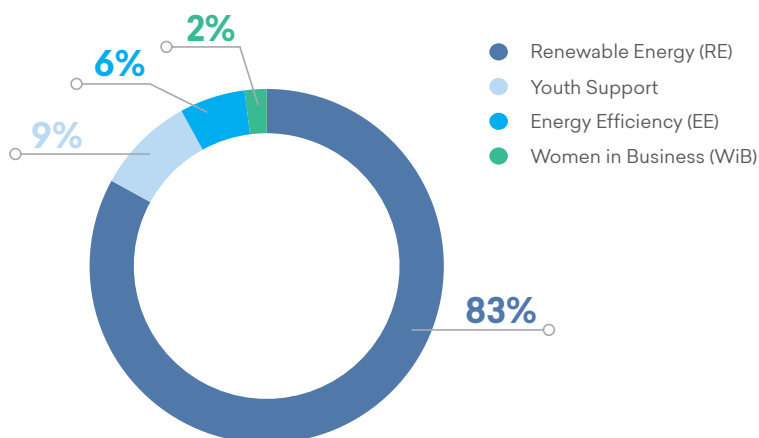
We acknowledge the importance of sustainable lending and are actively involved in developing a standardized approach to sustainable finance, including energy efficiency, renewable energy and resource efficiency financing for our retail and business clients. TBC is a leading partner in Georgia in local renewable energy financing, including hydropower stations.

In 2021, TBC Bank became the first commercial bank in the Caucasus region to receive accreditation by the Green Climate Fund (GCF). The accreditation will enable the Bank to have direct access to GCF funding to finance projects for adaptation to, and mitigation of, climate change and contribute to combatting climate change in Georgia.

This year, we also conducted local market research to determine TBC's green criteria, which have been adapted to the Georgian reality, and developed Green Lending Procedures. This research was done in cooperation with the Green for Growth Fund (GGF) Technical Assistance Facility, represented by Finance in Motion GmbH, and was financed by the European Union under the EU4Energy Initiative. These procedures will help the Bank to identify green and environmentally friendly initiatives and encourage private companies to move to sustainable investment in their businesses, thus contributing to climate change mitigation.

During 2021, our sustainable portfolio achieved 761,446 CO₂kg/a in CO₂ savings according to the date provided by our green facility fund providers. Over the same period, our renewable energy portfolio impact (avoided GHG emissions) amounted to 9,455 kg/a according to the estimates of the external consultant under the Green for Growth Fund (GGF) Technical Assistance Facility represented by Finance in Motion GmbH financed by the European Union under the EU4Energy Initiative.

OUR SUSTAINABLE PORTFOLIO BREAKDOWN



Note: Our sustainable loan portfolio includes energy efficiency, youth support and women in business loans financed by special purpose funds received from IFIs, as well as loans financing renewable energy, which include all hydro power plants financed by the Bank

SUPPLY CHAIN MONITORING

As one of the largest purchasers in the country, we acknowledge and understand the social, economic and environmental impact of our procurement decisions and operations as well as our requirements towards suppliers. In 2019, we developed an Environmental and Social Risk Management Questionnaire in order to screen suppliers. We also regularly assess our long-term contractor companies' environmental and social risks. In case we identify any non-compliance with our E&S standards, our ESRM team develops implementation Environmental and Social Action Plans ("ESAPs") for each company and monitors their implementation

RAISING ENVIRONMENTAL AWARENESS AMONG TBC EMPLOYEES

We believe that raising environmental awareness among our employees is vital for the effective implementation of EMS and to encourage new eco-friendly ideas and initiatives within the organization.

For this purpose, we actively run various Environmental and Social training programmes, which include:

- "Welcome" training;
- Training for new employees;
- E&S training for credit staff;
- Annual mandatory online EMS e-learning course for all staff, followed by a self-evaluation test; and
- Mandatory on-boarding training.

In 2021, 95% of all staff, including senior management, successfully passed an online course and a self-evaluation test about TBC's EMS.

To ensure effective communication, video materials were created that briefly describe TBC's environmental management system.

EXTERNAL COMMUNICATION

TBC pays significant attention to external communication about E&S matters with existing and potential customers and other stakeholders. The feedback and recommendations received from our stakeholders and other interested parties enable us to continuously improve our E&S performance.

Our grievance mechanism enables any interested party to provide complaints with regards to E&S issues via our website www.tbcbank.com.ge. All complaints are thoroughly analysed and addressed in a timely manner. In 2021, no such complaints were received.

TBC Bank also takes an active part in raising awareness of renewable energy, climate change adaptation and green financing opportunities in Georgia. For this purpose, in partnership with the European Bank for Reconstruction and Development (EBRD)'s Green Economy Financing Facility programme (GEFF), we organized a Green Economy forum and also participated in the Annual Sustainable Finance Forum organized by GreenPact, discussing green finance practices with regional and local banks.

NON-FINANCIAL INFORMATION STATEMENT

TBC Bank complies with non-financial reporting requirements contained in sections 414 CA and 414 CB of Companies Act 2006. The following table summarises the reference to the non-financial matters described in the Strategic Report.

NON-FINANCIAL INFORMATION	PAGES
The entity's business model	Our business model, pages 18 to 19
Environmental matters	Our environmental management system, pages 88 to 92
Employees	Our colleagues, pages 74 to 81
Social matters	Our community, pages 84 to 87
Human rights	Ethical standards, responsible conduct and safety at work, page 81
Anti-corruption and anti-bribery	Ethical standards, responsible conduct and safety at work, page 81
Non-financial key performance indicators relevant to the entity's business	Key performance indicators, pages 22 to 25
Description of principal risks and mitigations	Material existing and emerging risks, pages 102 to 111

Financial Review

OVERVIEW

The consolidated financial statements of the Group and the separate financial statements of TBC Bank Group PLC, together referred as “financial statements” has been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 and, for the group, in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. There were no unendorsed standards effective for the year ended 31 December 2021 affecting these consolidated and separate financial statements.

TAX STRATEGY

TBC is committed to complying with all applicable tax laws in all jurisdictions where TBC Group operates, including in the UK. In particular, we aim to pay the correct amount of tax within applicable time limits. Our objectives are built around the following key principles:

- transparency;
- responsibility; and
- effective interaction with tax authorities.

We ensure that the management of tax risk and proper governance around our tax operations is supported by appropriately trained personnel who have clear responsibilities to identify, analyse, assess and manage tax risks. For more details, please view our tax strategy on our website at www.tbcbankgroup.com under the “ESG” section.

FINANCIAL HIGHLIGHTS

Income statement highlights

<i>In thousands of GEL</i>	2021	2020 (as restated)	Change YoY
Net interest income	1,002,732	835,433	20.0%
Net fee and commission income	248,000	182,767	35.7%
Other operating non-interest income ¹	201,288	137,391	46.5%
Total credit loss recovery/(allowance)*	16,900	(358,008)	NMF
Operating income after expected credit and non-financial asset impairment losses	1,468,920	797,583	84.2%
Operating expenses*	(545,834)	(437,462)	24.8%
Losses from modifications of financial instrument	(1,726)	(41,015)	-95.8%
Profit before tax	921,360	319,106	NMF
Income tax (expense)/credit	(112,361)	3,383	NMF
Profit for the period	808,999	322,489	NMF

* Certain amounts do not correspond to 2020 Consolidated Statement of Profit or Loss and Other Comprehensive Income as they reflect the re-classification made by the management between net impairment of non-financial assets and administrative and other operating expenses. For more information, please refer to the note 2 of the financial statements.

NMF – no meaningful figures

Balance sheet and capital highlights

<i>In thousands of GEL</i>	31-Dec-21	31-Dec-20	Change YoY
Total assets	24,508,561	22,577,805	8.6%
Gross loans	17,047,391	15,200,520	12.2%
Customer deposits	15,038,172	12,572,728	19.6%
Total equity	3,692,229	2,935,934	25.8%
CET 1 capital (Basel III)	2,759,894	1,911,233	44.4%
Tier 1 capital (Basel III)	3,379,414	2,385,181	41.7%
Total capital (Basel III)	4,102,927	3,137,912	30.8%
Risk-weighted assets (Basel III)	20,217,629	18,301,477	10.5%

Key APMs²

	2021	2020	Change YoY
ROE	24.4%	11.7%	12.7 pp
Bank's standalone ROE	27.7%	13.1%	14.6 pp
ROA	3.4%	1.6%	1.8 pp
Bank's standalone ROA	3.8%	1.7%	2.1 pp
NIM	5.1%	4.7%	0.4 pp
Cost to income	37.6%	37.9%	-0.3 pp
Bank's standalone cost to income	29.7%	32.7%	-3.0 pp
Cost of risk	-0.3%	2.4%	-2.7 pp
NPL to gross loans	2.4%	4.7%	-2.3 pp
NPL provision coverage ratio	99.9%	85.6%	14.3 pp
Total NPL coverage ratio	175.3%	159.4%	15.9 pp
CET 1 CAR (Basel III)	13.7%	10.4%	3.3 pp
Tier 1 CAR (Basel III)	16.7%	13.0%	3.7 pp
Total CAR (Basel III)	20.3%	17.1%	3.2 pp
Leverage (Times)	6.7x	7.7x	-1.0x

Net interest income

In 2021, net interest income amounted to GEL 1,002.7 million, up by 20.0% YoY, whereby interest income and interest expense increased by 13.1% and 6.8%, respectively.

The YoY increase in interest income was primarily related to an increase in interest income from loans, which was related both an increase in the gross loan portfolio of GEL 1,846.9 million, or 12.2%, and a rise in loan yield of 0.2 pp. The upper loan rate was due a shift of the portfolio composition towards GEL loans.

The increase in interest expense was primarily related to an increase in interest expense from deposits, which was due to an increase in the respective portfolio of GEL 2,465.4 million, or 19.6%. Over the same period, the cost of deposits declined by 0.2 pp. In addition, the change in the liability structure towards deposits (from 64% as of 31 December 2020 to 72% as of 31 December 2021) had a positive effect on the cost of funding. As a result, the cost of funding decreased by 0.3 pp YoY and stood at 4.5% in 2021.

In 2021, our NIM stood at 5.1%, up by 0.4 pp YoY.

<i>In thousands of GEL</i>	2021	2020	Change YoY
Interest income	1,885,856	1,667,999	13.1%
Interest expense	(911,267)	(853,516)	6.8%
Net gains from currency swaps	28,143	20,950	34.3%
Net interest income	1,002,732	835,433	20.0%
NIM	5.1%	4.7%	0.4 pp

1 Other operating non-interest income includes net insurance premium earned after claims and acquisition costs

2 The detailed information about APMs is given on pages 363-367

FINANCIAL REVIEW CONTINUED

Non-interest income

Total other non-interest income increased by 40.3% YoY and amounted to GEL 449.3 million in 2021. The YoY growth was driven by a strong rebound across all categories, further amplified by a gain from sale of one of our investment properties in 2Q 2021 in the amount of GEL 26.3 million (the gain from this transaction is included in other operating income).

<i>In thousands of GEL</i>	2021	2020	Change YoY
Non-interest income			
Net fee and commission income	248,000	182,767	35.7%
Net gains from currency derivatives, foreign currency operations and translation	117,270	98,018	19.6%
Net insurance premium earned after claims and acquisition costs ¹	23,546	19,485	20.8%
Other operating income	60,472	19,888	NMF
Total other non-interest income	449,288	320,158	40.3%

NMF – no meaningful figures

Credit loss allowance

Total credit loss allowance in 2021 amounted to GEL 16.9 million. This significant decrease YoY was driven by improved performance across all segments in 2021 and by a high base in 2020, due to the reflection of COVID-19 impact on the credit loss allowances.

<i>In thousands of GEL</i>	2021	2020 (as restated)	Change YoY
Credit loss recovery/(allowance) for loans to customers	40,123	(330,811)	NMF
Credit loss recovery/(allowance) for other transactions*	(23,223)	(27,197)	-14.6%
Total credit loss recovery/(allowance)*	16,900	(358,008)	NMF
Operating income after expected credit and non-financial asset impairment losses *	1,468,920	797,583	84.2%
Cost of risk	-0.3%	2.4%	-2.7 pp

* Certain amounts do not correspond to 2020 operating income after expected credit and non-financial asset impairment losses as they reflect the reclassifications made by the management between net impairment of non-financial assets and administrative and other operating expenses. For more information, please refer to the note 2 of the financial statements.

NMF – no meaningful figures

Operating expenses

In 2021, our total operating expenses expanded by 24.8% YoY.

In 2021, the increase in our operating expenses was mainly driven by staff costs, due to higher performance related costs, including management's variable compensation, which was forfeited in 2020, as well as to the growing scale of our Uzbek business. At the same time, the increase in administrative and other expenses across the board was due to low base in 2020 and increased business activities.

The cost to income ratio stood at 37.6%, down by 0.3 pp YoY, while the Bank's standalone cost to income was 29.7%, down by 3.0 pp over the same period.

<i>In thousands of GEL</i>	2021	2020 (as restated)	Change YoY
Operating expenses			
Staff costs	(309,302)	(244,043)	26.7%
Provisions for liabilities and charges	27	(2,706)	NMF
Depreciation and amortization	(79,891)	(68,392)	16.8%
Administrative & other operating expenses*	(156,668)	(122,321)	28.1%
Total operating expenses*	(545,834)	(437,462)	24.8%
Cost to income	37.6%	37.9%	-0.3 pp
Bank's standalone cost to income	29.7%	32.7%	-3.0 pp

* Certain amounts do not correspond to 2020 operating expense figures as they reflect the reclassifications made by the management between net impairment of non-financial assets and administrative and other operating expenses. For more information, please refer to the note 2 of the financial statements.

Net income

In 2021, our record high profitability was driven by strong income generation across all categories, as well as strong performance on asset quality side.

As a result, our ROE stood at 24.4%, ROA stood at 3.4%.

<i>In thousands of GEL</i>	2021	2020	Change YoY
Losses from modifications of financial instruments	(1,726)	(41,015)	-95.8%
Profit before tax	921,360	319,106	NMF
Income tax (expense)/credit	(112,361)	3,383	NMF
Profit for the year	808,999	322,489	NMF
ROE	24.4%	11.7%	12.7 pp
Bank's standalone ROE	27.7%	13.1%	14.6 pp
ROA	3.4%	1.6%	1.8 pp
Bank's standalone ROA	3.8%	1.7%	2.1 pp

Funding and liquidity

In 2021, we utilized excess liquidity generated in 2020 and our liquidity coverage ratio, as defined by the NBG was 115.8%, above the 100% limit, while the LCR in GEL and FC stood at 107.7% and 120.8% respectively, above the respective limits of 75% and 100%.

As of 31 December 2021, NSFR stood at 127.3%, compared to the regulatory limit of 100%.

	31-Dec-21	31-Dec-20	Change YoY
<i>Minimum net stable funding ratio, as defined by the NBG</i>	100.0%	100.0%	0.0 pp
Net stable funding ratio as defined by the NBG	127.3%	126.0%	1.3 pp
Net loans to deposits + IFI funding	100.9%	101.2%	-0.3 pp
Leverage (Times)	6.7x	7.7x	-1.0x
<i>Minimum total liquidity coverage ratio, as defined by the NBG</i>	100.0%	100.0%	0.0 pp
<i>Minimum LCR in GEL, as defined by the NBG</i>	75%*	n/a	NMF
<i>Minimum LCR in FC, as defined by the NBG</i>	100.0%	100.0%	0.0 pp
Total liquidity coverage ratio, as defined by the NBG	115.8%	134.2%	-18.4 pp
LCR in GEL, as defined by the NBG	107.7%	132.2%	-24.5 pp
LCR in FC, as defined by the NBG	120.8%	134.9%	-14.1 pp

* In May 2021, NBG restored the NBG GEL LCR limit, which was temporarily removed for one year

Regulatory capital

On a YoY basis, the Bank's CET1, Tier 1 and Total capital adequacy ratios increased by 3.3 pp, 3.7 pp and 3.2 pp, respectively. This increase was mainly driven by strong net income generation, the issuance of an AT1 Bond in November 2021 in the amount of US\$ 75 million, and by local currency appreciation, which was partially offset by an increase in the loan book.

1 Net insurance premium earned after claims and acquisition costs can be reconciled to the standalone net insurance profit as follows: net insurance premium earned after claims and acquisition costs less credit loss allowance, administrative expenses and taxes, plus fee and commission income and net interest income

FINANCIAL REVIEW CONTINUED

<i>In thousands of GEL</i>	31-Dec-21	31-Dec-20	Change YoY
CET 1 capital	2,759,894	1,911,233	44.4%
Tier 1 capital	3,379,414	2,385,181	41.7%
Total capital	4,102,927	3,137,912	30.8%
Total risk-weighted exposures	20,217,629	18,301,477	10.5%
<i>Minimum CET 1 ratio</i>	<i>11.7%</i>	<i>7.4%</i>	<i>4.3 pp</i>
CET 1 capital adequacy ratio	13.7%	10.4%	3.3 pp
<i>Minimum Tier 1 ratio</i>	<i>14.0%</i>	<i>9.2%</i>	<i>4.8 pp</i>
Tier 1 capital adequacy ratio	16.7%	13.0%	3.7 pp
<i>Minimum total capital adequacy ratio</i>	<i>18.4%</i>	<i>13.7%</i>	<i>4.7 pp</i>
Total capital adequacy ratio	20.3%	17.1%	3.2 pp

Loan portfolio

As of 31 December 2021, the gross loan portfolio reached GEL 17,047.4 million, up by 12.2% YoY or by 18.0% on a constant currency basis. The proportion of gross loans denominated in foreign currency decreased by 5.5 pp YoY and accounted for 53.9% of total loans, while on a constant currency basis the proportion of gross loans denominated in foreign currency was down by 3.2 pp YoY and stood at 56.2%.

As of 31 December 2021, our market share in total loans stood at 38.8%, down by 0.2 pp YoY, while our loan market share in legal entities was 39.1%, up by 0.5 pp over the same period, and our loan market share in individuals stood at 38.6%, down by 0.8 pp QoQ.

<i>In thousands of GEL</i>	31-Dec-21	31-Dec-20	Change YoY
Loans and advances to customers			
Retail	6,358,345	5,846,274	8.8%
– Retail loans GEL	3,580,468	3,007,484	19.1%
– Retail loans FC	2,777,877	2,838,790	-2.1%
CIB	6,547,741	5,831,871	12.3%
– CIB loans GEL	2,188,776	1,599,857	36.8%
– CIB loans FC	4,358,965	4,232,014	3.0%
MSME	4,141,305	3,522,375	17.6%
– MSME loans GEL	2,082,204	1,559,127	33.5%
– MSME loans FC	2,059,101	1,963,248	4.9%
Total loans and advances to customers	17,047,391	15,200,520	12.2%

The comparative numbers for 2020 do not correspond with the numbers shown in note 29 of the financial statements, since they exclude the effects of standard annual re-segmentation.

	2021	2020	Change YoY
Loan yields	10.3%	10.1%	0.2 pp
Loan yields GEL	15.1%	15.3%	-0.2 pp
Loan yields FC	6.5%	6.7%	-0.2 pp
Retail loan yields	11.7%	11.5%	0.2 pp
– Retail loan yields GEL	16.1%	16.5%	-0.4 pp
– Retail loan yields FC	6.1%	6.6%	-0.5 pp
CIB loan yields	9.0%	8.6%	0.4 pp
– CIB loan yields GEL	13.7%	13.2%	0.5 pp
– CIB loan yields FC	7.0%	7.0%	0.0 pp
MSME loan yields	10.2%	10.2%	0.0 pp
– MSME loan yields GEL	14.9%	14.9%	0.0 pp
– MSME loan yields FC	6.0%	6.3%	-0.3 pp

Loan portfolio quality

On a YoY basis, total par 30 improved by 0.6 pp. The decrease was mainly driven by the Retail segment on the back of write-offs of the unsecured loans and strong performance of the mortgage portfolio.

Our NPL ratio improved by 2.3 pp YoY and amounted to 2.4%. The recovery was observed in all segments, mainly driven by resumed repayments on COVID-19 restructured loans.

Par 30	31-Dec-21	31-Dec-20	Change YoY
Retail	2.2%	3.5%	-1.3 pp
CIB	0.6%	1.0%	-0.4 pp
MSME	4.0%	3.7%	0.3 pp
Total loans	2.0%	2.6%	-0.6 pp

Non-performing Loans	31-Dec-21	31-Dec-20	Change YoY
Retail	2.4%	5.8%	-3.4 pp
CIB	1.4%	2.4%	-1.0 pp
MSME	4.0%	6.5%	-2.5 pp
Total loans	2.4%	4.7%	-2.3 pp

NPL coverage	31-Dec-21		31-Dec-20	
	Provision Coverage	Total Coverage	Provision Coverage	Total Coverage
Retail	158.8%	224.6%	102.4%	170.3%
CIB	56.8%	126.4%	77.1%	148.0%
MSME	68.0%	155.5%	66.4%	150.5%
Total	99.9%	175.3%	85.6%	159.4%

Cost of risk

The total cost of risk for 2021 stood at -0.3%, down by 2.7 pp YoY. This significant decrease YoY was driven by improved performance across all segments in 2021 and by a high base in 2020 due to the reflection of COVID-19 impact on the credit loss allowances.

Cost of risk	2021	2020	Change YoY
Retail	0.5%	3.8%	-3.3 pp
CIB	-1.0%	0.6%	-1.6 pp
MSME	-0.2%	3.0%	-3.2 pp
Total	-0.3%	2.4%	-2.7 pp

Deposit portfolio

The total deposits portfolio increased by 19.6% YoY across all segments and amounted to GEL 15,038.2 million, while on a constant currency basis the total deposit portfolio increased by 25.1% over the same period. The proportion of deposits denominated in foreign currency was down by 2.8 pp YoY and accounted for 63.5% of total deposits, while on a constant currency basis the proportion of deposits denominated in foreign currency increased by 1.2 pp YoY and stood at 65.1%.

As of 31 December 2021, our market share in deposits amounted to 40.4%, up by 3.2 pp YoY, and our market share in deposits to legal entities stood at 40.5%, up by 6.0 pp over the same period. Our market share in deposits to individuals stood at 40.3%, up by 0.8 pp YoY.

FINANCIAL REVIEW CONTINUED

In thousands of GEL

	31-Dec-21	31-Dec-20	Change YoY
Customer accounts			
Retail	5,837,333	4,975,661	17.3%
– Retail deposits GEL	1,492,325	1,236,594	20.7%
– Retail deposits FC	4,345,008	3,739,067	16.2%
CIB	7,330,543	5,717,347	28.2%
– CIB deposits GEL	2,934,167	1,833,122	60.1%
– CIB deposits FC	4,396,376	3,884,225	13.2%
MSME	1,558,676	1,368,490	13.9%
– MSME deposits GEL	756,135	661,941	14.2%
– MSME deposits FC	802,541	706,549	13.6%
Total customer accounts*	15,038,172	12,572,728	19.6%

* Total deposit portfolio includes Ministry of Finance deposits in the amount of GEL 511 million and GEL 312 million as of 31 December 2020 and 31 December 2021, respectively.

The comparative numbers for 2020 do not correspond with the numbers shown in note 29 of the financial statements, since they exclude the effects of standard annual re-segmentation.

	2021	2020	Change YoY
Deposit rates	3.4%	3.6%	-0.2 pp
– Deposit rates GEL	6.7%	6.5%	0.2 pp
– Deposit rates FC	1.5%	2.0%	-0.5 pp
Retail deposit yields	2.4%	2.6%	-0.2 pp
– Retail deposit rates GEL	4.9%	5.3%	-0.4 pp
– Retail deposit rates FC	1.3%	1.7%	-0.4 pp
CIB deposit yields	4.3%	4.4%	-0.1 pp
– CIB deposit rates GEL	8.5%	8.1%	0.4 pp
– CIB deposit rates FC	2.0%	2.5%	-0.5 pp
MSME deposit yields	0.8%	0.9%	-0.1 pp
– MSME deposit rates GEL	1.4%	1.6%	-0.2 pp
– MSME deposit rates FC	0.2%	0.3%	-0.1 pp

APMS

APMs (based on monthly averages, where applicable)

	2021	2020
Profitability:		
ROE	24.4%	11.7%
Bank's standalone ROE	27.7%	13.1%
ROA	3.4%	1.6%
Bank's standalone ROA	3.8%	1.7%
Cost to income	37.6%	37.9%
Bank's standalone cost to income	29.7%	32.7%
NIM	5.1%	4.7%
Loan yields	10.3%	10.1%
Deposit rates	3.4%	3.6%
Cost of funding	4.5%	4.8%*
Asset quality & portfolio concentration:		
Cost of risk	-0.3%	2.4%
PAR 90 to gross loans	1.1%	1.5%
NPLs to gross loans	2.4%	4.7%
NPL provision coverage	99.9%	85.6%
Total NPL coverage	175.3%	159.4%
Credit loss level to gross loans	2.4%	4.0%
Related party loans to gross loans	0.1%	0.0%
Top 10 borrowers to total portfolio	6.8%	7.9%
Top 20 borrowers to total portfolio	10.5%	12.1%
Capital & liquidity positions:		
Net loans to deposits plus IFI** funding	100.9%	101.2%
Net stable funding ratio	127.3%	126.0%
Liquidity coverage ratio	115.8%	134.2%
Leverage	6.7x	7.7x
CET 1 CAR (Basel III)	13.7%	10.4%
Tier 1 CAR (Basel III)	16.7%	13.0%
Total 1 CAR (Basel III)	20.3%	17.1%

*The Group enters into swap agreements denominated in foreign currencies with a view to decrease cost of funding. Respective interest effect is presented within net interest income, but has not been previously included in the cost of funding ratio calculation. As the contracts reached significant volume, the Group revisited the presentation of effects in the cost of funding ratio and decided to include interest effect from swap agreements in the calculation of cost of funding. The change was made retrospectively and ratios of previous periods have also been restated.

** International Financial Institutions

The detailed information about APMs is given on pages 363-367.

Material Existing and Emerging Risks

The emergence of the COVID-19 pandemic has enhanced the critical importance of risk management to the Group's strategy. During the COVID-19 era, it is even more essential to identify emerging risks and uncertainties that could adversely impact the Group's performance, financial condition and prospects. This section analyses the material principal and emerging risks and uncertainties the Group faces. However, we cannot exclude the possibility of the Group's performance being affected by risks and uncertainties other than those listed below. More details regarding risk management practices can be found on pages 112-127. At the time of writing this report, there is uncertainty around the war in Ukraine, its potential impact is summarized in the emerging risks section.

The Board has undertaken a robust assessment of both the principal and emerging risks facing the Group and the long-term viability of the Group's operations, in order to determine whether to adopt the going concern basis of accounting. For more information, please see the Going Concern and Viability Statements on page 154-155.

In the sections covering material existing and emerging risks, as well as risk management practices, the main focus is on the key subsidiary of the Group – JSC TBC Bank (the Bank), unless otherwise noted.

PRINCIPAL RISKS AND UNCERTAINTIES

1. Credit risk is an integral part of the Group's business activities

Risk description

Credit risk is the greatest material risk faced by the Group, given the Group is engaged principally in traditional lending activities. The Group's customers include legal entities as well as individual borrowers.

Due to the high level of dollarization in Georgia's financial sector, currency-induced credit risk is a component of credit risk, which relates to risks arising from foreign currency-denominated loans to unhedged borrowers in the Group's portfolio. Credit risk also includes concentration risk, which is the risk related to credit portfolio quality deterioration as a result of large exposures to single borrowers or groups of connected borrowers, or loan concentration in certain economic industries. Losses may be further aggravated by unfavourable macroeconomic conditions. These risks are described in more detail as a separate principal risk.

Risk mitigation

A comprehensive credit risk assessment framework is in place with a clear division of duties among the parties involved in the credit analysis and approval process. The credit assessment process differs by segment, and is further differentiated across various product types to reflect the differing natures of these asset classes. Corporate, SME and larger retail and micro loans are assessed on an individual basis, whereas the decision-making process for smaller retail and micro loans is largely automated. The rules for manual and automated underwriting are developed by units within the risk function, which are independent from the origination and business development units. The credit scoring and underwriting models are developed by an independent Credit Modelling team, within the risk function and the developed models are then validated as well by another independent Model Risk Management team, also from the risk function. In the case of corporate and medium-sized business borrowers, the loan review process is conducted within specific sectoral teams, which accumulate deep knowledge of the corresponding sectoral developments.

The Group uses a robust monitoring system to react promptly to macro and micro developments, identify weaknesses in the credit portfolio and outline solutions to make informed risk management decisions.

Monitoring processes are tailored to the specifics of individual segments, as well as encompassing individual credit exposures, overall portfolio performance and external trends that may impact the portfolio's risk profile. Additionally, the Group uses a comprehensive portfolio supervision system to identify weakened credit exposures and take prompt, early remedial actions, when necessary.

The Group's credit portfolio is highly diversified across customer types, product types and industry segments,

which minimizes credit risk at the Group level. As of 31 December 2021, the retail segment represented 37.3% of the total portfolio, which was comprised of 64.7% mortgage and 35.3% non-mortgage exposures. No single business sector represented more than 9.3% of the total portfolio at the end of 2021.

Collateral represents the most significant credit risk mitigation tool for the Group, making effective collateral management one of the key risk management components. Collateral on loans extended by the Group may include, but is not limited to, real estate, cash deposits, vehicles, equipment, inventory, precious metals, securities and third party guarantees.

The Group has a largely collateralised portfolio in all its segments, with real estate representing a major share of collateral. As of 31 December 2021, 76.9% of the Group's portfolio was secured by cash, real estate or gold. A sound collateral management framework ensures that collateral serves as an adequate mitigating factor for credit risk management purposes.

Additionally, the Bank actively performs stress testing and scenario analysis in order to check the resilience of borrowers under various stress conditions. The stress tests entail assumptions about the depreciation of the local currency, GDP growth, sectoral growth, unemployment, inflation, changes in real estate and commodity prices, changes in interest rates, and loan and deposit portfolio developments. The Bank carries out intensive financial monitoring to identify borrowers' weakened financial and business prospects in order to offer them a restructuring plan that is tailored to their individual needs.

2. The Group faces currency-induced credit risk due to the high share of loans denominated in foreign currencies in the Group's portfolio

Risk description

A potential material GEL depreciation is one of the most significant risks that could negatively impact portfolio quality, due to the large presence of foreign currencies on the Group's balance sheet. As of 31 December 2021, 53.9% of the Group's total gross loans and advances to customers (before provision for loan impairment) were denominated in foreign currencies.

The income of many customers is directly linked to foreign currencies via remittances, tourism or exports. Nevertheless, customers may not be protected against significant fluctuations in the GEL exchange rate against the currency of the loan. The US\$/GEL rate remained volatile throughout 2021, with the average currency exchange rate of GEL weakening by 3.6% year-on-year. The GEL remains in free float and is exposed to many internal and external factors that in some circumstances could result in its depreciation.

Risk mitigation

Particular attention is paid to currency-induced credit risk, due to the high share of loans denominated in foreign currencies in the Group's portfolio. The vulnerability to exchange rate depreciation is monitored in order to promptly implement an action plan, as and when needed. The ability to withstand a certain amount of exchange rate depreciation is incorporated into the credit underwriting standards, which also include significant currency depreciation buffers for unhedged borrowers. In addition, the Group holds significant capital against currency-induced credit risk.

Given the experience and knowledge built through recent currency volatility, the Group is in a good position to promptly mitigate exchange rate depreciation risks. In January 2019, government authorities continued their efforts to reduce the economy's dependence on foreign currency financing by increasing the cap to GEL 200,000 under which loans must be disbursed in the local currency. In addition, under the NBS's responsible lending regulations, unhedged retail borrowers are required to have much conservative Payment-to-Income (PTI) and Loan-to-Value (LTV) thresholds.

The Bank has set a strategy to decrease the share of foreign currency loans in total portfolio. Annual targets have been defined in the medium-term strategy, gradually decreasing the foreign currency share. The Assets and Liabilities Committee (ALCO) is closely monitoring the achievement of these targets.

3. The Group's performance may be compromised by adverse developments in the economic environment

Risk description

A potential slowdown in economic growth in Georgia will likely have an adverse impact on the repayment capacity of borrowers, restraining their future investment and expansion plans. These occurrences would be reflected in the Group's portfolio quality and profitability, and would also impede portfolio growth rates. Negative macroeconomic developments could compromise the Group's performance in various ways, such as exchange rate depreciation, a spike in interest rates, rising unemployment, a decrease in household disposable income, falling property prices, worsening loan collateralization, or falling debt service capabilities of companies as a result of decreasing sales. Potential political and economic instability in neighboring countries and its main trading/economic partners could negatively affect Georgia's economic outlook through worsening current and financial accounts in the balance of payments (e.g. decreased exports, tourism inflows, remittances and foreign direct investments).

The exogenous nature of the COVID-19 shock implies the potential for a quick recovery compared to conventional business cycles. While the observed restart

MATERIAL EXISTING AND EMERGING RISKS **CONTINUED**

was certainly expected, the Georgian economy has rebounded at a speed that exceeded initial expectations, with real GDP increasing by 10.4% year-on-year, according to the National Statistics Office of Georgia (Geostat), as opposed to 4.7% - estimated at the beginning of the year. Economic growth was also up by 2.9% compared to the 2019 level.

Importantly, this growth was broad based and was reflected in all sources of inflows as well as in domestic demand. The latter was fueled by a reversal of the shock amplifier (low credit and high savings of foreign currency in 2020), pent-up demand coupled with low US\$ deposit yields, a stronger GEL, and the impact of eased lockdowns. Stronger domestic demand was also reflected in higher imports of goods.

By the end of 2021, annual inflation remained elevated at 13.9%, because of a low base effect a year ago, due to state subsidies on utilities.

In 2021, the NBG again intervened significantly on the FX market, mostly in the first half of the year. Over the course of the year, the NBG increased its policy rate from 8.0% to 10.5%.

For more details on the developments in the Georgian economy in 2021, please refer to the economic overview section on pages 14-17.

Risk mitigation

To decrease its vulnerability to economic cycles, the Group identifies cyclical industries and proactively manages its underwriting approach and clients within its risk appetite framework. The Group has in place a macroeconomic monitoring process that relies on close, recurrent observation of the economic developments in Georgia and neighboring countries to identify early warning signals indicating imminent economic risks. This system allows the Group to promptly assess significant economic and political occurrences and analyze their implications for the Group's performance. These implications are duly translated into specific action plans with regards to reviewing underwriting standards, risk appetite metrics or limits, including the limits for each of the most vulnerable industries. Additionally, the stress testing and scenario analysis applied during the credit review and portfolio-monitoring processes enable the Group to evaluate the impact of macroeconomic shocks on its business in advance. Resilience towards a changing macroeconomic environment is incorporated into the Group's credit underwriting standards. As such, borrowers are expected to withstand certain adverse economic developments through prudent financials, debt-servicing capabilities and conservative collateral coverage.

Taking into account the impact of the COVID-19 crisis on Georgia's economy, the Group has adjusted its risk management framework leveraging its already existing stress testing practices. This included more thorough and frequent monitoring of the portfolio as well as stress testing, to ensure close control of changes in capital, liquidity, and portfolio quality in times of increased uncertainty.

4. The Group faces the risk of not meeting the minimum regulatory requirements under the increasing capital requirement framework, which may compromise growth and strategic targets. Additionally, adverse changes in FX rates may impact capital adequacy ratios

Risk description

In December 2017, the NBG introduced a new capital adequacy framework. Under the updated regulation, capital requirements consist of a Pillar 1 minimum requirement, combined buffers (systemic, countercyclical and conservation buffers) and Pillar 2 buffers.

The initial regulation included a phase-in schedule that gradually introduced the buffer over a four-year period. In response to the COVID-19 pandemic, the NBG implemented certain countercyclical measures related to capital adequacy requirements, temporarily decreasing conservation and two-thirds of CICR buffers and postponing the phase-in schedule for pillar 2 buffers. The Bank has restored all released buffers since July 2021, lifting any restrictions on capital distribution.

The NBG outlined a new schedule for the gradual introduction of pillar 2 buffers, with the phase-in of concentration risk and Net GRAPE buffers beginning in March 2021 and due to be fully introduced by March 2023.

In December 2021, the systemic buffer increased from 2.0% to 2.5%, as previously planned. The Bank's capitalization as of December 2021 stood at:

- 13.7% for CET 1 with an updated regulatory minimum requirement of 11.7%;
- 16.7% for Tier 1 with an updated regulatory minimum requirement of 14.0%; and
- 20.3% for Total capital with an updated regulatory minimum requirement of 18.4%.

The ratios were well above the respective regulatory minimums.

In 2021, the NBG proposed amendments in the CICR buffer calculation methodology. According to the new methodology, which will be effective from March of 2023, current fixed CICR rate (75%) will be flexible in the range of 40% to 100% depending on the share of foreign currency loans in total portfolio: the lower is the share, the lower will be the CICR buffer requirement.

GEL volatility has been and remains a significant risk to the Bank's capital adequacy. A 10% GEL depreciation would translate into a 0.8pp, 0.7pp and 0.6 pp drop in the Bank's CET 1, Tier 1 and Total regulatory capital adequacy ratios, respectively.

Risk mitigation

The Group undertakes stress testing and sensitivity analysis to quantify extra capital consumption under different scenarios. Such analyses indicate that the Group holds sufficient capital to meet the current minimum regulatory requirements. Capital forecasts, as well as the results of the stress testing and what-if scenarios, are actively monitored with the involvement of the Bank's Management Board and Risk Committee to ensure prudent management and timely action, when needed.

5. The Group is exposed to regulatory and enforcement action risk

Risk description

The Bank's activities are highly regulated and thus face regulatory risk. The NBG can increase prudential requirements across the whole sector as well as for specific institutions within it. Therefore, the Group's profitability and performance may be compromised by an increased regulatory burden.

The NBG sets lending limits and other economic ratios (including, inter alia, lending, liquidity and investment ratios) in addition to mandatory capital adequacy ratios.

Under Georgian banking regulations, the Bank is required, among other things, to comply with minimum reserve requirements and mandatory financial ratios, and to regularly file periodic reports. The Bank is also regulated by the tax code and other relevant laws in Georgia. Following the Company's listing on the London Stock Exchange's premium segment, the Group became subject to increased regulations from the UK Financial Conduct Authority. In addition to its banking operations, the Group also offers other regulated financial services products, including leasing, insurance and brokerage services.

The Group's subsidiary was granted a banking license in Uzbekistan and launched operations there in 2020. As a result, the regulatory compliance requirements have increased for the Group.

The Group takes all necessary steps with the intention of ensuring compliance with relevant legislation and regulations. The Group is also subject to financial covenants in its debt agreements. For more information, see pages 337-343 in the Group's Audited Financial Statements.

Risk mitigation

The Group has established systems and processes to ensure full regulatory compliance, which are embedded in all levels of the Group's operations. The dedicated compliance department reports directly to the Chief Executive Officer and has a primary role in the management of regulatory compliance risk. The Group's Risk Committee is responsible for regulatory compliance at the Board level. In terms of banking regulations and Georgia's taxation system, the Group is closely engaged with the regulator to ensure that new procedures and requirements are discussed in detail before their implementation. Although the decisions made by regulators are beyond the Group's control, significant regulatory changes are usually preceded by a consultation period that allows all lending institutions to provide feedback and adjust their business practices.

6. The Group is exposed to concentration risk

Risk description

The Group has large individual exposures to single-name borrowers whose potential default would entail increased credit losses and higher impairment charges. The Group's portfolio is well diversified across sectors, resulting in only a moderate vulnerability to sector concentration risks. However, should exposure to common risk drivers increase, the risks are expected to amplify correspondingly.

The Group's maximum exposure to the single largest industry (Real Estate) stood at 9.3% of the loan portfolio as of 31 December 2021. At the end of 2021, exposure to the 20 largest borrowers stood at 10.5% of the loan portfolio.

Risk mitigation

The Group constantly monitors the concentrations of its exposure to single counterparties, as well as sectors and common risk drivers, and introduces limits for risk mitigation. As part of its risk appetite framework, the Group limits both single-name and sector concentrations. Any considerable change in the economic or political environment in Georgia or in neighbouring countries would trigger the Group to review of the risk appetite criteria to mitigate the emerging risk of concentration. Stringent monitoring tools are in place to ensure compliance with the established limits. Due to the increased uncertainty caused by the COVID-19 pandemic, close monitoring was carried out consistently, based on macro expectations, to estimate the performance of our top 20 corporate borrowers.

MATERIAL EXISTING AND EMERGING RISKS **CONTINUED**

In addition, the Bank has dedicated restructuring teams to manage borrowers who face financial difficulties. When deemed necessary, clients are transferred to such teams for more efficient handling and, ultimately, to limit any resulting credit risk losses. The NBG's new capital framework introduced a concentration buffer under Pillar 2 that helps to ensure that the Group remains adequately capitalised to mitigate concentration risks.

7. Liquidity risk is inherent in the Group's operations

Risk description

While the Group currently has sufficient financial resources available to meet its obligations as they fall due, liquidity risk is inherent in banking operations and can be heightened by numerous factors. These include an overreliance on, or an inability to access, a particular source of funding, as well as changes in credit ratings or market-wide phenomena, such as the global financial crisis that took place in 2007. Access to credit for companies in emerging markets is significantly influenced by the level of investor confidence and, as such, any factors affecting investor confidence (e.g. a downgrade in credit ratings, central bank or state interventions, or debt restructurings in a relevant industry) could influence the price or the availability of funding for companies operating in any of these markets.

The Group was in compliance with the minimum liquidity requirements set by the NBG, which include the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). As of 31 December 2021, the net loan to deposits plus international financial institution funding ratio stood at 100.9%, the liquidity coverage ratio at 115.8%, and the net stable funding ratio at 127.3%. These figures are all comfortably above the NBG's minimum requirements or guidance for such ratios.

In May 2021, the NBG restored the NBG GEL LCR limit ($\geq 75\%$), which had been removed for one year as one of countercyclical measures implemented in relation to liquidity requirements as a result of COVID-19.

Risk mitigation

To mitigate this risk, the Group holds a solid liquidity position and performs an outflow scenario analysis for both normal and stress circumstances to make sure that it has adequate liquid assets and cash inflows. The Group maintains a diversified funding structure to manage the respective liquidity risks. There is adequate liquidity to withstand significant withdrawals of customer deposits, but the unexpected and rapid withdrawal of a substantial amount of deposits could have a material adverse impact on the Group's business, financial condition, and results of operations and/or prospects.

As part of its liquidity risk management framework, the Group has a liquidity contingency plan in place outlining the risk indicators for different stress scenarios and respective action plans. The liquidity risk position and compliance with internal limits are closely monitored by the Assets and Liabilities Management Committee (ALCO).

Due to its high liquidity position in foreign currency, the Bank made prepayments of some IFI resources in the amount of US\$ 237.4 million in late 2020 and throughout 2021. In addition, over the same period the Bank performed a cost-optimization process and attracted cheaper resources from FIIs.

8. Any decline in the Group's net interest income or net interest margin (NIM) could lead to a reduction in profitability

Risk description

Net interest income accounts for the majority of the Group's total income. Consequently, fluctuations in its NIM affect the results of operations. The new regulations as well as high competition could drive interest rates down, compromising the Group's profitability. At the same time, the cost of funding is largely exogenous to the Group and is derived from both local and international markets.

In 2021, the NIM increased by 0.4pp year-on-year to 5.1%, driven by an increase in loan yields, a decrease in the foreign currency (FC) cost of fund and optimizations in wholesale funding, further accompanied by increased loan larisation.

The Bank manages its exposure to interest rate risk, following the NBG IRR regulation introduced in September 2020. As of 31 December 2021, GEL 4,148 million in assets (18%) and GEL 2,180 million in liabilities (11%) were floating in GEL currency, whereas GEL 8,054 million of assets (34%) and GEL 761 million of liabilities (4%) were floating, related to the LIBOR/Euribor/FED/ECB rates. The Bank was in compliance with the Economic Value of Equity (EVE) sensitivity limit set by the NBG at 15% of Tier 1 capital, with the ratio standing at 2.9% by 31 December 2021.

Risk mitigation

In 2021 the Bank used excess liquidity to redeem costly institutional funding and negotiated the reduction of long-term funding margins, thereby aiding the gains in NIM. The Bank continues to focus on fee and commission income growth to safeguard from possible margin compressions on lending and deposit products in the future.

To meet the asset-liability objectives and manage the interest rate risk, the Bank uses the high quality investment securities portfolio, long-term funding and derivative contracts.

9. The threat posed by cyber-attacks has increased in recent years and continues to grow. The risk of potential cyber-attacks, which have become more sophisticated, may lead to significant security breaches. Such risks change rapidly and require continued focus and investment

Risk description

No cyber-security breaches have happened at the Bank in recent years. Nonetheless, the Group's rising dependency on IT systems increases its exposure to potential cyber-attacks.

Risk mitigation

In order to mitigate the risks associated with cyber-attacks and ensure clients' security, the Group continuously updates and enhances its in-depth security strategy, which covers multiple preventive and detective controls ranging from the data and end-point computers to edge firewalls.

A Security Operations Center has been built, which monitors every possible anomaly that is identified across the organization's network in order to detect potential incidents and respond to them effectively.

At least once a year, a full information security and cyber security threat analysis is performed, taking into consideration the relevant regional and sector specific perspectives. Also at least once a year, a presentation is given to the Risk Committee of the Board, with a deep dive into the information security matters. At least once every two years, as part of this analysis, an external consultant is contracted to assess the efficiency of our capabilities against industry best practices and real world cyber-attack scenarios. This analysis gives the Group a broad overview as well as detailed insight, which help to further enhance its information and cyber security systems. In addition, cyber-attack readiness exercises are performed on a regular basis. These exercises evaluate the actual position of the Group in this area and provide a benchmark against international best practices.

Our employees play a crucial role in information security. As a result, annual mandatory training sessions are conducted for all employees, which are comprised of remote learning courses on security issues, fraud and phishing simulations as well as informative emails to further assist our employees with information security matters. New employees are also given training as part of the onboarding process. These measures ensure that employees are fully aware of their responsibilities and are prepared for various security threats.

The Information Security Steering Committee governs information and cyber security to ensure that relevant risks are at an acceptable level and that continuous improvement of the management processes are achieved.

Disaster recovery plans are in place to ensure business continuity in case of need.

Since the beginning of the COVID-19 pandemic, the Group has activated secure remote working policies, which ensure that homeworking environments are protected against relevant cyber-threats while the security team provides effective oversight of teleworking channels. Although there has been a noticeable increase in phishing attempts against employees, there have been no major incidents. The Security Operation Center and Threat Hunting teams have successfully adopted effective remote collaboration and communication tools and practices.

In 2021, the Bank achieved ISO 27001 certification of its information security management system. That demonstrates that the Bank is following robust information security practices effectively, in order to protect its information and information systems from different types of threats. TBC Bank has not experienced any material information security breach in the last three years.

In December 2021, Ernst & Young Tbilisi office conducted two audits, assessment against Cyber Security Management Framework and assessment against SWIFT CSCF for the Bank. As a result, no critical findings and major non-compliances were identified during these exercises. Cyber Security Management Framework is defined by National Bank of Georgia, which is based on NIST Cyber Security Management Framework.

10. External and internal fraud risks are part of the operational risk inherent in the Group's business. Considering the increased complexity and diversification of operations, together with the digitalisation of the banking sector, fraud risks are evolving. Unless proactively managed, fraud events may materially impact the Group's profitability and reputation

Risk description

External fraud events may arise from the actions of third parties against the Group, most frequently involving events related to banking cards, loans and client phishing. Internal frauds arise from actions committed by the Group's employees, and such events happen less frequently. During the reporting period, the Group faced several instances of fraud, none of which had a material impact on the Group's profit and loss statement. As a result of the COVID-19 pandemic, the threat of fraud and the rapid growth in digital crime has been exacerbated and fraudsters are adopting new techniques and approaches to exploit various possibilities to illegally obtain funds. Therefore, unless properly monitored and managed, the potential impact can become substantial.

MATERIAL EXISTING AND EMERGING RISKS **CONTINUED**

Risk mitigation

The Group actively monitors, detects and prevents risks arising from fraud events and permanent monitoring processes are in place to detect unusual activities in a timely manner. The risk and control self-assessment exercise focuses on identifying residual risks in key processes, subject to the respective corrective actions. Given our continuous efforts to monitor and mitigate fraud risks, together with the high sophistication of our internal processes, the Group ensures the timely identification and control of fraud-related activities.

11. The Group remains exposed to some reputational risk

Risk Description

There are reputational risks to which the Group may be exposed, such as risks related to anti-banking campaigns, increased cases of phishing and other cyber-crimes, as well as risks associated with the digitalization process, such as digital service interruptions affecting digital bank, ATM and payment terminal operations. However, none of the aforementioned risks is unique to the Group.

Risk Mitigation

To mitigate the possibility of reputational risks, the Group works continuously to maintain strong brand recognition among its stakeholders. The Group follows all relevant internal policies and procedures to minimize the impact of direct/indirect reputational risks. The Group monitors its brand value through public opinion studies/surveys and by receiving feedback from stakeholders on an ongoing basis.

Dedicated internal and external marketing and communications teams are in place, which actively monitor media coverage on a daily basis. These teams monitor risks, develop scenarios and create respective contingency plans. The Group tries to identify early warning signs of potential reputational or brand damage in order to both mitigate and elevate it to the attention of the Board before it escalates.

The Communications and Cyber Security teams conduct extensive awareness-raising campaigns on cyber security and financial literacy, involving the media, the Banking Association of Georgia and Edufin (TBC's in-house financial education platform) aimed at mitigating and preventing cyber threats and phishing cases.

12. The Group faces the risk that its strategic initiatives do not translate into long-term sustainable value for its stakeholders

Risk Description

The Group may face the risk of developing a business strategy that does not safeguard long-term value creation in an environment of changing customer needs, competitive environment and regulatory restrictions.

In addition, increased uncertainty together with the major economic and social disruptions caused by the COVID-19 pandemic may hamper the Group's ability to effectively develop and execute its strategic initiatives in a timely manner and thereby compromise its capacity for long-term value creation.

Please see the Group's main strategic priorities in our business strategy and key performance indicators section on pages 20-25.

Risk Mitigation

The Group conducts annual strategic review sessions involving the Bank's top and middle management in order to ensure that it remains on the right track and assesses business performance from different perspectives, concentrating its analysis on key trends and market practices, both in regional and global markets. In addition, the Bank continuously works with the world's leading consultants in order to enhance its strategy.

Further, the Group conducts quarterly analyses and monitors the metrics used to measure strategy execution, and in case of any significant deviations, it takes corrective or mitigation actions.

13. The Group is exposed to risks related to its ability to attract and retain highly qualified employees

Risk Description

The Group faces the risk of losing of key personnel or the failure to attract, develop and retain skilled or qualified employees. In particular, the strategic decision to transform into a digital company entails increased demands on high calibre IT professionals across the Group. In addition, in order to adapt to the fast changing business environment, the Group needs to foster an "Agile" culture and equip employees with the necessary skills. In addition, the COVID-19 pandemic has created additional HR challenges in relation to safeguarding employees' health and wellbeing, maintaining high efficiency levels, strong internal communication and a strong corporate culture.

Risk Mitigation

The Group pays significant attention to human capital management strategies and policies, which include approaches to the recruitment, retention and development of talent, and offers competitive reward packages to its employees. The Group has also developed and implemented an "Agile" framework that aims to increase employee engagement and satisfaction. Moreover, the Bank set up an IT and Risk academy to attract and train young professionals. The best students are offered employment at the Bank. In addition, the Bank has an in-house academy that provides a range of courses for employees in different fields.

To ensure the maintenance of an effective internal communication system whilst working from home, we enhanced different digital channels to engage with our employees. Regular management meetings are conducted with staff in order to keep them updated with the Group's strategic initiatives and financial position as well as address their concerns during this highly uncertain period. In order to further promote and enhance our corporate culture, the Bank's internal Facebook group has become more active by, for example, posting employee profiles and sharing success stories. Additionally, the new remote working policy adopted by the Bank gives the possibility to attract new talent from beyond Georgia.

EMERGING RISKS

Emerging risks are those that have large unknown components and may affect the performance of the Group over a longer time horizon. We believe the following risks have the potential to increase in significance over time and could have a similar impact on the Group as the principal risks.

1. The Group's performance may be compromised by adverse developments in the region, in particular the war in Ukraine

Risk description

While inflows to the Georgian economy are quite diversified, the country is still vulnerable to geopolitical and economic developments in its neighborhood. In particular, the Russian invasion of Ukraine and the consequent sanctions imposed on Russia have an adverse impact on the Georgian economy.

As of 2021, Ukraine and Russia's share of Georgia's exports, remittances, tourism, and FDI inflows amounted to around 21%. Specifically, Ukraine and Russia accounted for 7% and 14% of exports, 4% and 18% of remittance inflows, and 15% and 12% of total tourism inflows, respectively. Ukraine and Russia's share of FDI exposure was lower at 1% and 6%, respectively, mainly comprised of reinvested earnings from previous waves of FDI. Importantly, over half of Georgia's exports to Russia and Ukraine are re-exports, while around 50% of tourism and remittance inflows are spent on imports. These factors decrease the overall net negative impact from lost inflows. At the same time, the adverse spillover effect from Georgia's other economic partners should also be taken into account.

Before the Russian invasion of Ukraine, TBC Capital estimated that the Georgian economy would grow by around 6.0% in 2022, 5.5% in 2023 and 5.0% in 2024 – close to its trend rate of around 5.2%. According to the World Bank's projections¹ as of January 2022, the Georgian economy was forecast to grow by 5.5% and 5.0% in 2022 and 2023, respectively. In fact, the January growth data released by Geostat shows a very strong

growth momentum. Although the 18.0% real year-on-year expansion was mainly on the back of a low base effect, growth was also strong at 4.4% when compared to January 2020, before the pandemic started, and much higher than in prior months when looking at the same, consistent measurement. However, taking into account Georgia's vulnerability to developments in Ukraine and Russia, there will be adverse implications for the growth outlook, as well as for the other macro variables, which may also negatively affect the Bank's capital adequacy, liquidity and credit risk.

The Russian invasion of Ukraine will likely have an adverse impact, particularly given Uzbekistan's exposure to remittances from Russia. However our expectation is that this will be to large extent mitigated by an increase in the value of commodity exports of Uzbekistan.

Risk mitigation

The Group actively employs the stress testing and other risk measurement and monitoring tools to ensure that early triggers are identified and translated into specific action plans to minimize the negative impact on the Bank's capital adequacy, liquidity, and portfolio quality in times of increased uncertainty.

2. The Group is exposed to the risks inherent in international operations

Risk description

Our subsidiary, TBC Bank in Uzbekistan, launched its operations in 2020. We have already invested US\$ 26 million in the charter capital of the Bank while our partners, EBRD and IFC, have invested a total of US\$ 18.4 million. Our plans foresee a minimum 51% shareholding. The international activities are expected to contribute to around 10%-15% of the Group's loan book over the medium to long-term.

TBC Bank Uzbekistan is a digital bank, which operates through digital channels; a disruption of the digital platforms deployed may have a material negative impact on the bank's operations. However, the risk management framework deployed at TBC Bank Uzbekistan gives the Group a comfort to manage potential disruptions swiftly.

The risk posed by the operating environment in Uzbekistan may change the Group's risk profile. This investment exposes the Group to Uzbekistan's macro-economic, political and regulatory environments, including but not limited to exposure to risks arising from credit, market, operational and capital adequacy risks as well as risks related to the COVID-19 pandemic in Uzbekistan

¹ World Bank, Global Economic Prospects, January 2022.

MATERIAL EXISTING AND EMERGING RISKS **CONTINUED**

The Uzbekistani economy is well diversified with no major reliance on a particular industry. It has one of the lowest public debts as a percentage of GDP in the region and high international reserves, implying macroeconomic stability as well as room for future high growth. The government of Uzbekistan plans to reform the economy and open it up to foreign investment. While the operational environment in Uzbekistan can be assessed as attractive, there are important risks that could materially affect the Group's performance in the country.

Despite the negative impact of the COVID-19 pandemic, Uzbekistan's economy grew by 1.9% in 2020. According to the statistics office of Uzbekistan, the economy further expanded by 7.4% in 2021. The Russian invasion of Ukraine will likely have an adverse impact, particularly given Uzbekistan's exposure to remittances from Russia. However our expectation is that this will be to large extent mitigated by an increase in the value of commodity exports of Uzbekistan.

Risk mitigation

The Group's strategy is to follow an asset-light, limited capital investment approach with a strong focus on digital channels and to invest in stages, to make sure that we are comfortable with the results and the operating environment before committing additional investment. The digital platform supporting TBC Bank Uzbekistan, has a strong governance and risk management practices in place, which comforts the Bank to timely identify and resolve problems.

The Group partners with international financial institutions, which intend to take a shareholding in the Uzbek bank in order to ensure the funding of our business plan and sufficient flexibility across our operations in Uzbekistan.

Overall, from the Group's perspective, international expansion will result in the diversification of business lines and revenue streams, balancing the overall risk profile of the Group.

3. The Group is exposed to the risks arising from climate change

Risk description

The risks associated with climate change have a physical impact, arising from more frequent and severe weather changes, and a transitional impact that may entail extensive policy, legal and technological changes to reduce the ecological footprint of households and businesses. For the Group, both of these risks could materialize through the impairment of asset values and deteriorating creditworthiness of our customers, which could result in a reduction of the Group's profitability. The Group may also become exposed to

reputational risks as a result of its lending to, or other business operations with, customers deemed to be contributing to climate change.

Risk mitigation

The Group's objective is to act responsibly and manage the environmental and social risks associated with its operations in order to minimize negative impacts on the environment. This approach enables us to reduce our ecological footprint by using resources efficiently and promoting environmentally friendly measures in order to mitigate climate change.

The Group has in place an Environmental Policy, which governs its Environmental Management System ("EMS") and ensures that the Group's operations adhere to the applicable environmental, health and safety and labour regulations and practices. We take all reasonable steps to support our customers in fulfilling their environmental and social responsibilities. The management of environmental and social risks is embedded in the Group's lending process through the application of the EMS. The Group has developed risk management procedures to identify, assess, manage and monitor environmental and social risks. These procedures are fully integrated in the Group's credit risk management process. Our Environmental Policy is fully compliant with Georgian environmental legislation and follows international best practices (the full policy is available at www.tbcbankgroup.com). For the detailed information on the Environmental Management System, please refer to pages 88-92.

To extend the Group's positive impact on the environment and climate change mitigation, by the end of 2021, the Bank introduced the Green Lending Framework within the organization, which will encourage private companies, as well as individuals to run their businesses energy and resource-efficiently and more eco-friendly.

In order to increase the understanding of climate-related risks on the TBC Bank's loan portfolio, which is the largest subsidiary of TBC Bank Group PLC, the Bank performed a high-level sectoral risk assessment, since different sectors might be vulnerable to different climate-related risks over different time horizons. The risk assessment focuses on economic sectors such as energy, oil and gas, metals and mining, tourism, agriculture, food industry, healthcare, construction and real estate. According to the maturity structure of the loan portfolio, the largest part of assets is distributed in the time horizons that are much shorter than the impacts of climate change, especially of physical risks, can be materialized in Georgia. On the other hand, the understanding of climate related risks, which have longer-term impacts need to be increased in coming years, therefore, if the bank will have a plausible find-

ings and conclusions, it will further develop the approach, how to consider climate risks in mitigation. Furthermore, the Group's portfolio has a strong collateral coverage with around 77% of the loan book, collateralized with cash, real estate or gold. The collateral evaluation procedure covers monitoring approach, therefore, the necessity of changes in collateral values is identified based on the regular collateral monitoring process. For more details, please see our ESG strategy section on pages 26-37.

In June 2021, the Group released its full-scale sustainability report for the year 2020 in reference to Global Reporting Initiative (GRI) standards. The Global Reporting Initiative (GRI) helps the private sector to realize and understand its role and influence on sustainable development issues such as climate change, human rights and governance. The report is designed for all interested parties and groups in Georgia as well as abroad and aims to give them clear, fact-based information about the social, economic and environmental impact of our activities in 2020. It presents our endeavours for creating value for our employees, clients, suppliers, partners and society as a whole. The Sustainability Report 2020 is available at www.tbcbankgroup.com.

4. The Group's performance may be affected by the LIBOR discontinuation and transition

Risk description

There are a number of different types of financial instruments on the Group's balance sheet, each of which carries interest rates benchmarked to the London Interbank Offered Rate ("LIBOR"). LIBOR is also used by the Group in its risk measurement, accounting and valuation processes. In 2017, the UK's Financial Conduct Authority (FCA) announced that it has agreed with LIBOR panel banks to sustain LIBOR until the end of 2021 and called upon financial sector participants to start working towards a transition to other reference rates. On 5 March 2021, the FCA announced the dates that panel bank submissions for all LIBOR setting will cease, after which representative LIBOR rates will no longer be available:

- immediately after 31 December 2021, in the case of all sterling, euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month US dollar settings; and
- immediately after 30 June 2023, in the case of the remaining US dollar settings.

The majority of the Bank's US\$ floating portfolio is linked to 6 month US\$ LIBOR, while the EUR floating portfolio is linked to the Euro Interbank Offered Rate (Euribor), the discontinuation of which was not declared.

The discontinuation of LIBOR and the process of transition exposes the Group to execution, conduct, financial and operational risks, and may result in earnings volatility, customer complaints and legal proceedings, or have other adverse impact on the Group's business and operations.

Risk mitigation

The Group actively monitors international and local transition-related developments to regulate and align the Group's transition process with market practice. On 29 July, 2021 the Alternative Reference Rates Committee (ARRC) announced its recommendation to use Term SOFR Rates published by CME Group, Inc. (CME).

The ARRC recommendation allows loan agreements to use term SOFR in place of LIBOR, either as a replacement for LIBOR (whether pursuant to the operation of a fallback provision or otherwise) or in new deals. The interest rate alternatives to US\$ LIBOR recommended previously were backward looking and have met with tepid acceptance.

The Group formed a steering committee to ensure a smooth transition away from LIBOR including the efforts to introduce forward-looking term rates linked to SOFR. The steering committee raises awareness of the transition, both internally and externally, to ensure that staff have the necessary knowledge and tools to facilitate the transition and that all of the Group's customers are treated fairly.

Risk Management

OVERVIEW

The Group operates a strong, independent, business-minded risk management system. Its main objective is to contribute to the sustainability of risk-adjusted returns through the implementation of an efficient risk management system. The Group has adopted four primary risk management principles to better accomplish its major objectives:

- Govern risks transparently to obtain understanding and trust. Consistency and transparency in risk-related processes and policies are preconditions for gaining the trust of multiple stakeholders. Communicating risk goals and strategic priorities to governing bodies and providing a comprehensive follow-up in an accountable manner are key priorities for staff responsible for risk management;
- Manage risks prudently to promote sustainable growth and resilience. Risk management acts as a backstop against excessive risk-taking. Capital adequacy management and strong forward-looking tools and decision-making ensure the Group's sustainability and resilience;
- Ensure that risk management underpins the implementation of strategy. Staff responsible for risk management provide assurance on the feasibility of achieving objectives through risk identification and management. Identifying and adequately pricing risks, as well as taking risk mitigation actions, supports the generation of desired returns and the achievement of planned targets;
- Use risk management to gain a competitive advantage. Comprehensive, transparent and prudent risk governance facilitates understanding and trust from multiple stakeholders, ensuring the sustainability and resilience of the business model and the positioning of risk management as the Group's competitive advantage and strategic enabler.

Risk management framework

The Group's risk management framework incorporates all the necessary components for comprehensive risk governance and is comprised of enterprise risk management, credit, financial and non-financial risk management, risk reporting and supporting IT infrastructure, cross-risk analytical tools and techniques such as capital adequacy management and stress testing. The following diagram depicts the risk management framework:

ENTERPRISE RISK MANAGEMENT

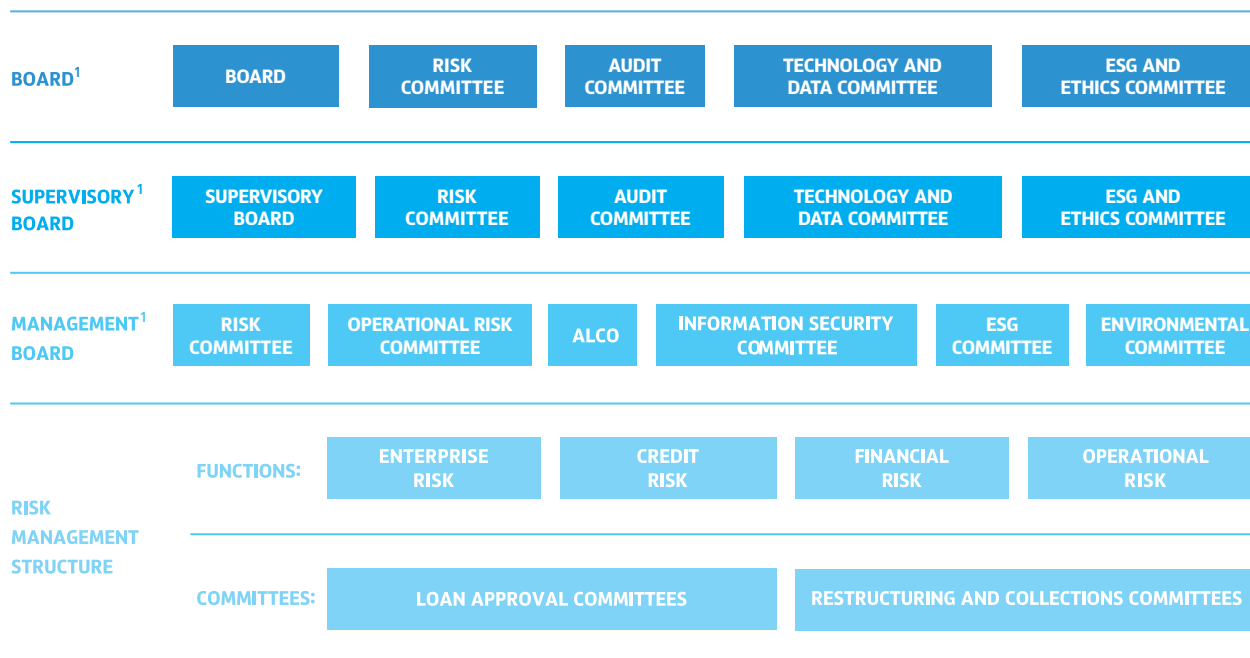
> RISK APPETITE > RISK STRATEGY > BUSINESS PLANNING

	CREDIT RISK			FINANCIAL RISK		NON-FINANCIAL RISK	
	CORPORATE	MSME	RETAIL	MARKET	LIQUIDITY	OPERATIONAL	OTHER
RISK ORGANISATION AND GOVERNANCE	GOVERNANCE STRUCTURE	THREE LINES OF DEFENCE	COMMITTEES	POLICIES	PERFORMANCE MANAGEMENT	RISK CULTURE	
RISK REPORTING	RISK REPORTING AND ANALYTICS						
SYSTEMS AND DATA	INFRASTRUCTURE, IT AND SYSTEMS						
RISK MODELS, METHODOLOGIES AND PROCESSES	CREDIT PROCESS		ASSET AND LIABILITY MANAGEMENT (ALM) AND LIQUIDITY RISK MODELLING AND PROCESSES			OPERATIONAL RISK MODELLING AND PROCESSES	
	CREDIT RISK MODELLING						
CROSS-RISK ANALYTICS	CAPITAL ADEQUACY MANAGEMENT AND STRESS TESTING						

GOVERNANCE

The Group conducts its risk management activities within the framework of its unified risk management system. The involvement of all governance levels in risk management, the clear segregation of authority and effective communication between the different entities facilitate clarity regarding the Group's strategic and risk objectives, adherence to its established risk appetite and sound risk management. The Group's governance structure ensures adequate oversight and accountability, as well as a clear segregation of duties. The Board and the Supervisory Board have joint overall responsibility to set the tone at the top of the Group and monitor compliance with the established objectives, while the Management Board governs and directs the Group's daily activities.

RISK MANAGEMENT CONTINUED



The risk governance structure consists of three board levels, comprising the Board of Directors of TBC Bank Group PLC, the Supervisory Board of the Group's main subsidiary, JSC TBC Bank, and the Management Board of the Bank. The Board and the Supervisory Board each have a Risk Committee that supervises the risk profile and risk governance practices within the Group, as well as an Audit Committee that is responsible for implementing key accounting policies and facilitating internal and external auditor activities. The Board and the Supervisory Board each also have an ESG and Ethics Committee, which supports the Board in its oversight of the strategy, policies, initiatives and programmes of the Group in relation to ESG matters, and a Technology and Data Committee, which supports the Board in its oversight of key enablers of the strategy, data and cyber issues, and the company's IT resources.

The Management Board's Risk Committee was established to guide Group-wide risk management activities and monitor major risk trends to ensure that the risk profile complies with the established risk appetite. The Management Board's Operational Risk Committee makes decisions related to operational risk governance, while the Assets and Liabilities Management Committee (ALCO) is responsible for the implementation of asset-liability management policies. The Management Boards' Information Security Steering Committee governs information and cyber security to ensure that relevant risks are at an acceptable level and that management processes are continuously improved. In addition, the ESG Committee is established at the management board level and takes responsibility for implementing the Group's ESG strategy and approving its action plans, while the Environmental Committee supervises the proper implementation and functioning of the Environmental Management System in the Group.

The Board, the Supervisory Board and the Bank's senior management govern risk objectives through the Risk Appetite Statement, which establishes the desired risk profile and risk limits. The statement also sets monitoring and reporting responsibilities and escalation paths for different trigger events, and limits breaches, which prompt risk teams to frame and implement established mitigation actions. To effectively incorporate the Group's risk appetite into day-to-day operations, Risk Appetite Statement metrics are cascaded into more granular limits at the business unit level, establishing risk allocation across different segments and activities.

The process of setting and cascading the risk appetite is undertaken in parallel with the business planning process. The interactive development of business and risk plans aligns the plans by solving risk-return trade-offs in the process and increases the feasibility of achieving targets. Board level oversight, coupled with the permanent involvement of senior management in the Group's risk management and the exercise of top-down risk allocation by enterprise risk management function, ensures clarity regarding risk objectives, intense monitoring of the risk profile against the risk appetite, the prompt escalation of risk-related concerns and the establishment of remediation actions.

The daily management of individual risks is based on the three lines of defence principle. While business lines are the primary owners of risks, risk teams act as the second line of defence by sanctioning transactions, tools and tech-

niques for risk identification, analysis, measurement, monitoring and reporting. The committees established at operational levels are charged with making transaction-level decisions as part of a framework comprised of clear and sophisticated delegations of authority, based on the “four-eyes” principle. All new products and projects pass through risk teams to ensure that the risks are comprehensively analysed.

These control arrangements allow the Group to make informed decisions that are adequately priced and not to take any risks exceeding the Group’s established targets. Credit, liquidity, market, operational and other non-financial risks are each managed by dedicated teams. The Group’s strong and independent risk-management structure enables the fulfilment of all required risk management functions within the second line of defence by highly skilled professionals, with a balanced mix of credentials in the banking sector in local and international markets. In addition to the risk teams subordinated to the Chief Risk Officer, the compliance department reports directly to the CEO and is specifically in charge of anti-money laundering and compliance risk management. As a third line of defence, the internal audit department is responsible for providing independent and objective assurance and recommendations to the Group to promote the further improvement of operations and risk management.

ENTERPRISE RISK MANAGEMENT

A centralised Enterprise Risk Management (ERM) function is in place to ensure the effective development, communication and implementation of risk strategy and risk appetite across the Group. The ERM function facilitates cross-risk activities such as aggregation, analytics and reporting and addresses issues that are not specific to a single type of risk. Accordingly, the ERM function complements the role of other risk functions to ensure the coverage of key risk activities and responsibilities and builds capabilities in a centralised team. The major ERM functions can be summarised as follows:

- Risk appetite development, cascading and monitoring are essential elements of the Group’s strategy. A risk budget is allocated to individual business lines to ensure the achievement of aggregated metrics;
- Stress-testing exercises are one of the crucial tools for effective risk identification, measurement and mitigation. In that regard, the Group continuously advances its stress-testing capabilities and tools. Various scenario analysis and stress testing methods are conducted by the Bank to ensure that it maintains adequate capital in order to withstand the given stress scenario and remain in a stable financial condition;

- Long term capital planning and continuous work on capital optimisation and analytics are also key aspects of the Bank’s risk management procedures;
- Development and update of Internal Capital Adequacy Assessment Procedure (ICAAP);
- Consistency of risk management practices within the Bank is also an important task of the ERM. A risk management function dedicated to promoting consistency ensures that risks are identified, measured and governed in an optimal manner within the Bank, and reported and understood on a consolidated basis;
- Estimating expected losses, monitoring and analytics across various segments and products are further key features of our strategy;
- All risk metrics are aggregated and analysed to assess the Group’s risk profile on a consolidated basis. Regular reports on the Bank’s risk profile are submitted to the Management Board and to the Supervisory Board’s Risk Committee.

CREDIT RISK MANAGEMENT

As a provider of banking services, the Group is exposed to the risk of losses due to the failure of a customer or counterparty to meet their obligations to settle outstanding amounts in accordance with agreed terms. Credit risk is the greatest material risk faced by the Group since it is engaged mainly in traditional lending activities. Therefore, the Group dedicates significant resources to its management.

The major objectives of credit risk management are to put in place a sound credit approval process for informed risk-taking and procedures for effective risk identification, monitoring and measurement. The Group adopts segment and product-specific approaches for prudent and efficient credit risk management. Therefore, the corporate, MSME and retail portfolios are managed separately to address the specifics of individual segments. Corporate and MSME (except micro) borrowers have larger exposures and are managed on an individual basis, whereas micro and retail borrowers are managed on a portfolio basis. The major credit risk functions can be summarised as follows:

Credit approval

The Group strives to ensure a sound credit-granting process by establishing well defined lending criteria and building up an efficient process to assess a borrower’s risk profile. A comprehensive credit risk assessment framework is in place with a clear segregation of duties among parties involved in the credit analysis and approval process. The credit assessment process is distinct across segments, and is further differentiat-

¹ These terms are defined in the glossary on page 362

RISK MANAGEMENT CONTINUED

ed across various product types to reflect the differing natures of these asset classes. Corporate, SME and larger retail and micro loans are assessed on an individual basis, whereas the decision making process for smaller retail and micro loans is largely automated. After a thorough assessment of borrowers' requirements, credit analysts, in the case of corporate borrowers, and loan officers, in the case of SME borrowers, prepare a presentation containing certain key information in relation to the potential borrower and submit it for review to the business underwriting risk management unit. An underwriting risk manager ensures that the project analysis provided by the credit analyst/loan officer is complete, that all risks and mitigating factors are identified and adequately addressed, and that the loan is properly structured. Business underwriting risk managers specialise in a particular sector to be aware of current industry trends and developments.

A multi-tiered system of loan approval committees is in place with different approval levels to consider the borrower's overall indebtedness and risk profile. These committees are responsible for reviewing credit applications and approving exposures, with different committees based on the size and risk of the loan. At the highest level, the Chief Executive Officer, Corporate Business Director and Chief Risk Officer are involved. In addition, exposures to the 20 largest borrowers or for amounts exceeding 5% of the Bank's regulatory capital would require review and approval by the Board Risk Committee. Loan officers submit the credit applications for retail and micro exposures to the respective underwriting risk management units. Depending on the amount of the loan, a loan approval committee will review the loan request based on specified limits regarding the risk level of the customer. For the underwriting of unsecured loans, point-of-sale loans and credit cards, an income verification process is performed in line with the regulations on responsible lending. For decision-making, internal scorecard models and ratings provided by the credit bureau are utilized. Different scorecard models are developed based on the type of product and the borrowers' segment, taking into consideration various internal and external data. The performance of scorecard models is closely monitored to ensure that decisions are in line with predefined risk limits. The credit scoring and underwriting models are developed by an independent Credit Modelling team, within the risk function and the developed models are then validated as well by an independent Model Risk Management team, also from the risk function.

Currency-induced credit risk

The Group faces currency-induced credit risk, given that a large part of its exposure is denominated in foreign currency. However, limits have been established within the risk appetite framework to ensure that the

Group continues its efforts toward minimising the share of foreign currencies in the portfolio. Various management tools and techniques are applied to mitigate the inherent currency-induced credit risk in the loan book, encompassing all phases of credit risk management. In January 2019, the government continued its efforts to reduce the economy's dependence on foreign currency financing by increasing the cap to GEL 200,000, under which loans must be disbursed in local currency. In addition, the NBG, under its responsible lending initiative, which came into force on 1 January 2019, introduced significantly more conservative PTI and LTV thresholds for unhedged retail borrowers, further limiting the exposure to currency induced credit risk. Whilst the PTI and LTV thresholds remain conservative for unhedged borrowers, in April 2020, the NBG eased the regulations for hedged borrowers.

The Group applies conservative lending standards to unhedged borrowers with exposures denominated in foreign currencies to ensure that they can withstand a certain amount of forex depreciation without credit quality deterioration. In addition to the measures in place throughout the underwriting process, the Group actively monitors and assesses the quality of loans denominated in foreign currencies through stress testing exercises and holds sufficient capital buffers against unexpected losses. In the event of a material currency depreciation, the Group has tools in place to accelerate its monitoring efforts, identify customers with potential weaknesses and introduce prompt mitigation.

The Bank has set a strategy to decrease the share of foreign currency loans in portfolio. Annual targets have been defined in the medium-term strategy, gradually decreasing the foreign currency share. The Assets and Liabilities Committee (ALCO) is closely monitoring the achievement of these targets.

Credit concentration risk

The Group is exposed to concentration risk, defined as a potential deterioration in portfolio quality due to large exposures or individual industries. It has established a set of tools to efficiently manage concentration risk and, in particular, concentrations of single names and sectors in the portfolio. The Group is subject to concentration limits on single names and the largest 20 borrowers, and is focused on optimising the structure and quality of the latter portfolio. In addition, the Group imposes limits on individual sectors with more conservative caps applied for high-risk sectors, which are defined based on comprehensive analysis of industry cycles and outlook. Credit concentrations are monitored monthly. Trends in the risk positions are analysed in detail and corrective actions are recommended, should new sources of risk or positive developments emerge. Along with managing concentration levels in the portfolio, the Group estimates unexpected losses

and the respective economic capital for concentrations of both single name borrowers and sectors using the Herfindahl-Hirschman Index, thus ensuring that sufficient capital is held against concentration risk.

Collateral management policy

Collateral represents the most significant credit risk mitigation tool for the Group, making effective collateral management one of the key risk management components. Collateral on loans extended by the Group may include, but is not limited to, real estate, cash deposits, vehicles, equipment, inventory, precious metals, securities and third-party guarantees. The collateral accepted against a loan depends on the type of credit product and the borrower's credit risk. The Group has a largely collateralised portfolio in all segments, with real estate representing a major share of collateral. A centralised unit for collateral management governs the Group's view and strategy in relation to collateral management, and ensures that collateral serves as an adequate mitigating factor for credit risk management. The collateral management framework consists of a policy-making process, a sound independent valuation process, a haircut system throughout the underwriting process, collateral monitoring (including revaluations and statistical analysis) and collateral portfolio analysis.

The Collateral Management and Appraisal Department (CMAD) defines Collateral Management Policy & Collateral Management Procedures (approved by the Board), purchases an appraisal service that must be in line with International Valuation Standards (IVS), acting NBB regulations and internal rules (policy/ procedures and etc.), authorizes appraisal reports, and manages the collateral monitoring process (assets with high fair value are revaluated annually, while statistical monitoring is used for collaterals with low value). The CMAD uses a mixed quality check scheme for valuation: appraisal reports are reviewed internally by its staff and separately by an external company. Almost all activities under collateral management are automated through an in-house web application. The collateral management function uses market research conducted under the Real Estate Market laboratory (REM lab) project.

Credit monitoring

The Group's risk management policies and processes are designed to identify and analyse risk in a timely manner and to monitor adherence to predefined limits by means of reliable and timely data. The Group dedicates considerable resources to gain a clear and accurate understanding of the credit risk faced across various business segments. The Group uses a robust monitoring system to react promptly to macro and micro developments, identify weaknesses in the credit portfolio and outline solutions to make informed risk

management decisions. Monitoring processes are tailored to the specifics of individual segments, as well as encompassing individual credit exposure, overall portfolio performance and external trends that may impact on the portfolio's risk profile. The Risk Committee reviews reports relating to the credit quality of the loan portfolio quarterly. By comparing current data with historical figures and analysing forecasts, the management believes that it can identify risks and respond to them by amending its policies in a timely manner.

Restructuring and collections

The Group uses a comprehensive portfolio supervision system to identify weakened credit exposures and take prompt, early remedial actions when necessary. The collection and recovery processes are initiated when the borrower does not meet the agreed payments or the borrower's financial standing is weakened, potentially jeopardizing the repayment of the loan. Dedicated units manage weakened borrowers across all business segments, with collection and recovery strategies tailored to business segments and individual exposure categories.

Apart from standard, business-as-usual restructurings that is done across all branches of the bank, the restructuring unit's primary goal is to rehabilitate borrowers and transfer exposures back to the performing category. The sophistication and complexity of the rehabilitation process differs based on the type and size of an exposure. Business loans are transferred to the recovery unit when there is a strong probability that a material portion of the principal amount will not be paid, and the main stream of recovery is no longer the borrower's cash flow. Loan recovery plans may include all available sources of loan recovery, such as selling the borrower's assets, realising collateral or payments under guarantees.

The Group's goal in the recovery process is to negotiate a loan recovery strategy with the borrower and secure cash recoveries to the extent possible, or to negotiate repayment through the sale or repossession of collateral. Collection functions for retail and micro loans support customers who are experiencing difficulties in fulfilling their obligations. Such customers may miss payments or notify the Bank about their difficulty with loan repayments. A centralised team monitors retail borrowers in delinquency, which, coupled with branches' efforts, aims to maximise collection. Special software from FICO is used for early collection management purposes.

Collection strategies are defined based on the size and type of exposure. Specific strategies are tailored to different subgroups of customers, reflecting their respective risk levels, so that greater effort is dedicated to customers with a higher risk profile. Both secured and unsecured loans are transferred to the internal re-

RISK MANAGEMENT CONTINUED

covery unit, whereas for unsecured loans the Bank also collaborates with external collection agencies. The forms of collaboration normally include outsourcing of agencies' collection services - when they act on behalf of the bank while dealing with borrowers, or selling of specific part of unsecured portfolios to external companies in order to secure immediate cash recoveries.

To recover collateralized loans, a recovery plan is outlined that considers the individual borrower's specifics and may involve loan repayments under revised schedules or the sale of collateral. Once the exposure is transferred to the recovery unit, if the Group is unable to negotiate acceptable terms with the borrower, the Group may initiate collateral repossession, which is usually a standard process with limited legal complications, and may include court, arbitration or notary procedures. Qualified incumbent lawyers support the restructuring and recovery units to ensure that litigation and repossession processes are carried out efficiently.

Measurement of Expected Credit Losses

Since January 2018, the Group has been using a provisioning methodology that is in line with IFRS 9 requirements. The methodology makes it possible to assess loan-loss provisions and allowances accurately with the incorporation of forward-looking information. The methodology, along with a corresponding IT provisioning tool, was developed with support from Deloitte and representatives of the Group's risk, finance and IT departments.

The IFRS 9 models are complex and make it possible to incorporate expectations of macro developments based on predefined scenarios. The expected credit loss (ECL) measurement is based on four components used by the Group: (i) the probability of default (PD); (ii) exposure at default (EAD); (iii) loss given default (LGD); and (iv) discount rate. The Group uses a three-stage model for the ECL measurement and classifies its borrowers across three stages:

- Stage I – the Group classifies its exposures as Stage I if no significant deterioration in credit quality has occurred since the initial recognition, and the instrument was not credit-impaired when initially recognised;
- Stage II – the exposure is classified as Stage II if any significant deterioration in credit quality has been identified since the initial recognition but the financial instrument is not considered credit-impaired; and
- Stage III – the exposures for which the credit-impaired indicators have been identified are classified as Stage III instruments.

The ECL amount differs depending on exposure allocation to one of the three stages:

- Stage I instruments – the ECL represents that portion of the lifetime ECL that can be attributed to default events occurring within the subsequent 12 months from the reporting date;
- Stage II instruments – the ECL represents the lifetime ECL, i.e. credit losses that can be attributed to possible default events during the whole lifetime of a financial instrument. Generally, lifetime is set equal to the remaining contractual maturity of the financial instrument. Factors such as the existence of contractual repayment schedules, options for the extension of repayment maturity and monitoring processes held by the Group affect the lifetime determination;
- Stage III instruments – a default event has already occurred and the lifetime ECL is estimated based on the expected recoveries.

The Group actively reviews and monitors the results produced from the IFRS 9 models to ensure that the respective results adequately capture the expected losses.

FINANCIAL RISK MANAGEMENT

Liquidity risk management

Liquidity risk is the risk that the Group either may not have sufficient financial resources available to meet all its obligations and commitments as they fall due, or may only be able to access those resources at a high cost. Both funding and market liquidity risks can emerge from a number of factors that are beyond the Group's control. Due to financial market instability, factors such as a downgrade in credit ratings or other negative developments may affect the price or the ability to access the funding necessary to make payments in respect of the Group's future indebtedness.

Liquidity risk is managed by the Financial Risk Management and Treasury departments and is monitored by the Management Board and the Assets and Liabilities Management Committee (ALCO), within their predefined functions.

The principal objectives of the Group's Liquidity Risk Management Policy are to:

- ensure the availability of funds to meet claims arising from total liabilities and off-balance sheet commitments, both actual and contingent, at an economic price;
- recognise any structural mismatch existing within the Group's statement of financial position and set monitoring ratios to manage funding in line with the Group's well-balanced growth; and
- monitor liquidity and funding on an ongoing basis to ensure that approved business targets are met without compromising the Group's risk profile.

The Management Board reviews the Liquidity Risk Management Policy, which is then presented to the Risk Committee and approved by the Supervisory Board.

Liquidity risk is categorised into two risk types: funding liquidity risk and market liquidity risk.

Funding liquidity risk is the risk that the Group will not be able to efficiently meet both expected and unexpected current and future cash flows without affecting either its daily operations or its financial condition under both normal conditions and during a crisis. Liquidity risk is measured by the Bank in accordance with NBG requirements. Additionally, the Group applies, in accordance with best practice, stress tests and “what if” scenario analyses and monitors the various liquidity risk parameters that the Group has developed internally.

To manage funding liquidity risk, in accordance with NBG requirements, the Bank currently monitors the following Basel III based parameters:

- For Short-term Liquidity Risk Management, the Bank applies the Liquidity Coverage Ratio (LCR); and
- For Long-term Liquidity Risk Management, the Bank applies the Net Stable Funding Ratio (NSFR).

In 2017, the NBG introduced its own LCR for liquidity risk management purposes. In addition to the Basel III guidelines, the ratio applies conservative approaches to the deposit withdrawal rates, depending on the client group's concentration. Since September 2017, the Bank has also monitored compliance with the NBG's LCR limits. In addition to the total LCR limit, the NBG has also defined limits per currency for the GEL and foreign currencies (FC). The LCR is calculated by reference to the qualified liquid assets divided by 30-day cash net outflows. It is used to help manage short-term liquidity risks. To promote larization in the country of Georgia, the NBG defines a lower limit for the GEL LCR than that for the FC LCR. Since October 2019, FC Mandatory Reserves have been considered at 100% within high quality liquid assets for NBG LCR purposes. In addition, in the same period, NBG lowered FC mandatory reserves requirements from 30% to 25%. Since July 2021, the NBG regulation on mandatory FC reserve requirement has been further adjusted, to reflect the decreased share of FC deposits in total deposits. The FC mandatory reserve requirement will be reduced by 1% for every 2% decrease in the share of FC in total deposits. The initiative will have a positive effect on the capital adequacy position of the Bank.

In September 2019, the NBG introduced a Net Stable Funding Ratio (NBG NSFR) for funding liquidity risk management purposes. The NSFR is calculated by dividing the available stable funding by the required stable funding. It is used for long-term liquidity risk management to promote resilience over a longer time horizon by creating additional incentives for the Bank to rely on more stable sources of funding on a continuing basis. On a monthly basis, the Bank monitors compliance with the set limit for the NBG NSFR. As of 31 December 2021, the ratios were well above the prudential limits set by the NBG, as follows:

	31-Dec-21	31-Dec-20	31-Dec-19
<i>Minimum net stable funding ratio, as defined by the NBG</i>	100%	100%	100%
Net stable funding ratio as defined by the NBG	127.3%	126.0%	126.7%
<i>Minimum total liquidity coverage ratio, as defined by the NBG</i>	100.0%	100.0%	100.0%
<i>Minimum LCR in GEL, as defined by the NBG</i>	75%	n/a	75.0%
<i>Minimum LCR in FC, as defined by the NBG</i>	100.0%	100.0%	100.0%
Total liquidity coverage ratio, as defined by the NBG	115.8%	134.2%	110.1%
LCR in GEL, as defined by the NBG	107.7%	132.2%	83.7%
LCR in FC, as defined by the NBG	120.8%	134.9%	128.2%

Market liquidity risk is the risk that the Group cannot easily offset or eliminate a position at the then-current market price because of inadequate market depth or market disruption.

To manage market liquidity risk, the Group follows the Basel III guidelines on high-quality liquidity asset eligibility to ensure that the Group's high-quality liquid assets can be sold without causing a significant movement in price, and with minimum loss of value. In addition, the Group has a liquidity contingency plan, which forms part of its overall prudential liquidity policy. The plan is designed to ensure that the Group can meet its funding and liquidity requirements and maintain its core business operations in any deteriorating liquidity conditions that could arise outside the ordinary course of business.

Funding and maturity analysis

The Group's principal sources of liquidity include customer deposits and accounts, borrowings from local and international banks and financial institutions, subordinated loans from international financial institution investors, local

RISK MANAGEMENT CONTINUED

interbank short-duration term deposits and loans, proceeds from sales of investment securities, principal repayments on loans, interest income, and fee and commission income. The Board believes that a strong and diversified funding structure is one of the Group's differentiators. The Group relies on relatively stable deposits from Georgia as the main source of funding. The Group also monitors deposit concentration for large deposits and sets limits for deposits by non-Georgian residents in its deposit portfolio.

To maintain and further enhance its liability structure, the Group sets targets for deposits and funds received from international financial institution investors in its risk appetite via the respective ratios. The loan to deposit and IFI funding ratio (defined as the total value of net loans divided by the sum of total value of deposits and funds received from international financial institutions) stood at 100.9%, 101.2% and 104.8%, as at 31 December 2021, 2020 and 2019, respectively.

The management believes that, in spite of a substantial portion of customers' accounts being on demand, the diversification of these deposits by the number and type of depositors, coupled with the Group's past experience, would indicate that these customer accounts provide a long-term and stable source of funding for the Group. Moreover, the Group's liquidity risk management includes the estimation of maturities for its current deposits. The estimate is based on statistical methods applied to historic information about the fluctuations of customer account balances.

Market risk

The Group follows the Basel Committee's definition of market risk as the risk of losses in on- and off-balance sheet positions arising from movements in market prices. These risks are principally: (a) risks pertaining to interest rate related instruments and equities in the "trading book" (financial instruments or commodities held for trading purposes); and (b) foreign exchange risk and commodities risk throughout the Group.

The Group's strategy is not to be involved in trading financial instruments or investments in commodities. Accordingly, the Group's only exposure to market risk is foreign exchange risk in its "structural book", comprising its regular commercial banking activities which have no trading, arbitrage or speculative intent.

Foreign exchange risk

The NBG requires the Bank to monitor both balance sheet and total aggregate balance (including off-balance sheet) open currency positions and to maintain the latter within 20% of the Bank's regulatory capital. For the year ended 31 December 2021, the Bank maintained an aggregate balance open currency position of 0.5%.

In addition, the Supervisory Board sets further limits on open currency positions. The ALCO has set limits on the level of exposure by currency and for total aggregate position that are more conservative than those set by the NBG and the Supervisory Board. The heads of the treasury and financial risk management departments separately monitor the Bank's compliance with these limits daily.

Compliance with these limits is also reported daily to the Management Board and periodically to the Supervisory Board and its Risk Committee. On a Group-wide level, foreign-exchange risk is monitored and reported monthly. To assess the currency risk, the Bank performs a VAR sensitivity analysis on a quarterly basis. The analysis calculates the effect on the Group's income determined by the worst possible movements of currency rates against the Georgian Lari, with all other variables held constant. During the years ended 31 December 2021, 2020 and 2019, the sensitivity analysis did not reveal any significant potential effect on the Group's equity:

In thousands of GEL	31-Dec-21	31-Dec-20	31-Dec-19
Maximum loss (VAR, 99% confidence level)	(1,658)	(3,959)	(1,749)
Maximum loss (VAR, 95% confidence level)	(1,141)	(2,845)	(1,208)

Interest rate risk management

Interest rate risk arises from potential changes in market interest rates that can adversely affect the value of the Group's financial assets and liabilities. This risk can arise from maturity mismatches between assets and liabilities, as well as from the re-pricing characteristics of such assets and liabilities. The major part of deposits, and part of the loans offered by the Group, are at fixed interest rates, while a portion of the Group's borrowing is based on a floating interest rate. The Group's floating rate borrowings are, to a certain extent, hedged because the NBG pays a floating interest rate on the minimum reserves that the Bank holds with it. Furthermore, many of the Bank's loans to customers con-

tain a clause allowing it to adjust the interest rate on the loan in case of adverse interest rate movements, thereby limiting exposure to interest rate risk. The management also believes that the Bank's interest rate margins provide a reasonable buffer to mitigate the effect of a possible adverse interest rate movement.

The Group employs an advanced framework to manage interest rate risk by establishing appropriate Risk Appetite limits, monitoring compliance with them and preparing forecasts. See details in Interest Rate Risk on pages 331-332 in notes to financial statements.

The Group measures four types of interest-rate risk based on the source of the risk: (i) re-pricing risk; (ii) yield curve risk; (iii) basis risk; and (iv) optionality (embedded option) risk.

The Group considers numerous stress scenarios, including different yield curve shifts and behavioural adjustments to cash flows (such as deposit withdrawals or loan prepayments), to calculate the impact on one year profitability and enterprise value. Appropriate limits are set within the Risk Appetite framework approved by Supervisory Board.

Counterparty risk

Through performing banking services such as lending in the interbank money market, settling a transaction in the interbank foreign exchange market, entering into interbank transactions related to trade finance or investing in securities, the Bank is exposed to the risk of losses due to the failure of a counterparty bank to meet its obligations.

To manage counterparty risk, the Bank defines limits on an individual basis for each counterparty, while on a portfolio basis it limits the expected loss from both treasury and trade finance exposures. As of 31 December 2021, the Bank's interbank exposure was concentrated with banks that external agencies, such as Fitch, Moody's and Standard and Poor's, have assigned high A-grade credit ratings.

CAPITAL RISK MANAGEMENT

Capital risk is the risk that the Group may not have a sufficient level of capital to maintain its normal business activities, and to meet its regulatory capital requirements under normal or stressed operating conditions. The management's objectives in terms of capital management are to maintain appropriate levels of capital to support the business strategy, meet regulatory and stress testing-related requirements and safeguard the Group's ability to continue as a going concern. The Group undertakes stress testing and sensitivity analysis to quantify extra capital consumption under different scenarios. Capital forecasts, as well as the results of the stress testing and what-if scenarios, are actively monitored with the involvement of the Bank's management

to ensure prudent capital management and timely actions when needed. In 2021, the Group and the Bank complied with all regulatory capital requirements.

In December 2017, the NBG adopted amendments to the regulations relating to capital adequacy requirements. The changes include amendments to the regulation on capital adequacy requirements for commercial banks, and the introduction of new requirements (i) on additional capital buffer requirements for commercial banks within Pillar 2; (ii) on the determination of the countercyclical buffer rate; and (iii) on the identification of systematically important banks and determining systemic buffer requirements. The purpose of these amendments is to improve the quality of banks' regulatory capital and achieve better compliance with the Basel III framework.

Pillar 1 minimum requirements plus combined buffer requirements. The amendments to the regulation on capital adequacy requirements for commercial banks have made Pillar 1 minimum requirements in Georgia compatible with the framework established by the Basel Committee of Banking Supervision. The amendments included:

- the separation of the 2.5% conservation buffer, which was previously merged with minimum capital requirements. The updated minimum regulatory capital requirements are 4.5%, 6.0% and 8.0% for Common Equity Tier 1 capital, Tier 1 capital and Total regulatory capital, respectively; and
- the introduction of a requirement that banks hold an additional combined buffer through Common Equity Tier 1 Capital, consisting of conservation, countercyclical and systemic buffers.

The rate for the conservation buffer has been set at 2.5% of RWAs, while a 0% rate has been set for the countercyclical buffer. The countercyclical buffer can vary within the range of 0% to 2.5% and will be reviewed periodically, based on the prevailing financial and macroeconomic environment. In addition, the NBG designated certain commercial banks in Georgia as domestic systemically important banks (DSIBs) for which individual systemic buffers have been introduced, which means that the DSIBs will be required to set aside more Common Equity Tier 1 capital relative to RWAs, with the requirements being phased in from the end of 2018 to the end of 2021. In particular, the following systemic buffers and compliance timeframes have been set by the NBG in relation to the Bank: 1.0% for the period from 31 December 2018 to 31 December 2019, 1.5% for the period from 31 December 2019 to 31 December 2020, 2.0% for the period from 31 December 2020 to 31 December 2021, and 2.5% from 31 December 2021 onwards.

RISK MANAGEMENT CONTINUED

Pillar 2 requirements. In accordance with the Basel III framework, the NBG also introduced additional capital buffer requirements for commercial banks within Pillar 2 that are based on a supervisory review and assessment process and deal with bank-specific risks that are not sufficiently covered under Pillar 1, including an unhedged currency induced credit risk buffer and a net General Risk Assessment Programme (GRAPE) buffer. The NBG has also introduced a credit portfolio concentration buffer and a net stress test buffer. The credit portfolio concentration buffer became effective from 1 April 2018, and the need for the net stress buffer will be assessed based on the regulatory stress testing results. Although the net stress test buffer has been effective since 1 October 2020, it is currently set at 0%. Under the NBG regulation, 56% of the capital required under Pillar 2 should be held through Common Equity Tier 1 capital, while 75% of the capital should be held through Tier 1 capital and 100% of the capital should be held through Total regulatory capital.

Temporary Measures

In response to the COVID-19 pandemic, in March 2020, the NBG implemented certain countercyclical measures in relation to capital adequacy requirements, including postponing the phasing-in of Pillar 2 buffers. According to the new schedule communicated by the NBG in October 2020, the phase-in of concentration risk and the Net GRAPE buffers will continue from March 2021 and will be fully introduced by the end of March 2023.

In June 2021, the NBG announced its decision to restore the CICR and conservation buffers. Banks are required to fully restore the CICR buffer by the end of 2022 and the conservation buffer by the end of 2023. As of 30 June 2021, TBC Bank was in full compliance with the fully restored minimum requirements and confirmed to the NBG that it would fully restore temporarily released capital buffers by July 2021, which lifted regulatory restrictions on capital distributions.

The following table presents the capital adequacy ratios and minimum requirements set by the NBG:

In thousands of GEL	31-Dec-21	31-Dec-20	31-Dec-19
CET 1 capital	2,759,894	1,911,233	1,871,892
Tier 1 capital	3,379,414	2,385,181	2,281,706
Tier 2 capital	723,513	752,731	692,323
Total regulatory capital	4,102,927	3,137,912	2,974,029
Risk-weighted exposures			
Credit Risk-weighted exposures	18,091,753	16,322,524	13,825,677
Risk-weighted exposures for Market Risk	21,981	106,379	15,429
Risk-weighted exposures for Operational Risk	2,103,895	1,872,574	1,749,821
Total Risk-weighted exposures	20,217,629	18,301,477	15,590,927
<i>Minimum CET 1 ratio</i>	<i>11.73%</i>	<i>7.40%</i>	<i>10.40%</i>
CET 1 capital adequacy ratio	13.65%	10.40%	12.00%
<i>Minimum Tier 1 ratio</i>	<i>13.99%</i>	<i>9.20%</i>	<i>12.50%</i>
Tier 1 capital adequacy ratio	16.72%	13.00%	14.60%
<i>Minimum total capital adequacy ratio</i>	<i>18.38%</i>	<i>13.70%</i>	<i>17.50%</i>
Total capital adequacy ratio	20.29%	17.10%	19.10%

NON-FINANCIAL RISK MANAGEMENT

Operational risk management

One of the main risks that the Group faces is operational risk, which is the risk of loss resulting from internal and external fraud events, inadequate process or products, business disruptions and systems failures, human error or damages to assets. Operational risk also implies losses driven by legal, reputational, compliance or cyber security risks.

The Group is exposed to many types of operational risk, including: fraudulent and other internal and external criminal activities; breakdowns in processes, controls or procedures; and system failures or cyber-attacks from an external party with the intention of making the Group's services or supporting infrastructure unavailable to its intended users, which in turn may jeopardize sensitive information and the financial transactions of the Group, its clients, counterparties or customers.

Moreover, the Group is subject to risks that cause disruption to systems performing critical functions or business disruption arising from events wholly or partially beyond its control, such as natural disasters, transport or utility failures

etc., which may result in losses or reductions in service to customers and/or economic losses to the Group.

The operational risks discussed above are also applicable where the Group relies on outsourcing services from third parties. Considering the dynamic environment and sophistication of both banking services and possible fraudsters, the importance of constantly improving processes, controls, procedures and systems is heightened to ensure risk prevention and reduce the risk of loss to the Group.

To oversee and mitigate operational risk, the Group maintains an operational risk management framework, which is an overarching document that outlines the general principles for effective operational risk management and defines the roles and responsibilities of the various parties involved in the process. Policies and procedures enabling the effective management of operational risks complement the framework. The Management Board ensures a strong internal control culture within the Group, where control activities are an integral part of operations. The Board sets the operational risk appetite and the Operational Risk Committee oversees compliance with the limits. The Operational Risk Committee discusses the Group's operational risk profile and risk mitigation recommendations on a regular basis.

The operational risk management department acts as a second line of defence. It is responsible for implementing the framework and appropriate policies and procedures to enable the Group to manage operational risks, as well as monitoring operational risk events, risk exposures against risk appetite and material control issues. The department is also responsible for the day-to-day management of operational risks, using a range of techniques that include, but are not limited to:

- running risk and control self-assessments (RCSA), which are aimed at detecting possible gaps in operations and processes with the purpose of suggesting appropriate corrective actions;
- collecting internal risk events and conducting root-cause analyses for further risk mitigation purposes;
- forming a unified operational loss database for further quantitative and qualitative analysis;
- analyzing internal fraud events and monitoring key risk indicators;
- performing new risk assessments and validating the launch of new products, services or procedures;
- providing business advisory services regarding non-standard cases;
- monitoring IT incident occurrence and overseeing activities targeted at solving identified problems; and
- obtaining insurance policies to transfer the risk of losses from operational risk events.

The operational risk management department has reinforced its risk assessment teams and methodologies to further fine-tune the existing control environment. The same applies to the set of actions directed to homogenise operational risk management processes throughout the Group's member companies. The operational risk management department reports to the Chief Risk Officer. Various policies, processes and procedures are in place to control and mitigate operational risks, including, but not limited to:

- the New Risk Assessment Policy, which enables thorough risk evaluation prior to the adoption of new products, services, or procedures;
- the Outsourcing Risk Management Policy, which enables the Group to control outsourcing (vendor) risk arising from adverse events and risk concentrations due to failures in vendor selection, insufficient controls and oversight over a vendor and/or services provided by a vendor, and other impacts on the vendor;
- the Risk and Control Self-Assessment (RCSA) Policy, which enables the Group to continuously evaluate existing and potential risks, establish risk mitigation strategies and systematically monitor the progress of risk mitigation plans. The completion of these plans is also part of the respective managers' key performance indicators;
- the Operational Risk Event Identification Policy, which enables the Group to promptly report on operational risk events, perform systematic root-cause analysis of such events and take corrective measures to prevent the reoccurrence of significant losses; and
- the Special Operational Risk Awareness Programme, which provides regular training to the Group's employees and strengthens the Group's internal risk culture.

During the reporting period, one of the key operational risk management focus areas was the Risk and Control Self-Assessment (RCSA) exercise, under which the Bank's top priority processes were reviewed and areas of improvement were identified.

The Operational Risk Management Framework and its complementing policies were updated to ensure effective execution of the operational risk management programme. Additionally, the Bank has developed a bank-wide operational risk registry.

Compliance

The first line of defence is responsible for compliance risk, strongly supported by the compliance department as the second line of defense. The Chief Compliance Officer oversees compliance activities and reports quarterly to the relevant committee of the Supervisory Board, with a disciplinary reporting line to the CEO. The Bank's Compliance Programme provides

RISK MANAGEMENT CONTINUED

Compliance Policies, trainings, risk-based oversight and ensures compliance with regulatory requirements.

The compliance department manages regulatory risk by:

- ensuring that applicable changes in laws and regulations are implemented by the process owners in a timely manner;
- participating in the new product/process risk approval process;
- conducting analysis of customer complaints, the operational risk event database, internal audit findings and litigation cases to proactively reveal process weaknesses; and
- conducting an annual risk and control self-assessment (RCSA) of the internal processes.

The Compliance Department ensures that all outcomes of the above mentioned analysis and processes are addressed in a timely and appropriate manner.

Anti-money laundering (AML)

The Group aims to protect its customers, shareholders and society from financial crime and any resulting threat. The Group is fully committed to comply with applicable EU, UK, Georgian laws and regulations related to financial crime as well as relevant legislation of other countries where Group member financial institutions operate. It also seeks to meet the respective industry best standards. The Group has implemented internal policies, procedures and detailed instructions designed to prevent itself from being used or involved in money laundering, financing of terrorism or in other unlawful activities such as bribery, corruption or tax evasion. The Group's AML/CTF compliance programme, as implemented, comprises written policies, procedures, internal controls and systems including, but not limited to: policies and procedures to ensure compliance with AML laws and regulations; KYC and customer due diligence procedures; a customer acceptance policy; customer screening against a global list of terrorists and specially designated nationalities relevant financial and other sanctions lists; regular staff training and awareness raising; and procedures for monitoring and reporting suspicious activities of the Bank's customers.

As part of the second line of defence, the AML unit seeks to manage risk in accordance with the risk appetite defined by the Group and promotes a strong risk culture throughout the organization.

The Group has a sophisticated, artificial intelligence-based AML solution in place to enable the AML unit to comply with the Sanctions Policy, monitor clients' transactions and identify suspicious behavior. The AML unit works on constantly improving the software to increase operational efficiency and decrease false-positive alerts.

The Bank performs an enterprise-wide AML Risk Assessment annually, in line with the approved methodology. Overall group-wide residual risks for the year 2021 were assessed as medium. The compliance department addresses areas of attention in a timely and proper manner.

As part of its ongoing supervision in 2021, the National Bank of Georgia (NBG) conducted a complex inspection of the Bank, covering the period from January 2018 to June 2019. The NBG assessed the Bank's AML/CTF measures with regard to client risk classification and risk-related due diligence measures; the UBO (Ultimate Beneficial Owner) identification process of entities with complex ownership structures; the Bank's awareness of international transactions; the detection of suspicious transactions and other processes. The NBG's overall assessment of these processes was adequate or mainly adequate and effective. As part of its findings, the NBG classified two clients as not properly identified and applied the relevant regulatory penalty in relation to those two clients.

Information Security

In order to manage the risks associated with cyber-attacks and ensure the security of clients, the Group continuously updates and enhances its in-depth security strategy, which covers multiple preventive and detective controls ranging from the data and end-point computers to edge firewalls.

A newly built Security Operations Center monitors any anomaly that is identified across the organization's network in order to detect potential incidents and respond to them effectively.

At least once a year, a full information security and cyber security threat analysis is performed, taking into consideration the relevant regional and sector specific perspectives. Also at least once a year, a presentation is given to the Risk Committee of the Board, with a deep dive into the information security matters. At least once every two years, as part of this analysis, an external consultant is contracted to assess the efficiency of our capabilities against industry best practices and real world cyber-attack scenarios. This analysis gives the Group a detailed review and insight, which helps to further enhance the information and cyber security systems. In addition, cyber-attack readiness exercises are performed on a regular basis. These exercises evaluate the actual position of the Group in this area and provide a benchmark against international best practices.

An Information Security Steering Committee has been established to continuously improve information security and business continuity management processes and minimise information security risks. The committee has been formed to centralise the information security function, including physical security, HR security, data security, IT security and business continuity.

The Group invests in effective information security risk management, incident management and awareness programmes, which are enhanced with automated tools that ensure acceptable levels of information security risk within the organisation. Whenever preventive controls are not applicable, comprehensive business continuity and incident response plans ensure the Group's ability to operate on an ongoing basis and limit losses in the event of a severe business disruption. Since employees play a crucial role in information security, regular mandatory training sessions are conducted for all employees, comprised of remote learning courses on security issues, fraud and phishing simulations, and informative emails to further assist our employees with information security matters. New employees are also given this training as part of the induction process. These measures ensure that employees are fully aware of their responsibilities and are prepared for various security threats.

In 2021, the Bank achieved ISO 27001 certification of its information security management system. That demonstrates that the Bank is following robust information security practices effectively, in order to protect its information and information systems from different types of threats. TBC Bank has not experienced any material information security breach in the last three years.

In December 2021, Ernst & Young Tbilisi office conducted two audits, assessment against Cyber Security Management Framework and assessment against SWIFT CSCF for the Bank. As a result no critical findings and major non-compliances were identified during these exercises. Cyber Security Management Framework is defined by National Bank of Georgia, which is based on NIST Cyber Security Management Framework.

Model Risk Management

In line with the NBG's requirements, international regulatory guidance and best practices, TBC Bank defines a model as a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates. A model has three components: an information input component, an information-processing component and a reporting component. Model risk is defined as the risk of adverse consequences (e.g., financial loss, reputational damage, etc.) arising from decisions based on incorrect or misused model outputs.

TBC Bank's Model Risk Management (MRM) function, reports directly to Chief Risk Officer, and its policy, approved by both Management Board and Board of Directors, defines the framework within which it operates. Two main components of the framework are governance and validation. MRM acts as a second line of defence and aims to consistently identify, quantify, minimize and mitigate model related risks across TBC Group.

The governance component of the MRM defines the roles and responsibilities for the entirety of the model lifecycle. It sets standards and procedures that encompass all phases of the lifecycle, from planning and development through initial validation, model use, monitoring, ongoing validation and model retirement. It is also responsible for managing the model inventory and keeping model risk within the risk appetite.

The validation component of the MRM is responsible for technical as well as conceptual evaluation of the model in question, in accordance to the standards and procedures set by governance. The MRM uses a risk-based approach during the initial and ongoing model validation process.

Legal Risk

The Bank's legal department manages all legal and related matters concerning the activities of the Bank and the Group. In accomplishing its mission to ensure that such activities fully conform with all applicable laws and regulations, the legal team delivers a wide array of professional legal services: it (i) interacts with internal and external clients, outside counsels, government and regulatory entities; (ii) issues memos and opinions; (iii) drafts standardized and individual contracts; (iv) prepares corporate resolutions; (v) provides regulatory updates; and (vi) represents the Bank in courts, other dispute resolution venues and before other third parties. The legal team, which comprises lawyers with diverse backgrounds and experience, consists of the following key divisions: regulatory and legal compliance, corporate, dispute resolution, legal support and corporate governance teams. Each division functions within clear and distinct job descriptions corresponding to the relevant knowledge, skill and capabilities of its members. As part of the Bank's agile transformation effort, several lawyers are working within and/or in close cooperation with teams in charge of specific commercial projects. The department ensures effective execution of its duties through different processes and procedures.

The Bank's General Counsel manages the legal department. S/he determines key business objectives for all legal teams, introduces the policies and vision, and ensures the effective performance of their duties. The General Counsel reports to the Management Board, the Supervisory Board, and their respective committees on existing legal risks, their mitigation strategies and the vision for their effective management in the future.

Sustainability Risks

Sustainability risk management is done within a framework of established processes for risk management. According to our vision, a sustainable bank is a profitable institution that offers adequate, affordable and need-based services to its clients, treats its employees, suppliers and all other stakeholders with a high sense of responsibility, and strongly supports the develop-

RISK MANAGEMENT CONTINUED

ment of society. It is also a technologically advanced and environmentally aware bank that is trusted by society. The sustainability risks are related to the Group's different roles as a lender, asset manager, service provider, purchaser and employer. Of particular interest in the area of sustainability are risks related to compliance, conduct and digitalization, as well as human rights, working conditions, the environment, climate change, financial crime, and information and IT security. Sustainable development policies and management structures are represented in various policy documents and management domains.

The Group has developed several thematic policies and codes that regulate various social and environmental protection issues related to company activity. They include: the Code of Ethics, the Incident Management Policy, the Anti-Corruption Policy, the Personal Data Protection Policy, the Conflict of Interests Management Policy, Green Purchase Recommendations etc. In 2021, the ESG Coordination Department was created in order to support the establishment of an integrated ESG framework synergizing business, social, environmental and governance aims. The department reports to the Chief Risk Officer. For more details about sustainability management, please see our ESG strategy section on pages 26-37.

Conduct risk

Conduct risk is defined as the risk to the delivery of fair outcomes for customers and other stakeholders.

The Group's Code of Ethics serves as a moral compass for all staff and sets high ethical standards that each employee is required to uphold.

The Group's employees undertake and perform their responsibilities with honesty and integrity. They are critical to maintaining trust and confidence in its operations and upholding important values of trust, loyalty, prudence and care.

Additionally, the Group's management understands that it bears responsibility for a diversified group of domestic and international investors, and needs to embrace the rules and mechanisms of protecting customers and maintaining the confidence of investors and financial markets. The Group's directors strive to establish the "tone from the top," which sets out the messages describing and illustrating the core components of good conduct.

In managing conduct risk, the Group entrusts different departments and divisions with carrying out the task of managing, mitigating and eliminating conduct risk across all of the Group's operations with clients and other stakeholders. The compliance, human capital, and operational risk departments cooperate to create a unified conduct risk management framework and assist business lines and departments, in the following ways:

1. developing and maintaining policies and procedures to ensure that the respective departments and individual employees comply with the provisions set out by regulatory provisions, best practices, the Code of Conduct and the Code of Ethics;
2. maintaining liaison with the compliance department regarding the administration of policies and procedures and the investigation of complaints regarding the conduct of the department, its manager and/or its employees;
3. ensuring that the product information provided to clients by front-line employees is accurate and complete, and is conveyed (both in written and oral form) in a simple and understandable way, regardless of the level of sophistication of a given client;
4. maintaining records of client conversations and emails that contain sensitive and sales-related information, including information pertaining to the acquisition of new clients and making complex product offers to existing and prospective clients;
5. delivering timely, on-going training for new employees regarding proper conduct and ensuring that all employees stay up to date on evolving compliance standards within the Group through periodic training;
6. developing an open culture that encourages employees to speak up without fear of punishment. Specifically, this means setting up processes for the prevention and detection of conflicts of interest, creating ethical incentives and bonus formulas, and aligning incentives and disciplinary practices to the Group's risk appetite; and
7. employing qualified staff and sufficient human and technological resources to investigate, analyse, implement and monitor sales and after-sales activities. This approach ensures that the management of conduct risk is not limited to risk management units, including the compliance department, but is fully embraced by front-line departments and that proper conduct is fully integrated into the required job skills.

VIABILITY STATEMENT

The assessment of principal risks underpins the Viability Statement in the Directors' Report for 2021 (see pages 154 to 155). The assessment involved consideration of the Group's current financial position over three years of coverage ending 1 January 2025, which is relevant to the strategic considerations of the Group.

Governance

Chairman's Governance Overview

Dear stakeholders,

I am pleased to present our corporate governance report for 2021. This report sets out our approach to governance and the work of the Board in this area during 2021.

We strive to ensure our governance structure is both fit for purpose and in line with best practice. One of the Board's main responsibilities is to ensure the Group applies the highest standards of corporate governance embedded in the culture and operations of our business. In this overview I have described the Board's key corporate governance activities of 2021. Our Corporate governance statement is set out on pages 141-150.



Engagement with stakeholders

The Board is aware of its responsibility to engage with the Company's stakeholders regularly and effectively. The Group's mission, which is to make life easier, underpins the Board's decision making. An overview of the range of matters that the Board considered this year is provided on page 146 and details of how the Board engaged with and considered shareholder and wider stakeholder interests are set out on page 149-150.

A diverse and refreshed Board

Our Board was refreshed during 2021 and I am honoured to chair a new group of Directors that is diverse, well rounded and effective.

As reported in our Annual Report and Accounts 2020, Nikoloz Enukidze, Nicholas Haag and Eric Rajendra stepped down from the Board in May 2021, after almost a decade of service at the Group. Additionally, after just over a year of service on the Board, Abhijit Akerkar stepped down in September 2021 to pursue a new executive leadership role with a global financial institution.

To ensure the successful recruitment of new Directors, we have implemented robust succession planning for the Board and its committees as part of our corporate governance framework. We listened to investor feedback and overall market guidance and, as a result, recruited five new Directors, who have brought fresh thinking and diversity of thought, new perspectives, enhanced skills and competencies, and a diverse range of experience and expertise to the Board. In April 2021, we appointed Per Anders Fasth, Thymios Kyriakopoulos and Eran Klein to the Board as independent, non-executive Directors. In November 2021, two more non-executive Directors, Venera (Nino) Suknidze and Rajeev Sawhney, joined the Board. As well as strength-

ening our Board, the latest appointments have enabled us to achieve the target set by the Hampton-Alexander Review of 33% female representation on our Board of Directors. Furthermore, we continue to comply with the Parker Review requirement of having at least one BAME (black, Asian and minority ethnic) Director on the Board.

These changes have equipped our Board with best practice knowledge, skills, and experience in areas that are strategically important to the continued success of our Company, such as risk management, legal and compliance, information security expertise, international banking, and technology and data. With the new team in place, we were also able to renew the structure and membership of the Board's committees. The Board formed two new important committees – the Technology and Data Committee and the ESG and Ethics Committee that will help oversee strategically important areas for our Bank. The current Board roles and committee memberships are provided on page 143.

In accordance with the UK Corporate Governance Code (the "Code"), all Directors will offer themselves for re-election – or in the case of Rajeev Sawhney and Nino Suknidze, for election – as Directors at the forthcoming annual general meeting (AGM).

Committee Changes

To oversee the effective implementation of Group strategy and the management of existing and emerging business risks and opportunities, the Board delegates different roles and responsibilities to Board-level committees. The Board has established four principal committees: the Corporate Governance and Nomination Committee, the Audit Committee, the Remuneration Committee and the Risk Committee. As mentioned above, to complement the work of our principal committees, the Board created two new committees – the Technology and Data (T&D) Committee and the ESG and Ethics Committee. Our T&D Committee focuses on key strategic issues in relation to technology, digital systems and platforms, data, analytics, automation and cyber security. Our ESG and Ethics Committee will support the Board in its oversight of strategy, policies, initiatives and programmes in relation to ESG matters.

The main roles and responsibilities of Board committees are summarised in the corporate governance statement, on page 142. Board committee reports start on page 157.

Group Strategy

During 2021, much of the Board's work was dedicated to reviewing the strategy of the Group. We have ambitious growth and expansion plans and the primary focus for the Board is to ensure that our strategy is sustainable and continues to create value for our shareholders. In addition to reviewing Group strategy, the Board also spent time developing the Group subsidiary governance framework to ensure that rules and

procedures to manage risk and internal controls continue to be robust and that the Group has the resources and processes needed to implement its strategy effectively.

Climate Change

The Board is acutely aware of issues related to climate change and the effect these have on the Company's business strategy, our customers, our operating environment and our wider stakeholders. The Board and its committees actively discussed these issues during the year and as a result, the Company approved its first ESG Strategy in November 2021. The Board will continue to monitor the implementation of this strategy during 2022. Our newly formed ESG and Ethics Committee will help the Board to oversee ESG strategy setting and implementation, and to oversee the evolution of our TCFD (Task Force on Climate-related Financial Disclosures) reporting. Our TCFD disclosure is provided on page 27 and our annual Sustainability Report for 2020 is available at www.tbcbankgroup.com.

Board Development and Evaluation

The Board pursued an extensive training programme during the year. The Company Secretary maintains an comprehensive catalogue of training courses, CPD (Continuing Professional Development) events and relevant thematic reports available to all Directors both in live and recorded formats. During 2021, Directors routinely took part in these online seminars, with a special emphasis on remuneration and ESG-related matters. The Company Secretary has monitored attendance at these sessions throughout the year.

We also engaged Lintstock Ltd, a market-leading provider of board performance evaluation services to FTSE companies. Lintstock Ltd designed a three-year, externally facilitated board evaluation programme for us, which is overseen by the Corporate Governance and Nomination Committee. The results of the evaluation for 2021, along with a description of the process and an action plan for 2022, are provided on pages 147-148. The Board has committed to undertaking another extensive, externally facilitated evaluation process in 2022 and all new Board members have undergone a robust induction programme. Details are provided on page 144.

Succession Planning

In June 2021, the Board adopted new succession principles and implemented a robust process to analyse the current skills and competencies of the Board as a whole, as well as that of its individual committees. During 2022, we will be working closely with Lintstock Ltd to carry out an in-depth analysis of the skills and competencies of our new Board. Based on this exercise, and an assessment of the experience that will be valuable in the future, the Board plans to develop a new and enhanced Board succession plan, in line with the succession planning principles adopted by the Board in 2021.

DIRECTORS' GOVERNANCE STATEMENT CONTINUED

Shareholder Consultation following the 2021 Annual General Meeting

At the Company's most recent AGM, held on 14 June 2021, our shareholders passed all presented resolutions with the requisite majority, except for Resolution 17, which related to disapplication of pre-emption rights in connection with the issue of shares for the purpose of an acquisition or specified capital investment. Furthermore, three additional resolutions attracted more than 20% negative votes. These included Resolution 2, an advisory vote on the Directors' remuneration report, and Resolutions 15 and 16 on the allotment of securities up to a specified amount and disapplication of pre-emption rights, which relates to the allotment of securities up to a specified amount of 5% of share capital. In accordance with provision 4 of the Code, we engaged with shareholders who voted against with respect to Resolutions 2, 15, 16 and 17.

I, as the Board Chairman, supported by the Senior Independent Director and the Chair of the Remuneration Committee, conducted a consultation process with the largest shareholders who voted against those resolutions.

As we announced on 15 December 2021, this engagement helped us better understand the shareholders' concerns, which are summarised below, along with our planned course of action in relation to each one.

Resolution 2 - Directors' remuneration report

We understand that the vote against this resolution was principally related to a specific, one-off discretion exercised by the Remuneration Committee. The dialogue with the shareholders has highlighted that most investors continue to support the Company's remuneration policy which was approved by 96.17% of shareholders. The Company's Remuneration Committee has discussed the feedback in detail with the Board and will maintain a dialogue with shareholders on matters related to executive remuneration. The results of this engagement are addressed in more detail in the Remuneration Committee Report by its Chair, Maria Luisa Cicognani, on page 176.

Resolution 15 - Allotment of securities up to a specified amount and Resolution 16 and 17 - Disapplication of pre-emption rights

We are aware that certain shareholders from outside the UK are not able to support a general allotment authority or can only support a reduced general authority or the disapplication of pre-emption rights as provided in these resolutions due to their governance policies. While the Board understands that some investors are unable to support the current allotment authority, we have noted that Resolution 15 continues to be supported by the majority of our shareholders. All three resolutions are in line with the Investment Association's Share

Capital Management Guidelines and the Pre-Emption Group's Statement of Principles respectively, which represent best practice for UK-listed companies.

Engagement with our investors is of utmost importance for our Board. We will continue to engage with the shareholders for whom these authorities continue to present a concern and will keep the level of the authority sought under review.

UK Corporate Governance Code

The Code continued to apply to the Company during the year under review. Our statement of compliance with the Code is provided on page 142. Our approach to workforce engagement and details about the work of our designated independent non-executive Director for workforce engagement are provided on page 158.



Arne Berggren
Chairman

13 April 2022



**ARNE
BERGGREN**

Chairman

Joined the Group on 13 August 2019;
Appointed as Chairman on 1 March 2021

Experience

- Experience in international financial institutions and advising governments
- Board membership and committee chairing experience in other UK-listed banks
- Experience in investment banking activities and in leading bank restructurings
- Deep understanding of strategic planning and implementation

Arne has worked in the financial services industry for more than 25 years. He has held several senior leadership and advisory roles at prominent financial institutions including the IMF, World Bank, Swedbank, Carnegie Investment Bank AB and the Swedish Ministry of Finance and Bank Support Authority. Arne had a leading role in the handling of the Swedish banking crisis in 1991-93. During the Asian crisis, he assisted the FRA in Thailand and FSC/ KAMCO in South Korea with the handling of problem assets. During his career, Arne has also served as the CEO of entities outside the financial industry and as an independent non-executive director at the Turkish asset management company, LBT Varlik Yonetim and Slovenian bank asset management company, DUBT Ltd.

Current External non-executive appointments

- Board member of Bank of Cyprus
- Board member of Piraeus Bank

Committee membership

- Chair of the Corporate Governance and Nomination Committee
- Member of the Remuneration Committee



**VAKHTANG
BUTSKHRIKIDZE**

CEO

Appointed on 29 April 2016

Experience

- Leading banker in the Caucasus and Eastern European region
- Extensive strategic and financial leadership experience of over 25 years
- Robust knowledge and expertise of strategic planning and development, startup and fintech management, mergers and acquisitions, and equity and debt capital debt raising and investor relations

Vakhtang has more than 30 years of banking and financial industry experience. He led the Group from its founding in Georgia in 1992 as a start up to the current market-leading financial technologies institution. He joined TBC Bank as a Senior Manager in 1993 and became Chairman of the Management Board in 1996. Since 1998, he has held the position of Chief Executive Officer of JSC TBC Bank and was appointed as Chief Executive Officer of the Company in May 2016.

Vakhtang is a prominent banker in the Caucasus and Eastern European region and has received several prestigious awards, including the Best Banker 2011 award from the GUAM Organization for Democracy and Economic Development and was named CEO of the Year 2014 for Central and Eastern Europe and the CIS by EMEA Finance magazine. In March 2019, he won the Special Award for Responsible Capitalism in Adversity from the prestigious FIRST organisation - a multidisciplinary international affairs organization, which aims to enhance dialogue between leaders in industry, finance and government.

Current External non-executive appointments

- Board member of the Association of Banks of Georgia
- Board member of the Business Association of Georgia
- Member of the Visa Central & Eastern Europe, Middle East and Africa (CEMEA) Business Council



**MARIA LUISA
CICOGNANI**

**Independent
Non-Executive Director**

Joined the Group on 10 September 2018

Experience

- Extensive experience in international banking, financial institutions and corporate governance
- Deep understanding of the UK Corporate Governance and directors' remuneration framework
- Strong leadership skills through significant board membership and chairing experience
- Extensive international strategic advisory experience in emerging and growth economies

Maria Luisa has extensive experience in the field of banking, financial institutions and corporate governance. She worked at the European Bank for Reconstruction and Development (London) between 1993 and 2005. Subsequently, she was a director of Financial Institutions at Merrill Lynch and Head of Financial Institutions at Renaissance Capital in London and Moscow, as well as a Managing Director of Mediobanca (London). During 2014-16, Maria Luisa served as a non-executive member of the board of Azimut Global Counseling Srl (Italy) and Azimut International Holding SA (Luxemburg). She has previously served as a Chairperson of Moneta Money Bank (listed on the Prague Stock Exchange), and in 2020-21 she was an independent non-executive director of UBI Banca (Italy).

Current External non-executive appointments

- Chairperson of Mobius Investment Trust, an LSE-listed company
- Chairperson of Arafa Holding, listed on the Cairo Stock Exchange

Committee membership

- Chair of the Remuneration Committee
- Member of the Risk Committee
- Member of the Corporate Governance and Nomination Committee



**ERAN
KLEIN**

**Independent
Non-Executive Director**

Joined the Group on 4 May 2021

Experience

- Extensive experience in banking, credit, capital markets and legal
- Significant risk, corporate governance, strategy and structuring experience
- Strong Emerging Markets banking and stakeholder management experience
- Relevant experience and expertise in information security risk management

Eran is an experienced international banker and lawyer who held senior roles over two decades in leading financial institutions such as Commerzbank, Citibank, ING Financial Markets and Deutsche Bank across both developed and emerging markets. Eran accumulated valuable knowledge in capital markets, SME finance, retail lending, corporate governance, liquidity and balance sheet management, as well as in risk management, audit and strategy implementation. Currently, he also serves as a non-executive director and risk committee chair at Privatbank, the largest bank in Ukraine.

Current External non-executive appointments

- Non-Executive Director and Chair of the Risk Committee at Privatbank, Ukraine.

Committee membership

- Chair of the ESG and Ethics Committee
- Member of the Technology and Data Committee
- Member of the Risk Committee



**PER ANDERS
FASTH**

**Independent
Non-Executive Director**

Joined the Group on 4 May 2021

Experience

- Extensive experience as CEO and senior executive with more than 20 years at leading financial institutions
- More than 30 years of accumulated experience as an independent non-executive director
- Strong listed company governance, leadership and strategic advisory skills
- Relevant experience in the financial information technologies (Fintech) and credit management industries across Europe
- Relevant experience and expertise in information security risk management

Per Anders served as a senior executive for 20 years at the leading North-European bank SEB and as a CEO at SBAB Bank, Hoist Finance and European Resolution Capital. Per Anders has deep strategic consulting experience from 10 years at top-tier consultancies McKinsey & Company and QVARTZ (now Bain & Company). He has been a non-executive director of several financial institutions in Scandinavia and Greece where he was a board member of Piraeus Bank S.A., a leading listed Greek Bank. In addition, he has extensive professional experience from having worked in the Nordic and Baltic countries, Germany, Luxembourg, Slovenia, the UK and Ukraine where he was an advisor to the World Bank and the Ministry of Finance.

Current External non-executive appointments

- Chairman of Lyra Financial Wealth, a wealth management company
- Chairman of Pepins Group, listed on Nordic GM for SMEs
- Board member of Atle Investment Management/Services

Committee membership

- Chair of the Audit Committee
- Member of the Risk Committee
- Member of the Remuneration Committee



**RAJEEV
SAWHNEY**

**Independent
Non-Executive Director**

Joined the Group on 24 November 2021

Experience

- Strong global corporate leadership experience of more than 40 years
- Significant advisory and executive experience with technology and cybersecurity companies
- Extensive expertise in personnel management
- Relevant experience and expertise in information security risk management

Rajeev is a corporate growth executive with 40 years' global experience in digital technologies, serving across various industry sectors in Europe, North America and Asia. Currently, Rajeev serves as Executive Chairman and a non-executive director of OXSIGHT Ltd, a medical equipment developer and an Oxford University spin off. He was formerly a senior advisor to the CEO at global IT services firm Zensar Ltd in the UK and member of the advisory board at Garble Cloud Inc., a cybersecurity company in Silicon Valley, USA. Prior to that, Rajeev gained strong operational experience as President of HCL Technologies and at Mphasis, a Hewlett Packard company.

Current External non-executive appointments

- Executive Chairman and board member of OXSIGHT Ltd

Committee membership

- Chair of the Technology and Data Committee
- Member of the ESG and Ethics Committee
- Member of the Corporate Governance and Nomination Committee



**NINO
SUKNIDZE**

**Independent
Non-Executive Director**

Joined the Group on 24 November 2021

Experience

- Strong financial services background
- Extensive experience in major financial services sector transactions and listings as a leading legal counsel
- Strong governance, regulatory and risk management experience, including at an LSE-listed company
- Experienced at advising companies across a range of sectors, including telecommunications, pharmaceuticals, energy and commerce

Nino is a business lawyer, with 19 years experience in the Georgian market and deep expertise in various areas of practice including banking, finance, corporate, regulatory, competition and capital markets. Currently, Nino is the managing partner of the law firm Suknidze & Partners LLC. During 2017-20, she served as general counsel at JSC Bank of Georgia. Before joining the bank, she held various positions at the Georgian offices of international law firms Dentons and DLA Piper for more than 11 years.

Current External non-executive appointments

- Vice President at Georgian Chamber of Commerce and Industry
- Board member at Care Caucasus, a charity organisation in Georgia

Committee membership

- Member of the Audit Committee
- Member of the Remuneration Committee
- Member of the Corporate Governance and Nomination Committee



**THYMIOS P.
KYRIAKOPOULOS**

**Independent
Non-Executive Director**

Joined the Group on 4 May 2021

Experience

- Extensive experience as an investor, portfolio manager, risk taker and balance sheet planner
- Experience in balance sheet de-risking and deep operational and governance restructuring
- Transformation leadership and crisis management spanning across systemic banks and Fintech
- Strong financial, risk and asset management advisory skills to companies and government entities

Thymios is an internationally experienced banking executive specialising in operational transformation, balance sheet and risk management, financial engineering and portfolio management. He serves on the board of the Hellenic Corporation of Assets and Participations, the Greek sovereign wealth fund, and is Chair of its Investment and Risk Committee. Thymios was an executive general manager and chief risk officer of Piraeus Bank S.A, a leading listed Greek Bank, managing director at Goldman Sachs Inc. in the fixed income currencies and commodities trading division, and has held board and executive roles in Insurtech, Fintech, financial services and management consulting companies.

Current External non-executive appointments

- Board member of the Hellenic Corporation Of Assets And Participations

Committee membership

- Chair of the Risk Committee
- Member of the Audit Committee
- Member of the Technology and Data Committee



**TSIRA
KEMULARIA, CDir**

**Senior Independent
Non-Executive Director**

**Joined the Group on 10 September 2018;
Appointed as SID on 15 September 2021**

Experience

- Deep experience with more than 23 years' experience across the energy and petrochemicals industries including regulated commodity trading and financial services
- Chartered Director with the Institute of Directors in London, UK
- Former member of the British-Georgian Society and former Chair of the Georgian Community in the UK
- Relevant experience and expertise in information security risk management

Tsira held various roles covering market risk management and commodity trading at companies including Dynegy Inc. in the US and UK and at Shell International Trading and Shipping Ltd (STASCO) in London. She served in different managerial roles in M&A and Commercial Finance, Group Treasury and Trading and Supply in the UK, Moscow and Barbados between 2005 and 2016. From 2016 to 2019, Tsira was the Head of Group Pensions Strategy and Standards at Shell International Ltd based in London. Since 2019, Tsira is the Head of Internal Audit and Investigations for Shell's global Trading and Supply organization, which is the world's biggest commodity trading and supply business.

Current External non-executive appointments

- Trustee Director of the British Gas Trustee Solutions Ltd, a closed pension fund (post British Gas acquisition by Shell)
- Trustee Director, Shell Trustee Solutions Ltd
- Board member of FaRiG (Friends of Academic Research in Georgia)

Committee membership

- Member of the Audit Committee
- Member of the ESG and Ethics Committee
- Senior Independent Director
- Designated Non-Executive Director for Workforce Engagement

THE BANK'S MANAGEMENT BOARD BIOGRAPHIES



Vakhtang is also a member of the Board of Directors.
His biography is provided on page 133.

**VAKHTANG
BUTSKHRIKIDZE**

CEO



Giorgi was appointed as Deputy CEO and CFO of JSC TBC Bank in October 2020. He joined the Bank as a Deputy CFO in March 2020.

Giorgi has 25 years global leadership experience in financial services. Before joining TBC, Giorgi was a Director and Head of Capital Risk and Stress Testing at Natwest Markets N.V. in Amsterdam. Prior to that, Giorgi held a number of key leadership positions at Barclays Bank in London between 2008 and 2019, including as a Director at Barclays Treasury, the Head of Barclays Internal Large Exposure and the Head of Barclays Central Planning. During his work at Barclays, Giorgi also served as Barclays Bank PLC Solo Capital and Leverage Management Lead and the Head of Strategic Planning at Barclaycard UK. In his earlier career, Giorgi held various senior managerial positions at several Georgian organisations.

Giorgi holds an MBA from the Judge Business School at the University of Cambridge.

**GIORGI
MEGRELISHVILI**

Deputy CEO
Chief Financial Officer



**TORNIKE
GOGICHAISHVILI**

Deputy CEO
Retail & MSME Banking

Tornike was appointed to his current role as Deputy CEO of JSC TBC Bank and Head of Retail in January 2020. Additionally, Tornike is leading the MSME banking since January 2021. He joined TBC in 2018 as Chief Operating Officer (COO).

Tornike has more than 20 years' financial services and operations management experience in Georgia and Central and Eastern Europe. Prior to joining TBC, he has served as a Deputy CEO and Chief Operating Officer at the Bank of Georgia Group and served at various other key positions at the same institution before that. During 2008-2010, Tornike held the position of CFO at BG Bank Ukraine (a subsidiary of Bank of Georgia). Earlier in his career, Tornike held the position of the CEO of Aldagi, an insurance company in Georgia, served as the chief financial officer of UEDC PA consulting and held various managerial positions at BCI Insurance.

Tornike holds an MBA from the Caucasus School of Business and an executive diploma from Said Business School in Oxford.



**NINO
MASURASHVILI**

Deputy CEO
Chief Risk Officer

Nino was appointed to her current role as Chief Risk Officer of JSC TBC Bank in 2020. Prior to that, Nino held progressively senior positions at TBC after she first joined the Bank in 2000. Nino was appointed as Deputy CEO of the Bank in 2006, leading TBC's retail and MSME businesses at various times. Nino also serves on the supervisory boards of TBC's key subsidiaries, including TBC Uzbekistan, TBC Leasing, and Space International, TBC's digital banking platform.

Nino has more than 25 years' financial services and banking experience in Georgia. In her earlier career, Nino held various leadership and managerial positions at JSC TbilCom Bank and the Barents Group.

Nino holds an MBA from the European School of Management in Tbilisi.

THE BANK'S MANAGEMENT BOARD BIOGRAPHIES **CONTINUED**



**GEORGE
TKHELIDZE**

Deputy CEO
Corporate & Investment Banking
Wealth Management

George was appointed to his current role at the Bank in November 2016, leading the Corporate and Investment Banking businesses. George is also responsible for the Bank's Wealth Management and leasing businesses since January 2021. George first joined TBC in 2014 as Deputy CEO and the Chief Risk Officer.

George has more than 20 years of experience in global financial services. Prior to joining TBC, he worked for Barclays Investment Bank, where he held the position of Vice President in the Financial Institutions Group (FIG), EMEA. Before that, he was an Associate Director in the Barclays Bank Debt Finance and Restructuring teams. During his career at Barclays in London, George worked on and executed multiple M&A, debt and capital markets transactions with European financial institutions. In his earlier career in Georgia, George served as the Chief Executive Officer at Aldagi, the leading insurance company in Georgia and held progressively senior positions at the same company prior to that.

George is Stanford Executive Program (SEP) graduate, holds an MBA from the London Business School and a Master of Laws degree (LLM) in International Commercial Law from the University of Nottingham.



**NIKOLOZ
KURDIANI**

Deputy CEO
Brand Experience
Marketing & Payments
& Head of International
Business

Nikoloz was appointed to his current role as Deputy CEO of JSC TBC Bank in January 2021, leading Brand Experience, Marketing and Payments, as well as the Group's International Business. He joined the Bank in 2014 as the Deputy CEO in charge of Marketing and MSME banking. Additionally, Nikoloz has been leading TBC's digital banking platform, Space, since 2018. Nikoloz also serves as the chair of the supervisory board at TBC Uzbekistan and PayMe in Uzbekistan.

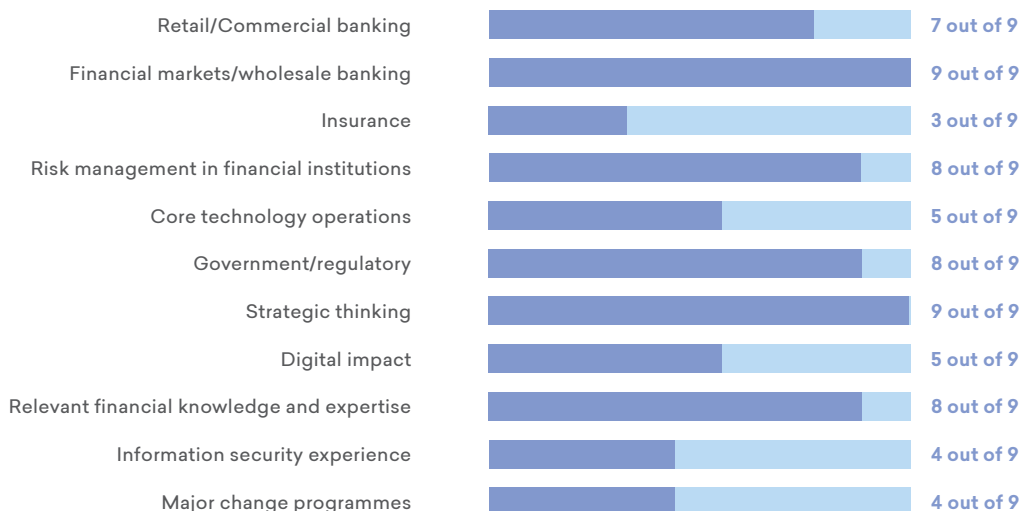
Nikoloz has more than 15 years' experience in the banking industry in Central Asia, CEE and Europe. Prior to joining TBC Bank, Nikoloz was the managing director at Kaspi Bank, a leading retail bank in Kazakhstan. At Bank of Austria, UniCredit Group, he served as the senior sales support expert in the CEE retail division, responsible for Turkey, Kazakhstan, Ukraine and Serbia. At ATF Bank, UniCredit Group in Kazakhstan, he was in charge of the retail banking division. Earlier in his career in Georgia, Nikoloz served as the head of the retail banking division of Bank Republic Georgia, Société Générale Group, and held several leadership and managerial positions at Bank of Georgia.

Nikoloz holds an MBA from IE Business School in Spain and a masters degree in International Economics from Georgian Technical University.

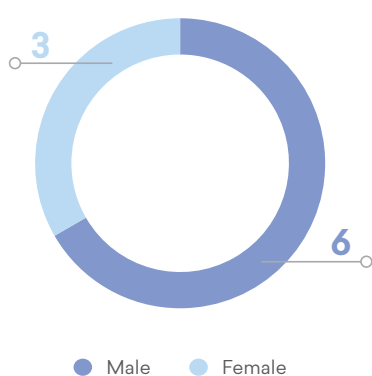
Corporate Governance Statement

OUR BOARD IN 2021

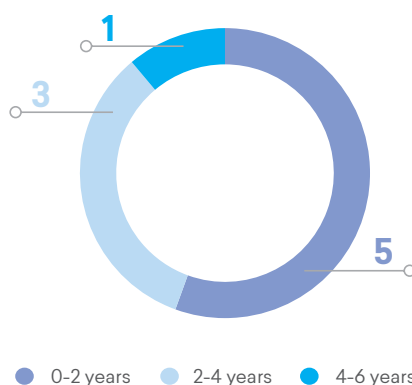
Skills and experience



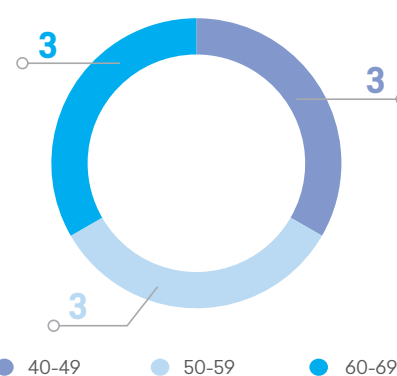
GENDER DIVERSITY



BOARD TENURE



AGE



Ethnic diversity

The Board meets the recommendation of the Parker Review that at least one of its members should be black, Asian or an ethnic minority (BAME), and the Group intends to continue to meet that recommendation. The Board also meets the recommendation of the Hampton-Alexander Review that at least 33% of Board should be female by 2022.

Note: Data as at 13 April 2022

CORPORATE GOVERNANCE STATEMENT **CONTINUED**

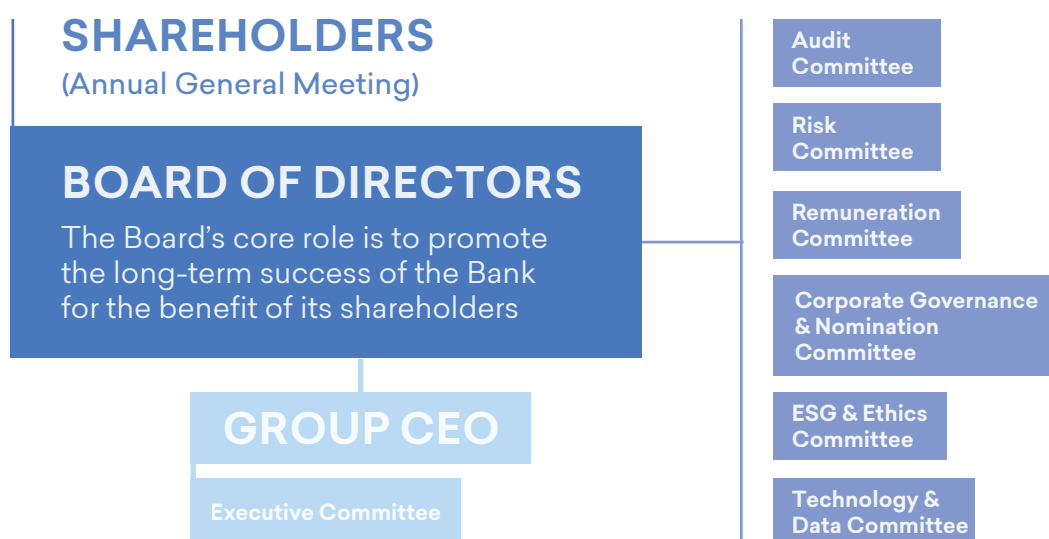
HOW WE OPERATE

Corporate governance framework

The Group's Corporate governance statement provides shareholders with an explanation of how the Company has applied the main principles of the Code – the Group's approach to governance in practice, and the work of the Board and its Committees.

Compliance statement

As a premium-listed company on the London Stock Exchange, the Company has complied fully with the Code and applied its principles as issued by the Financial Reporting Council (FRC) in full throughout 2021. The Code can be found on the FRC website www.frc.org.uk.



HOW THE BOARD IS SUPPORTED BY ITS COMMITTEES

The Board delegates some of its responsibilities to, and is supported by, its Committees, which oversee and make recommendations on the matters delegated to them.

Principal Committees

The Board has established four principal Board Committees:

- The Audit Committee deals with external auditors, internal controls and financial reporting, as well as, communication with the market and its regulators.
- The Risk Committee focuses on the possible risks and capital issues of the Company.
- The Remuneration Committee naturally considers remuneration-related issues, such as recommending levels of compensation that attract and retain talent and are acceptable to our stakeholders; and
- The Corporate Governance and Nomination (CGN) Committee is responsible for talent management and nomination and also for succession planning for the Board and the executive team.

New Committees

Two new Committees provide further support to the Board in three key strategic areas – technology, ESG Strategy and climate change. The Technology and Data (T&D) Committee, established in June 2021, helps the Board oversee key enablers of strategy relating to data and cyber issues, and IT resources. The ESG and Ethics Committee, established in January 2022, ensures the Company stays focused on the ESG issues that are key for all our stakeholders. Both Committees began operating in 2022 and will report on their activities in the Annual Report and Accounts 2022.

Committee membership

Board Committee membership and attendance at meetings is recorded below. Each Committee is led by a Chair, and membership consists solely of non-executive Directors. Chairs of each Board Committee report on Committee business at each Board meeting, including matters being recommended by a Committee for Board approval. The process for setting a Committee agenda and running a Committee meeting mirrors that of the Board. Terms of Reference for each Board Committee are available on our website (www.tbcbankgroup.com).

Membership of Board Committees on 14 April 2022 is as follows:

Member	Audit Committee	Risk Committee	Remuneration Committee	CGN Committee	Technology & Data (T & D) Committee	ESG and Ethics Committee
Arne Berggren (Chairman)						
Tsira Kemularia (SID)						
Maria Luisa Cicognani						
Eran Klein						
Per Anders Fasth						
Thymois Kyriakopoulos						
Rajeev Sawhney						
Nino Suknidze						



Chairperson



Member

ATTENDANCE

Board and Committee attendance

Attendance at the various Board meetings in 2021 was as follows:

Board Meetings in 2021 (36)	Regularly Scheduled Meeting (6) eligible/attended	Strategy Review (3) eligible/attended	Approval of Financial Statements (6) eligible/attended	Board Changes and Composition (6) eligible/attended	Policy and Miscellaneous (12) eligible/attended	International Expansion (3) eligible/attended
Arne Berggren (C) ¹	6/6	3/3	6/6	6/6	12/12	3/3
Tsira Kemularia	6/6	3/3	6/6	6/6	12/12	3/3
Maria Luisa Cicognani	6/6	3/3	6/6	6/6	12/12	3/3
Per Anders Fasth ^{2,4}	4/4	3/3	4/4	1/1	9/8	1/0
Eran Klein ⁵	4/4	3/3	4/4	1/1	9/9	1/1
Thymios Kyriakopoulos ^{2,6}	4/4	3/3	4/4	1/1	9/8	1/1
Rajeev Sawhney ⁸	2/2	0/0	0/0	0/0	0/0	0/0
Nino Suknidze ⁹	2/2	0/0	0/0	0/0	0/0	0/0
Nikoloz Enukidze ¹⁰	2/2	0/0	3/3	5/5	5/5	2/2
Nicholas Haag ^{2,11}	2/2	0/0	3/3	5/3	5/5	2/2
Eric Rajendra ^{2,12}	2/2	0/0	3/3	5/5	5/4	2/2
Abhijit Akerkar ¹³	4/4	2/2	4/4	6/6	8/8	2/2
Vakhtang Butskhrikidze	6/6	3/3	6/6	6/6	12/12	3/3

(C) – Chair

CORPORATE GOVERNANCE STATEMENT **CONTINUED**

Attendance at the Board Committee was as follows:

Board member	Corporate Governance and Nomination Committee eligible/attended	Remuneration Committee eligible/attended	Audit Committee eligible/attended	Risk Committee eligible/attended
Arne Berggren (C) ³	6/6 (C)	5/5	1/1	3/3
Tsira Kemularia ³	11/11	5/5	10/10	5/5
Maria Luisa Cicognani ⁵	6/6	10/10 (C)	4/4	13/13
Per Anders Fasth ^{5,2}	0/0	5/5	6/6 (C)	8/7
Eran Klein ⁶	0/0	0/0	6/6	0/0
Thymios Kyriakopoulos ⁷	0/0	0/0	6/6	8/8 (C)
Rajeev Sawhney ⁸	0/0	0/0	0/0	0/0
Nino Suknidze ⁹	0/0	0/0	0/0	0/0
Nikoloz Erukidze ¹⁰	4/4	4/4	0/0	0/0
Nicholas Haag ¹¹	4/4	5/5	4/4	5/5
Eric Rajendra ^{2,12}	4/4	5/4	0/0	0/0
Abhijit Akerkar ^{7,13}	6/6	0/0	0/0	9/9

(C) – Chair

1 Arne Berggren succeeded Nikoloz Erukidze as Chairman of the Board effective from 1 March 2021.

2 Unable to attend due to another pre-existing commitment.

3 Arne Berggren succeeded Tsira Kemularia as Chair of the Corporate Governance and Nomination Committee effective from 15 September 2021.

4 Per Anders Fasth joined the Board on 4 May 2021 and the respective Committees on 17 June 2021.

5 Per Anders Fasth succeeded Maria Luisa Cicognani as Chair of the Audit Committee effective from 17 June 2021.

6 Eran Klein joined the Board on 4 May 2021 and the respective Committees on 17 June 2021.

7 Thymios Kyriakopoulos joined the Board on 4 May 2021 and the respective Committees on 17 June 2021 and succeeded Abhijit Akerkar as Chair of the Risk Committee effective from 17 June 2021.

8 Rajeev Sawhney joined the Board on 25 November 2021, but did not join any Committees until January 2022.

9 Nino Suknidze joined the Board on 25 November 2021, but did not join any Committees until January 2022.

10 Nikoloz Erukidze did not seek re-election by the shareholders at the 2021 AGM and stepped down from the Board on 14 June 2021.

11 Nicholas Haag did not seek re-election by the shareholders at the 2021 AGM and stepped down from the Board on 14 June 2021.

12 Eric Rajendra did not seek re-election by the shareholders at the 2021 AGM and stepped down from the Board on 14 June 2021.

13 Abhijit Akerkar stepped down from the Board on 15 September 2021.

The Executive Committee

The Executive Committee assists the CEO of the Company in the performance of his duties. This includes the development and implementation of strategy and associated operational plans, development of Company policies, monitoring of operating and financial performance, and assessment and control of risk. The Executive Committee meets regularly and provides an opportunity for the Group CEO to discuss strategic, financial, and commercial matters related to the Group companies. The Executive Committee is chaired by the Company CEO and comprises members of senior management, as well as the Head of Human Resources and the Chief Information Officer (CIO) of JSC TBC Bank, the Company's main subsidiary. The CEO reports to the Board on the work of the Executive Committee.

Induction and training

Formal inductions are arranged for newly appointed Directors based on individual needs, skills and experience. Typically, these include a series of meetings with the Chairman and other Directors and senior executives, as well as local site visits to provide familiarity with the business. During 2021, there were five new appointments to the Board. The induction process for these new appointments included an online introduction to the business, followed by discussions with executives and key business unit managers and an introduction to the operations, risks and governance environment of the Group. In addition, all new Directors received training on their duties as Directors of a listed company with Baker McKenzie LLP, the Company's external counsel. For Committee members, thematic trainings were organised, including on-boarding sessions with the Company's external auditor, PricewaterhouseCoopers LLP (PwC) for the Audit Committee, and with Baker McKenzie LLP for the Remuneration Committee.

Members of the Board must complete a self-assessment process at the end of the year, which invites them to identify a relevant development programme.

Diversity policy

The Board recognises the importance of ensuring diversity, and sees significant benefits to our business in having a Board and management team drawn from diverse backgrounds, as this brings a range of expertise, cultural knowledge and different perspectives in discussions and improves the quality of decision making.

The Board adopted a Board Diversity Policy in September 2020. More information on the Board diversity can be found in the Corporate Governance and Nomination Committee report on page 157 and the Board Diversity Policy is available at www.tbcbankgroup.com.

Directors' commitments

The Directors must disclose to the Board any external appointments or other significant commitments prior to their appointment. Should these appointments change during their tenure, Directors must disclose any changes and conflicts that might arise. They will then be considered and approved by the Board.

Each non-executive Director must devote such time as is necessary for the effective discharge of their duties. Where current non-executive Directors hold external directorships or other external positions, the Board believes they still have sufficient time to devote to their duties as a Director of the Company, and that the external roles held provide them with valuable expertise that enhances their ability to act for the Company. No significant changes to the commitments of the Chairman or non-executive Directors were identified during 2021.

Re-election of Directors

All Directors of the Company will seek re-election, or – in case of Rajeev Sawhney and Venera (Nino) Suknidze – election at the next AGM and further information will be set out in the Notice of AGM. Biographical details of the Directors are included on pages 133-137.

HOW THE BOARD LEADS THE GROUP

The Board is the principal decision making body of the Group and is collectively responsible for promoting the Group's purpose, culture, values and long-term success. The Board ensures the delivery of sustainable value to stakeholders by establishing and overseeing the strategic direction of the Company and its business. The Board's role is to provide leadership through the effective oversight and review of Group operations. It sets the Group's risk appetite, monitors operational and financial performance and reporting, ensures the Group is adequately resourced with effective controls and remuneration policies, and checks that there are appropriate succession planning arrangements in place. The Directors are aware of their duties under Section 172 of the Companies Act 2006 and further insight into how the Board takes into account the views and interests of our stakeholders can be found on pages 42-43.

The Board is led by the Chairman and provides constructive challenge, oversight and advice to ensure the Company's success. The Chairman ensures there is helpful debate in the boardroom in order to create and maintain an environment in which the Board remains open to different viewpoints and ideas.

Moreover, the Chairman takes responsibility to ensure the Board is updated in a timely manner about the Company's performance, in order to make good decisions. The Chairman ensures information exchanges between the Board, the Committees and executives. If there is a need for independent advice, the Board can seek it directly at the Company's expense.

Board operations

As we adapted to a post-pandemic working model, the Board made use of a hybrid meeting calendar with a mix of in-person and online meetings. During 2021, the Board met 36 times and two of these meetings were in person. The Board continued to supplement its regular review meetings with video conferencing to discuss strategy, take thematic "deep dives" on business critical topics, and oversee key issues.

A formal schedule of matters for Board approval is in place to ensure it retains control over key decisions. Matters include approval of Group strategy, long-term objectives, risk appetite, annual operating and capital expenditure budgets, changes to the Group's capital, share buy-backs, major acquisitions and/or mergers, annual reports and accounts. The full schedule is available on the website at www.tbcbankgroup.com.

All Board meetings follow a tailored agenda agreed in advance by the Chairman, CEO and Company Secretary. The Board and all six Board-level Committees have a detailed schedule of work, which organises the Board's workload throughout the year in line with the schedule of matters reserved for the Board and the Terms of Reference for each principal Committee.

The Board and its Committees rely on management to raise items for approval. The processes of agenda setting and reporting to the Board are reviewed as part of the Board performance evaluation.

Directors are expected to attend all meetings of the Board and of the Committees to which they belong.

Board composition

In accordance with the Code, the majority of the Board are independent non-executive Directors. At the time of this report's publication, the Board comprises eight independent non-executive Directors and one executive Director – the CEO. The Board and Committee composition tables, along with the meeting attendance information, are provided on pages 143-144.

Each non-executive Director is obliged to inform the Board of any circumstances that could impair their independence. Details of the individual Directors and their biographies are on pages 133-137.

CORPORATE GOVERNANCE STATEMENT **CONTINUED**

Division of responsibilities

There is a clear division of responsibilities between the Chairman, the CEO and the Senior Independent Director. As Chairman, Arne Berggren is responsible for ensuring the Board as a whole performs a full and constructive role in the development and determination of the Group's strategy and overall commercial objectives. He also oversees the Board's decision making processes.

The CEO, Vakhtang Butskhrikidze, is responsible for the Company's day-to-day management and has the principal responsibility of running the Group's business. He is responsible for proposing, developing and implementing the Group's strategy and overall commercial objectives in close consultation with the Chairman and the Board. In addition, the Board has appointed, in line with the requirements of the Code, Tsira Kemularia as the Senior Independent Director, who provides a sounding board for the Chairman. This separation of responsibilities between the Chairman and the CEO ensures no single individual has unfettered powers of decision-making. Full details of the division of responsibilities between the Chairman, the CEO and the Senior Independent Director are available on our website at www.tbcbankgroup.com.

WHAT THE BOARD DISCUSSED IN 2021

During the year under review, the Board considered the following matters:

Board activities in 2021		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Setting Strategy	• Group strategy									●	●		●
	• Business line/function/country strategy						●			●	●		●
	• Technology							●					●
	• Human Capital											●	●
	• ESG Strategy											●	●
Performance against strategic objectives	• Financial performance		●					●		●		●	
	• Results and accounts		●		●	●			●			●	
	• Dividends and interim dividends							●	●				
	• Annual budget												●
Risk	• Risk function updates				●			●			●	●	●
	• Bank and group risk Appetite					●							●
	• Capital and liquidity							●	●				
Governance	• Recruitment and appointment of new Directors				●		●	●		●	●	●	
	• Board composition and structure		●				●						
	• Board and Committee effectiveness						●				●		●
	• Subsidiary governance framework											●	
	• Management leadership development									●		●	
	• Update of Committee Terms of Reference									●		●	●
	• Review and approval of policies and procedures						●	●	●	●	●		●
	• Appointments and succession planning		●					●					●
Regulatory, macroeconomic and country insights	• Macroeconomic regular updates and thematic deep dives			●				●		●		●	
	• Country updates				●			●			●	●	●
	• Regulatory matters		●			●		●				●	

PRINCIPAL DECISIONS

The principal decisions made by the Board during 2021, and the impact that these had on various stakeholders are detailed below:

Strategy and business performance	In 2021, the Board held several “deep dive” strategy sessions and approved the Group’s strategy for the next 5 years in December. Among principal decisions taken by the Board in 2021 in this regard was the approval of the joint venture with EBRD and IFC in Uzbekistan. Other matters discussed during strategy deep dive sessions included the Group’s international expansion plans, corporate and investment banking operations, retail and affluent banking operations, ecosystem businesses and their development, IT strategy, ESG Strategy, Group governance structure and subsidiary management principles; and the Group’s HR strategy.
Financial decisions	During the year, the Board reviewed the Group’s performance against budget and monitored the achievement of Key Performance Indicators. The Board also considered, reviewed and approved of the quarterly, interim and annual financial statements, including approval of the going concern basis of preparation and the Group’s viability statement. The Board also approved the Company’s first interim dividend payment in September 2021.
Risk, regulatory and legal considerations	In 2021, the Board, with the support of the Risk Committee, continued to have oversight of post-COVID recovery, ensuring business resilience, monitoring financial performance and capital management of the group, restoration of buffers, and mandating vaccines. The Board also considered and approved the Bank’s and the Group’s risk appetite statement, resolution and recovery plan and long-term capital planning.
Governance	During 2021, the Board, with support from the Corporate Governance and Nomination Committee, considered and approved the appointment of five new Board members and the formation of two new committees. The Board also worked on effective Board succession and composition, as well as management succession and leadership development. During the year, the Board considered and approved various Group-wide policies with the recommendation of relevant Committee, including the Group Code of Conduct and Code of Ethics, the Data Protection Policy, the Gender Policy, the Environmental Policy, the Human Rights Statement, and various risk policies. At the end of the year, the Board reviewed the findings of the externally facilitated Board evaluation exercise and concluded that the Board and its Committee continued to function effectively. The Board also conducted a detailed analysis of these results and developed annual Board and Committee action plans in March 2022.

HOW THE BOARD MONITORS ITS PERFORMANCE

In 2021, TBC Bank engaged Lintstock Ltd to review the Board’s performance. Lintstock Ltd is an advisory firm specialising in Board effectiveness reviews, and has no other connection with TBC Bank or any of the Company’s Directors.

Lintstock Ltd first consulted the Company Secretary in order to determine the scope of the evaluation and tailor survey content for the Board and the business. The firm then asked members of the Board to evaluate its performance, and that of its Chair and Committees, through online surveys, encouraging candid feedback by guaranteeing that all responses would remain anonymous. Directors were also asked to reflect on their own individual contribution to the Board, and to identify any personal training or development needs.

In addition to addressing core areas of governance, the review focused on the following areas, in the context of the ongoing COVID-19 pandemic:

- The clarity of the Group’s strategy, and the main challenges facing TBC Bank in delivering the strategy over the coming years;
- The Board’s oversight of the Group’s expansion into Uzbekistan, and any lessons that can be drawn for the benefit of future international expansion efforts;
- The Board’s engagement with shareholders, customers, regulators and subsidiaries, as well as its awareness of the views and feelings of employees and the culture throughout the Group;
- The effectiveness with which ESG considerations are incorporated into Board discussions and decisions, and the Group’s overall commitment to ESG;
- The Board’s external focus on digital developments, the competitive landscape, and the potential impact of geopolitical events on the Group;
- Risk management and internal controls, and lessons that can be drawn from the events of the last year to improve the Group’s risk processes; and
- The structure and capacity of the Group at senior levels, and the Board’s oversight of the Company’s processes for developing and retaining talent.

CORPORATE GOVERNANCE STATEMENT **CONTINUED**

Lintstock Ltd collated the Directors' feedback and produced narrative reports containing key observations and recommendations for improvement. The reports also provided comparisons with Lintstock Ltd's Governance Index, which contextualises the results of the Board review with reference to Lintstock Ltd's wider client base.

Feedback on the performance of the Board was positive and Directors felt the Board was discharging its responsibilities effectively. The review also identified a number of areas in which performance could be improved, and the Board has agreed the following action plan:

Areas of focus for the Board	Planned action for 2022
Group strategy and critical decisions in 2022	The Board will follow up on the Group strategy and monitor its fulfilment on a quarterly basis
Development in areas of importance for strategy and stakeholders	The Board will focus on further enhancing its understanding of ESG matters, as well as the critical enablers of Group strategy, such as Data, IT and cyber security, talent management, optimal composition and succession planning for the Executive Committee and other critical roles.
Increased complexity of the Group	The Board will maintain a focus on further enhancing subsidiary governance and implications of the ambitious international strategy in this regard.
Internal control and improvement of control functions in light of increased complexity	The Board will focus on further enhancing the Group's internal control and the continued effectiveness of its policies and procedures.
Board decision-making	The Board will focus on further improving the effectiveness of its decision-making, team dynamics and stakeholder engagement.

The performance of the Board's Committees was assessed via surveys tailored to the specific requirements of each Committee. Directors felt that all Committees were effective and that performance had improved throughout 2021. The individual Committee reports in this annual report summarise their committee-specific performance plan for the forthcoming year.

HOW THE BOARD MONITORS CULTURE AND ENGAGES WITH STAFF

The Group's strategic review on pages 78–81 details the policies in place to ensure all colleagues are supported by the business and enabled to develop satisfying and appropriate careers with the organisation. The Board conducts regular reviews to ensure progress and see that the processes in place are in line with the Group's culture. The Board receives frequent updates from the Head of Human Resources and the Board's Remuneration Committee reviews the pay and benefits structure across the whole Group to ensure pay levels are appropriate.

The Board has appointed one independent non-executive Director, Tsira Kemularia, to act as a Staff Ambassador responsible for employee engagement. The Staff Ambassador established a comprehensive engagement programme for 2021 and 2022 to bring the employee voice into the boardroom and understand if and how executive remuneration aligns with wider Company pay policy, incentives and culture. The Remuneration Committee is able to take this feedback into account when setting the policy for executive Director remuneration.

In line with FRC Guidance on Board Effectiveness, the goal of an employee ambassador is to:

- Bring a workforce view to the boardroom;
- Deliver insights into the culture of the Company and employee concerns to the Board;
- Provide feedback about the Company's business practices to the Board from those delivering them; and
- Follow up on the employee engagement survey to understand the issues that have emerged, and to establish a feedback loop with transparency around actions taken to address those issues.

The Staff Ambassador undertook the following programme during 2021:

1. Defined what we mean by “workforce” and how we select colleagues for engagement activities. In 2021, we engaged with the full-time workforce based in Georgia. Our colleagues from the Group subsidiaries will be included in the Staff Ambassador’s engagement in 2022.
2. Ensured wide outreach with an online questionnaire that sought insights on the following matters:
 - Is there a forum for the workforce to share ideas and concerns?
 - Does the Board listen to the ideas and concerns from the workforce?
 - Does management provide feedback on how complaints and concerns have been dealt with?
 - How comfortable do our people feel about challenging and reporting issues of concern, and is there any evidence that they are doing this?
 - Does the workforce think leaders and managers exemplify the Company’s values?
 - Does the workforce see the Company’s values being displayed in the way the business is run and decisions are made, as well as in leadership behaviour?
3. Held focus-group meetings with employees from different functions based on the insights gained from the on-line questionnaires.
4. Gave regular updates to the Board on insights gained throughout the engagement programme.

The Staff Ambassador reported to the Board on her engagement programme with the workforce, which included on-line surveys and focus groups, both in person and via teleconference. The Board also received regular updates from the Group CEO and the Head of Human Resources of JSC TBC bank on employee views and sentiment, including insights from the annual staff surveys. These different engagement opportunities brought employee perspectives to the Board decision-making process. For further details of how the Board considered results from its engagement with employees and other stakeholders, see the Section 172 statement on page 42. The Board looks forward to continuing its workforce engagement programme with support from the Staff Ambassador in 2022.

HOW PRINCIPAL RISKS ARE MONITORED AND CONSIDERED BY THE BOARD

The Board has considered an appropriate risk appetite for the Group, and an associated risk management framework. As explained on pages 154, the Risk Committee monitors the effectiveness of the Group’s risk management framework, practice and internal control mechanisms on behalf of the Board and reports any areas of concern.

TCFD-RELATED DISCLOSURES

The Board has overall responsibility for ESG and climate-related risk management; the Risk Committee has reviewed and recommended the ESG strategy and this was approved by the Board in November 2021. The Board created a dedicated ESG and Ethics Committee in January 2022, responsible for supporting the Board in its oversight of ESG strategy implementation. There is also an ESG Committee at management board level in JSC TBC Bank, which monitors ESG and climate-related risks on a daily basis and provides quarterly reports to the ESG and Ethics Committee.

In 2021, the Board also approved the 2020 Sustainability Report, which was compliant with Global Reporting Initiative (GRI) guidelines. The Board is happy to start reporting in line with the TCFD recommendations from 2021, and considering the fact that the Company is just embarking on its journey to implement the ESG Strategy it considers the Company’s climate-related reporting to be fair, balanced and understandable at this stage. More detail on the information that helps the board understand the Company’s climate risk profile are available in the TCFD disclosure section starting on page 27.

REMUNERATION COMMITTEE

Information on the Remuneration Committee is included in the Directors’ Remuneration Report on pages 178-202.

ENGAGEMENT WITH SHAREHOLDERS

Effective communication with shareholders remains a priority for the Board. The Company’s investor relations programme offers investors various opportunities to engage with senior management via quarterly financial results calls, post-results roadshow meetings, and regular participation in investor conferences. Due to pandemic-related travel restrictions, most of our investor engagement took place online in 2021. However, starting from November 2021, we were able to resume in-person meetings with some of our investors.

The Company has a dedicated Investor Relations (IR) team, which is the first port of call for investors and analysts. The team answers queries in a timely manner and prepares comprehensive IR materials, including results presenta-

CORPORATE GOVERNANCE STATEMENT **CONTINUED**

tions and annual reports that are available on our IR website: www.tbcbankgroup.com. The website also records all announcements issued to the London School of Economics (LSE).

Shareholders, potential investors and analysts are able to ask questions about the Group through the Company's permanent representative in London, who is always available to offer investor meetings and updates on investor relations and international media on behalf of the senior management team. The CEO, Chairman and Senior Independent Director are available to discuss the concerns of shareholders at any point during the year. Committee chairs are also available to answer shareholder questions at the AGM of the Company or at any time during the year.

Details of our engagement with the shareholders can be found on pages 40-43 and pages 149-150.

ANNUAL GENERAL MEETING

The last AGM of the Company was held at 3 pm on 14 June 2021 at the offices of Baker McKenzie LLP, 100 New Bridge Street, London EC4V 6JA. All resolutions presented at the AGM were put to the meeting via a poll and, except for Resolution 17, all were passed with the requisite majority. See page 132 for information on the shareholder consultation held as a result of the 2021 AGM.

The Notice of Annual General Meeting for 2022 will be circulated to all the shareholders at least 21 working days before the AGM and it will also be made available on our investor relations website www.tbcbankgroup.com. The voting on the resolutions will be announced via the Regulatory News Service and made available on our investor relations website www.tbcbankgroup.com.

Directors' Report

The Directors present their Annual Report together with the audited consolidated accounts for the year ended 31 December 2021, on pages 212-358.

The Strategic Report on pages 6-127 was approved by the Board on 13 April 2022 and signed on its behalf by Vakhtang Butskhrikidze, the Company's CEO.

The Management Report together with the Strategic Report on pages 6-127 form the Management Report for the purposes of DTR 4.15. R.

Other information relevant to the Directors' Report and incorporated by reference into this report can be found on these pages:

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DIRECTORS' CONFLICTS OF INTERESTS

The Company, in accordance with the requirements of the Companies Act 2006 and the Company's articles of association (the "Articles of Association"), requires Directors to declare actual or potential conflicts of interest that could interfere with the interests of the Company. The Directors are required, prior to the Board meetings, to declare any conflict of interest they may have in relation to the matters under consideration and, if so, abstain from voting and decision-making on those matters.

Directors have a continuing duty to notify the Chairman and Company Secretary as soon as they become aware of any potential or actual conflicts.

DIRECTORS' REPORT **CONTINUED**

DIRECTORS' INDEMNITIES AND INSURANCE

The Group maintains Directors' and officers' liability insurance, which provides appropriate cover for legal action brought against its Directors. The Company has also granted indemnities to each of its Directors to the extent permitted by law. Neither the indemnity nor insurance cover provides cover in the event that a Director, officer or Company Secretary is proven to have acted fraudulently or dishonestly. The above referred liability insurance and indemnities were in force during the course of the financial year ended 31 December 2021 and remain in force as at the time of this Report's publication.

POLITICAL DONATIONS

The Group did not make any political donations or incur any political expenditure during 2021.

RELATIONSHIP AGREEMENT

On 31 May 2016, the Company entered into a relationship agreement with certain major shareholders (the Relationship Agreement). The Company understands that those major shareholders no longer control, in aggregate, 20% or more of the Company's voting rights, and so the Relationship Agreement is no longer in full force and effect.

SHARE CAPITAL

As of 31 December 2021, the Company's issued ordinary share capital comprised 55,155,896 ordinary shares (2020: 55,155,896) at a nominal price of £0.01 each and carrying one vote per ordinary share at general meetings of the Company. There were no shares held in treasury. The Company has in issue one class of ordinary shares, all of which are fully paid up, and it does not have preference shares in issue. The rights and obligations attaching to the Company's ordinary shares are set out in the Articles of Association. There are no voting restrictions on the issued ordinary shares and each ordinary share carries one vote.

Details of the movements in share capital during the year are provided in Note 26 to the consolidated financial statements on page 305 of this Annual Report.

PROFIT AND DIVIDENDS

The profit for the financial year ending 31 December 2021 attributable to the Company's shareholders, after taxation, was GEL 809 million (2020: GEL 318 million). The Board declared an interim dividend of GEL 1.5 per TBC Bank Group PLC share on 12 August 2021, which was paid by the Company on 17 September 2021. The decision on the final dividend will be taken before the end of May 2022.

POWERS OF DIRECTORS

The Directors may exercise all powers of the Company subject to applicable laws and regulations and the Articles of Association.

SPECIAL RIGHTS AND TRANSFER RESTRICTIONS

None of the ordinary shares in the capital of the Company carry special rights with regard to the control of the Company. There are no specific restrictions on transfers of shares in the Company, which is governed by its Articles of Association and prevailing legislation, other than:

- Certain restrictions which may from time to time be imposed by laws or regulations such as those relating to insider dealing;
- Pursuant to the Group's Share Dealing Code, whereby the Directors and designated employees require approval to deal in the Company's shares;
- Where a person with an interest in the Company's shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares; and
- Pursuant to the Group's Remuneration Policy, whereby Participants (as defined therein) may be granted restricted share awards, which vest over a certain period of time from the award date and are subject to malus and clawback provisions.

All employees (including Directors) deemed by the Company to be insiders have complied with the Group's Share Dealing Code. There are no restrictions on exercising voting rights save in situations where the Company is legally entitled to impose such a restriction (for example, under the Articles of Association where amounts remain unpaid in the shares after request, or the holder is otherwise in default of an obligation to the Company). The Company is not aware of any arrangements between shareholders that may result in restrictions on the transfer of securities or voting rights.

MAJOR SHAREHOLDERS

As at 31 December 2021, the Company had been notified under Rule 5 of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority (the "DTRs") of the following interests in its total voting rights of 3% or more.

As of 31 December 2021

Shareholder	% of voting rights	# of voting rights
Founders*	14.61%	8,058,373
Dunross & Co.	7.45%	4,108,029
European Bank for Reconstruction and Development	5.05%	2,786,406
Allan Gray Proprietary Limited	4.89%	2,698,492
Schroder Investment Management	3.18%	1,754,936
JPMorgan Asset Management	3.15%	1,737,482
Fidelity International	3.13%	1,725,228
Creation Investments Capital Management	3.12%	1,718,792

* Founders' shareholding was disclosed separately in the 2020 Annual Report as Mamuka Khazaradze Holding 8.64% of voting rights and Badri Japaridze Holding 6.00% of voting rights as of 31 December 2020

Subsequent to the year end, Allan Gray Proprietary Limited have notified the Company in accordance with DTR5 of a purchase of additional shares on behalf of its clients, bringing the total holdings of Allan Gray Proprietary Limited to 3,403,194 shares and 6.17% of Company's issued share capital. Future regulatory filings by shareholders will be available on the Group's website at www.tbcbankgroup.com and the LSE website at www.londonstockexchange.com.

POWERS OF DIRECTORS TO ISSUE AND/OR BUY BACK COMPANY SHARES

The Companies Act 2006 and the Articles of Association determine the powers of Directors, in relation to share issues and buy backs of shares in the Company. The Directors are authorised to issue and allot shares subject to approval at a general meeting of shareholders. Such authorities were granted to the Directors by shareholders at the AGM of the Company, held on 14 June 2021, authorising the Directors to allot ordinary shares in the capital of the Company up to an aggregate nominal value of £ 183,853.

This authority will apply until the conclusion of the 2022 AGM. Shareholders will be requested to renew these authorities at the 2022 AGM.

APPOINTMENT / REPLACEMENT OF DIRECTORS AND AMENDMENT OF ARTICLES OF ASSOCIATION

The appointment and retirement of Directors is governed by the Articles of Association, the Code and the Companies Act 2006 and related legislation.

Shareholders are authorised to appoint/replace the Directors and propose amendments to the Articles of Association by resolution at a general meeting of the Company with the latter being required to be passed as a special resolution.

All Directors of the Company will seek re-election at the next AGM. As already mentioned, Rajeev Sawhney and Nino Suknidze were appointed to the Board as a non-executive Director in November 2021 and will stand for election by the shareholders at the AGM. Vakhtang Butskhrikidze has service contract with the Company, which came into effect on 10 August 2016 and will continue until terminated by either party to such contracts, giving the other not less than seven months written notice. Biographical details and reasons for the reappointment for the Directors will be given in the Notice of AGM.

CHANGE OF CONTROL

There are no significant agreements to which the Company is a party of that take effect, alter or terminate upon a change of control of the Company. In addition, there are no agreements between the Company and its employees and the Directors that contain compensation clauses for loss of office or employment that occurs because of a takeover bid, resulting in a case of change of control.

EMPLOYEE DISCLOSURES

The Company's disclosures relating to employee engagement and policies, as well as human rights, are included in the Our Colleagues section on pages 74-81 of this Annual Report.

DIRECTORS' REPORT CONTINUED

DISCLOSURE OF INFORMATION TO THE AUDITOR

The Directors, who held office at the date of approval of this Annual Report, confirm that, so far as they are aware, there is no relevant audit information of which the Group's auditors are unaware, and that each Director has taken all steps that he/she reasonably should have taken as a Director in order to make him/herself aware of any relevant audit information and to establish that the Company's statutory auditors are aware of such information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

GOING CONCERN STATEMENT

The Board has fully reviewed the available information pertaining to the principal existing and emerging risks (as set out on pages 102-111), strategy (as set out on pages 20-21), financial health, liquidity and solvency of the Group, and determined that the Group's business remains a going concern. The Directors have not identified any material uncertainties that could threaten the going concern assumption and have a reasonable expectation that the Company and the Group have adequate resources to remain operational and solvent for the foreseeable future (which is, for this purpose, a period of 12 months from the date of approval of these financial statements).

In reaching this assessment, the Directors have specifically considered projected funding and capital position, and they have also taken into account the impact of further stress scenarios. In this regard, key matters and principal decisions considered by the Board and the Risk Committee during the year are provided on pages 146-147 and pages 172 and 174, respectively. Accordingly, the accompanying financial statements are prepared in line with the going concern basis of accounting.

VIABILITY STATEMENT

In compliance with the Code, the Directors assessed the prospects of the Group and its viability over a three-year period beginning on 1 January 2022. The Directors determined the three-year period ending on 1 January 2025 to be appropriate, as it is consistent with the Group's standard planning cycle, covering financial forecasts and the strategic considerations of the Group. While assessing the viability of the Group and its operations, the Directors carried out a robust and thorough assessment of the Group's risk profile, including material existing and emerging risks that could cause a deviation in the Group's financial condition, operations and prospects from the expectations over the period of assessment. In assessing the Group's viability, the Directors mainly focused on JSC TBC

Bank, since it represents the largest asset of the Group (96.6% share in the Group's assets, as of 31 December 2021) and it is the key income-generating subsidiary (106.9% of the Group's net income, as of the year ended 31 December 2021).

As part of their strategic planning, the Directors looked beyond this period and took into consideration, as far as possible, information from a variety of sources relating to local, regional and other, broader macro-economic, political, technological, social and environmental changes that could affect the Group's business and development. At this point, the Directors have no reason to believe the Group will not stay viable over the longer-term.

In addition, the Directors analysed the Group's ability to meet all regulatory requirements. The Directors' assessment considered all of the principal and emerging risks of the Group and the effectiveness of current and proposed mitigating actions. The key areas of focus were:

- the risk of economic and political instability and its impact on the Group's future performance;
- the risk of not meeting regulatory requirements, with a key focus on minimum capital adequacy;
- the performance of borrowers from sectors vulnerable due to the COVID-19 pandemic;
- foreign exchange rate risk, which is significant due to the high share of foreign currency in the Group's portfolio; and
- the risk of decreasing net interest income and net interest margin as a result of increased competition and changing funding structure.

A summary of all of the Material Existing and Emerging Risks to which the Group is exposed and the mitigating actions taken by the Group are set out on pages 102 to 111.

The Group's strategic plans

While reviewing and analysing the Group's strategic plans, the Directors assessed all potential risks related to the strategic plans and the achievement of the Group's strategic objective, and ensured those risks were properly managed. The key focus areas were:

- The current business position and future prospects of the Group;
- The capital, funding and liquidity profile of the Group; and
- The availability and efficient use of respective human and technical resources.

Effectiveness of the Group's risk management framework, practice and internal control mechanisms

The Directors ensure that the Group's governance structure enables adequate oversight and accountability.

ity, as well as a clear segregation of duties. The involvement of all governance levels in risk management, the clear segregation of authority, and effective communications between different entities facilitate clarity regarding the Group's strategic and risk objectives, adherence to the established risk appetite, risk budget and sound risk management. The centralised ERM function ensures effective development, communication and implementation of the risk strategy and risk appetite across the Group. The Directors have determined that the Group's risk management framework is adequate for managing the principal and emerging risks set out in the Annual Report and reducing their likelihood and impact, wherever possible. Having reviewed and analysed the information presented in this Annual Report, the Directors can confirm that they have a reasonable expectation that the Group will remain viable over the next three years up to 1 January 2025, and that the Group will be able to continue its operations and meet its liabilities as they fall due over the three-year period from 1 January 2022 to 1 January 2025.

Stress testing

In 2021, the Bank enhanced its regular stress-testing framework and performed a number of additional stress tests. The primary purpose of the stress testing was to assess the vulnerability of the Bank's capital adequacy, liquidity and portfolio quality to different macro scenarios.

The Bank conducts multiple stress tests every year. The stress scenarios are designed to reflect the developments relevant to that year and to assess the Bank's resilience in the prevailing risk environment. In 2021, stress tests were conducted within ICAAP and Recovery Plan frameworks. Under ICAAP stress scenario the impact of the stress for the capital adequacy is assessed, while the Recovery Plan stresses both, capital and liquidity positions

For ICAAP, stress scenarios are severe but plausible, and covers the Bank's expectations of major macro-economic parameters of the Georgian economy. In 2021, the scenario included the effects of a prolonged COVID-19, worsening of economic prospects that reflected in a sharp currency depreciation, a decline of external inflows, a fall in real estate prices, among other factors. According to the scenario, in 2022 GDP growth drops to -4% as opposed to the initial baseline of 6%. GEL/US\$ rate in 2022 was assumed at 4.1 as opposed to the baseline of 3.15. The employment rate drops by 5.0% and the real estate prices - by 16% in US\$, both compared to the respective 2019 levels. According to the stress test, the Bank has sufficient capital to meet the minimum capital requirements under stress conditions.

As for the Recovery Plan, the Bank performs idiosyncratic and market-wide reverse stress test exercises, to identify potential extreme conditions that would make the business model nonviable.

In light of the developments in Ukraine since February 2022, The Group's chief economist and the macro-financial analysis division have prepared a macro stress analysis on the potential impact of the war in Ukraine on the Georgian economy. The analysis provides two potential scenarios. The more severe one, assumes the 2022 annual GDP growth to be -1.5%, as opposed to the initial baseline of 6%, the GEL/US\$ rate to go up to 3.5, as opposed to the initial baseline scenario of 3.0. The employment rate drops by 3.1% and the real estate prices increase by 4.0%¹, both compared to the respective 2019 levels. The assumptions for the ICAAP stress scenario were more severe than the ones estimated under the Ukraine war severe case. As for the liquidity, considering the Bank's strong position and funding pipeline, at the time of writing this report, no material risk is expected to jeopardize the viability of the Bank.

Since the Directors consider the stress scenarios and the associated results to be appropriate, no urgent mitigation has therefore been required.

The Bank will continue to use stress-testing exercises as one of the key tools in its risk management framework.

DIRECTORS' RESPONSIBILITIES

The following statement, which should be read together with the Auditors' report set out on pages 204-358, is required by the Companies Act 2006 (the "Act").

The Directors are required to prepare the Company's and the Group's financial statements for each financial year. The consolidated financial statements of the Group and the separate financial statements of TBC Bank Group PLC, together referred to as "financial statements", need to be prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 and, for the Group, in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and the Directors have elected to prepare the Company's financial statements on the same basis.

The financial statements are required by the Act and the IFRS to present fairly the financial position and performance of the Company and the Group for that

¹ The price increase in February 2022 was already at 11% and also there is evidence of strong demand from visitors from Russia and Belarus, willing to stay in Georgia during the crisis period. Furthermore, prices for construction materials have increased significantly. GEL depreciation and slower GDP growth are also taken into account.

DIRECTORS' REPORT CONTINUED

period. The Directors must not approve the financial statements, unless they are satisfied that they give a true and fair view of the state of affairs and the profit or loss of the Company and the Group for that period. The Directors consider that in preparing the financial statements they have used appropriate accounting policies, supported by reasonable judgments and estimates, and that all accounting standards which they consider to be applicable have been followed. The Directors also believe that the financial statements have been prepared on the going concern basis, which is detailed in the Going concern statement on page 154 of this Annual Report.

In addition, the Group has an effective internal control system in place in order to ensure accurate and reliable financial reporting. The Group has a well-defined framework of accountability and delegation of authority, as well as policies and procedures that include financial planning and reporting; preparation of monthly management accounts; project governance; information security; and review of the disclosures within the annual report and accounts from the respective leads, to appropriately disclose all relevant developments within the Group in the year and to meet the requirements of a true and fair presentation.

The Directors have a responsibility that the Company and the Group keep accounting records, which disclose with reasonable accuracy the financial position of the Company and the Group and enable the Directors to ensure that the accounts comply with the Act.

The Directors are also responsible for safeguarding the assets of the Company and the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In addition, the Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK, governing the preparation and dissemination of financial statements, may differ from legislation in other jurisdictions.

COMPANY SECRETARY

On 17 June 2021, the Board appointed an in-house Company Secretary, Ketí Khukhunashvili, with immediate effect. In accordance with the UK Companies Act, Ketí is a Chartered Secretary and an Associated member of the Corporate Governance Institute of UK and Ireland. Prior to Ketí's appointment on 17 June 2021, the appointed Company Secretary was Prism CoSec Ltd to include for the period 1 January 2021 to 17 June 2021.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors, whose names and functions are listed on pages 133-140 of this Annual Report, confirm that to the best of their knowledge:

- The Group's financial statements, which have been prepared in accordance with the IFRS standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; the
- The Strategic Report and Directors' Report contained in this Annual Report include a fair review of the development and performance of the business and of the position of the Company and the Group, together with a description of the principal risks and uncertainties they face; and
- The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable, and provide the information necessary for the shareholders to assess the Company's position, performance, business and strategy.

This responsibility statement was approved by the Board and is signed on its behalf by the Chairman.



Arne Berggren
Chairman

13 April 2022

Chair's Letter

Dear stakeholders,

The Corporate Governance and Nomination (CGN) Committee was very active during 2021, as we refreshed our Board and recommended the formation of two new Board level Committees. This report provides an overview of the Committee's work and its activities during the year. I was appointed as Chair of the CGN Committee in September 2021, and therefore would like to thank Tsira Kemularia for her work as the previous chair of the Committee.



Priorities during 2021

Recruitment of New Non-executive Directors

Board succession planning and recruitment were the critical focus for the Committee, in line with its responsibilities. We appointed five new independent non-executive Directors during the year. Details of skills and experience that the new non-executive Directors bring to the Board, are set out in Board Biographies on pages 133 - 137.

The steps the Committee took to recruit its new members during 2021 are provided in the table below:

Search, assessment and appointment process for selecting new Directors

Step 1	Step 2	Step 3	Step 4	Step 5
The Committee agreed what they were looking for in the candidates for appointment to the Board and developed a job description to recruit candidates with particular skill sets in law, local and regional knowledge, technology and information security.	The Committee considered a long list of candidates, who were either recommended by Board members or were sourced from the Committee's previous candidate lists as part of its succession planning arrangements. Relevant candidates were approached by the CGN Committee chair at the time, Tsira Kemularia.	The Company Secretary supported the process by arranging meetings between members of the Committee and the short-listed non-executive Director candidates. Feedback from the non-executive Directors was discussed alongside consideration of potential conflicts and other matters identified through due diligence.	The Committee recommended its chosen candidates to the Board for approval, subject to completion of outstanding due diligence and clearance by the National Bank of Georgia, due to the "mirror boards" policy of the Company.	Outstanding due diligence and associated procedures were completed prior to announcement of appointments. Induction packs were issued and new non-executive Directors undertook a rigorous on-boarding process, led by the Company Secretary.

Diversity and Inclusion

The Committee also regularly reviews the Board's skills matrices, and monitors its diversity and inclusion targets, as well as those of the Group overall. During 2021, we made sure the Company met the expectations of stakeholders and market best practice for diversity and inclusion. As the Chairman of the Board and the CGN Committee, I am happy to report that our Company meets the requirements of the Hampton Alexander Review and the Parker Review.

Board Committee Structure

The Committee reviewed the current structure of Board-level Committees and respective scope of delegated responsibilities and decided to create two new Committees. These are the Technology and Data Committee, established in June 2021, which will support the Board in its oversight of the Company's digital strategy and cyber security, and the ESG and Ethics Committee, established in January 2022, which will help the Board oversee the ESG Strategy implementation, including climate strategy, sustainability and TCFD reporting. More detailed information on the Board committees is provided in the Corporate Governance Statement on page 141.

Subsidiary and Group Governance

Subsidiary governance has also been a focus for the Committee, and we have made significant progress in this regard. We reviewed and recommended amendments to policies and procedures that enable effective management of an increasingly complex Group. The Committee also carried out a thorough review of all Board-level Committee Terms of Reference, including for this Committee. The new versions were approved by the Board on 2 March 2022 and are available on our website at www.tbcbankgroup.com.

Independence of non-executive Directors

The Committee has delegated authority from the Board to assess the independence of non-executive Directors. In accordance with the Code, the Committee has reviewed and confirmed that all non-executive Directors who have submitted themselves for election and re-election at the AGM are considered independent. This conclusion was reached after consideration of all circumstances that are likely to impair, or could appear to impair, independence.

Workforce Engagement

In line with the Code, the Company has appointed a designated non-executive Director for workforce engagement. This role of Staff Ambassador has been undertaken by our Senior Independent Director, Tsira Kemularia, since 2018. The Committee reviewed the Board's choice of an alternative mechanism to engage with and understand the views of the wider workforce regarding developing market practice. During 2021,

the Committee remained confident that its preferred mechanism of 'alternative arrangements' remained effective and appropriate for an organisation of our scale and geographical diversity.

Engagement with the workforce will continue to be a priority for the Board in 2022. Further details on our plans to facilitate workforce engagement can be found on pages 148-149.

BOARD CHANGES

During 2021, the Board underwent a number of changes. Three long-serving Directors did not stand for re-election at the AGM, and in May 2021 we recruited three new, independent, non-executive Directors to the Board: Thymios Kyriakopoulos, Per Anders Fasth and Eran Klein. In September 2021, Abhijit Akerkar stepped down from the Board to pursue a senior executive position in another financial services company, and in November 2021, with the nomination and recommendation of the CGN Committee, the Board appointed two more non-executive Directors, Nino Suknidze and Rajeev Sawhney, to the Board.

In light of the new appointments, Committee membership and Board roles – namely that of the Senior Independent Director (SID) and the dedicated Independent Non-Executive Director (INED) for workforce engagement – were reviewed by the CGN Committee on three occasions in 2021. The current Committee composition was approved on 28 January 2022 and the Committee believes it provides the right balance of skills, knowledge and experience to enable each Board-level Committee to operate effectively. The current committee composition is set out on page 143.

The Committee is happy to see that the new Board members have brought considerable relevant experience and expertise to the Board. Their contributions are recognised in the Chairman's governance overview on pages 130 and 132, and their biographies on pages 133 and 137.



Arne Berggren
Chairman

13 April 2022

WHO IS ON THE COMMITTEE

As at 13 April 2022 the Committee is chaired by Arne Berggren and comprised Maria Luisa Cicognani, Rajeev Sawhney and Nino Suknidze. On 31 December 2021, the Committee was chaired by Arne Berggren, and comprised Tsira Kemularia and Maria Luisa Cicognani. Full information on Committee composition and attendance throughout 2021 is provided on pages 143 to 144.

Only Committee members have the right to attend meetings, but the Committee may invite other independent Board members, as well as the CEO, the Head of Human Resources and members of the senior management, as well as external advisers, to attend all or part of any meeting if appropriate or necessary. The Committee meets annually and the Board approved updated Terms of Reference for all Board-level Committees on 2 March 2022.

WHAT IS THE COMMITTEE'S ROLE?

The Committee's role and responsibilities are set out in its Terms of Reference, which are available on the Group's website: www.tbcbankgroup.com and reviewed annually.

The main responsibilities of the Committee, in relation to corporate governance within the Group, are:

- Advising the Board of significant developments in the law and practice of corporate governance;
- Approving changes to corporate governance guidelines, monitoring the Group's compliance with such guidelines and applicable legal and regulatory requirements and recommending to the Board such changes or additional actions as it deems necessary;
- Reviewing the independence standards for Board members;
- Monitoring and evaluating the process for assessing the performance and effectiveness of the Board and its Committees (including the annual Effectiveness Self-Review of this Committee); and
- Reviewing the structures and procedures of the Board and its relationship with management to ensure it can function independently.

The main responsibilities of the Committee, in relation to nominations, are:

- Regularly reviewing the Board's structure, size and composition, including evaluating its current balance of skills, experience, independence and knowledge; and considering diversity and gender balance;
- Identifying suitable candidates from a wide range of backgrounds, via open advertising and external advisers;
- Considering and making recommendations to the Board on its composition;
- Advising the Board on succession planning for the roles of Chairman, Senior Independent Director, CEO and all other Board appointments;
- Working with Human Resources, to set diversity objectives and strategies for the Company as a whole and monitoring the impact and outcome of diversity initiatives;
- Considering and making recommendations, as necessary, regarding the removal and resignation of Board members;
- Assisting the Chairman of the Board and the Senior Independent Director with the implementation of an annual evaluation process to assess the overall and individual performance and effectiveness of the Board and its committees; and
- Making recommendations to the Board on its long-term succession planning.

WHAT THE COMMITTEE DID IN 2021

During 2021, the Committee met 11 times and considered the following matters. Attendance of Committee members is provided on page 144.

CORPORATE GOVERNANCE & NOMINATION COMMITTEE REPORT CONTINUED

	Jan	Feb	Apr	Jun	Jul	Sep	Oct	Nov	Dec
Board composition and succession									
Board composition, including recruitment of new Board members and roles (including the SID and designated INED for workforce engagement), Committee structure and composition, succession planning and skills matrices	●	●	●	●	●	●	●	●	●
Approval of diversity policy						●			
Design and oversight of an effective induction programme				●				●	●
Approval of Board succession planning principles									
Executive talent and development									
Search and selection process for an independent consultant, Egon Zehnder, working on management leadership development and succession planning					●		●		●
Talent programmes						●		●	
Governance									
Board and Committee evaluation						●		●	
Subsidiary governance, including approving the Group Manual of Authorities and the review and approval of organisational structure at principal and strategic subsidiaries								●	
Subsidiary and executive appointments				●	●	●	●	●	●
Supporting the Board in the review and update of all Board-level Committee terms of reference						●	●	●	●
Board effectiveness evaluation									
Search and selection process for an independent, external provider of board performance assessment (3-year engagement with Lintstock Ltd)				●		●			●
Board development plan						●			

WAS THE COMMITTEE EFFECTIVE?

The Committee supervised the search process, implemented by the Company Secretary, for an independent consultant to conduct an external assessment of the Board in 2021. On the Committee's recommendation, the Board engaged Lintstock Ltd to run an assessment programme over the next three years, starting in 2021. The survey-based approach that the Board undertook in 2021 was completed in December 2021 and the Board agreed an action plan at a meeting in March 2022. More information on the results of the 2021 assessment is provided on pages 147-148.

The performance of the Board's Committees was also assessed as part of this Board Review. Members were invited to complete surveys tailored to the specific requirements of each Committee. In addition to addressing core aspects of Committee governance, the Reviews had a particular focus on oversight in the following areas:

- Corporate governance developments, and the Group's compliance with relevant standards;
- The composition of the Board, and the succession and appointment processes for Non-Executive Directors;
- Executive succession, and the visibility of potential internal successors for key positions; and
- The development of a diverse pipeline of talent throughout the Group.

While Directors felt that the CGN Committee was discharging its responsibilities effectively, the Review also identified a number of areas where performance could be improved, such as ensuring that the Committee has sufficient opportunities to discuss important topics such as senior executive succession and development. The results of the Committee evaluation have been reported to the Board and the Committee will track progress on the recommendations during 2022.

WHAT ARE THE PRIORITIES FOR 2022?

In addition to its regular duties, the Committee's priorities for 2022 will be:

- Continuing our engagement with Lintstock Ltd and facilitating an effective external Board performance assessment during 2022;
- Ensuring the continued, effective training and on-boarding of the Directors appointed in November 2021; and
- Facilitating an effective leadership development and succession planning program.

Chair's Letter

Dear stakeholders,

I am pleased to share the Audit Committee Report for 2021. Maria Luisa Cicognani led the Audit Committee's work from February 2021 until my appointment on 17 June 2021. On behalf of the Committee, I would like to thank Maria Luisa for her invaluable work leading the Committee during the transition period at the start of the year and the robust handover process in June.

During 2021, the Committee membership was strengthened by the skills and experience of new members. Thymios Kyriakopoulos, who joined the Committee in June 2021, and Tsira Kemularia, who has served on the Committee since 2018, bring to the Committee extensive and relevant financial and audit expertise and experience. Since January 2022, the Committee has also benefitted from the presence of another new member, Nino Suknidze. Nino brings to the Committee a depth of legal and regulatory knowledge and extensive experience of the Georgian market. I would like to take this opportunity and thank all current and former Committee members for their contributions in 2021.

The Audit Committee helps the Board of Directors to oversee and carry out supervisory responsibilities in relation to: internal control, accounting and financial reporting, external financial reporting and investor relations, compliance with regulatory and legal requirements, internal audit, external audit, and non-audit services of the Bank and its subsidiaries.

Over the past year, the Committee has maintained a hybrid meeting schedule due to ongoing COVID-related restrictions. A significant component of the work of Internal Audit, the Bank's finance function and its interaction with the external auditors was conducted in



the hybrid mode as well, but the Committee is satisfied that this did not impair the quality and effectiveness of the work in any way.

The performance of the Committee was assessed internally through a formal annual effectiveness evaluation. The results confirmed that the Committee was operating effectively with sufficient resources to enable it to carry out its duties.

In 2021, the Committee focused on the Company's financial statements and reporting process and the published external reports and presentations to support the CEO and the management team in their communication with our shareholders and other stakeholders. The Committee also received regular reports from the Internal Audit function including on the ongoing co-sourcing project with Ernst & Young LLP (EY) in IT-related audit work, to continue a thorough audit of the cyber risk management function of the Bank. The Committee also held several joint sessions with the Risk Committee to review and discuss the Group's governance of and activities to prevent anti-money laundering and terrorist financing.

Assessing the role and effectiveness of external auditors is one of the Audit Committee's key responsibilities. The Committee held an extensive and competitive tender process to select a new external auditor since the term for our current one, PricewaterhouseCoopers LLP (PwC), must end owing to Georgian banking regulations. As announced on 20 December 2021, our intention is to appoint EY as the external auditors for the financial year starting January 2023, subject to shareholder approval at the 2022 AGM.

More information about the tender process that we held in 2021 is provided on page 167. Given this deci-

AUDIT COMMITTEE REPORT CONTINUED

sion, EY will no longer continue the IT co-sourcing arrangement with Internal Audit, and the team is in the process of selecting a new partner for this project. An important part of the Committee's work during 2022, following shareholder approval, will be to closely supervise the handover process to the new external auditor.

The Committee continues to provide oversight and assurance on the performance and independence of the internal audit function. During 2021, I led the recruitment process in Georgia and internationally for the new Head of Internal Audit and I was happy to see a pool of well-qualified internal and external candidates. We are at an advanced stage of recruitment now.

In December 2021, the Financial Reporting Council's (FRC) wrote to the Group to confirm an ordinary course review of the Annual Report and Accounts to 31 December 2020 and to provide an advance notification of a review of the Annual Report and Accounts to 31 December 2021. We have reflected on the FRC's comments and further enhanced disclosure on the discussed matters in this annual report.

Ongoing co-operation with the Risk Committee has been essential in assuring the Group's long-term viability. The fact that I serve as a member of the Risk Committee, while the Chair of the Risk Committee serves as a member of the Audit Committee has been instrumental in ensuring the smooth coordination of the oversight function delegated by the Board to these Committees. The viability statement required by the Code can be found at page 154. This has been assessed and challenged by both the Audit and Risk Committees.



Per Anders Fasth
Chair of the Audit Committee

13 April 2022

WHO IS ON THE COMMITTEE

As at 13 April 2022, the Committee was chaired by Per Anders Fasth and comprised the following members: Tsira Kemularia, Nino Suknidze and Thymios Kyriakopoulos. Full information on Committee composition and attendance throughout 2021 is provided on pages 143 and 144.

Only members of the Committee have the right to attend meetings, but the Committee regularly invites other independent Board members, as well as the CEO, the CFO of JSC TBC Bank, the Chief Risk Office (CRO) of JSC TBC Bank, Internal Audit, External Audit and external advisers, to attend all or part of any meeting if the Committee believes it is appropriate or necessary. The Committee meets at least quarterly and schedules additional meetings when appropriate. The Company Secretary is the secretary of the Committee meetings.

WHAT IS THE COMMITTEE'S ROLE?

The Committee acts independently of management to fulfil its fiduciary duty to shareholders and ensure their interests are properly protected by effective internal controls, financial reporting, compliance with regulatory requirements and an appropriate relationship with external auditors.

The Committee's Terms of Reference, revised on 2 March 2022, have been adopted by the Board and are available on the Company's website, www.tbcbank-group.com. The Committee has several responsibilities, which are, primarily, as follows:

- To review the Company's internal financial controls and other internal controls to ensure the effectiveness of the internal control structure and to review any recommendations on changes to them, and, in conjunction with the Company's Risk Committee, to assess, manage and monitor the Group's internal control, risk management, compliance and governance functions;
- To monitor the integrity of the Group's financial statements to ensure they meet all statutory requirements and appropriate International Financial Reporting Standards and that all areas of judgement are fully considered before recommending to the Board that they give a fair, balanced and understandable position of the Company;
- To provide oversight to the Group's compliance and anti-money laundering functions
- To consider the effectiveness and independence of the Group's internal audit activities and its relationship with the external auditors; and
- To make recommendations to the Board regarding the appointment, re-appointment and removal of the Group's external auditors, and the approval of their remuneration and terms of engagement.

WHAT THE COMMITTEE DID IN 2021

During the year under review the Committee met 10 times and considered the following matters. Attendance of Committee members is shown on page 144.

Committee activities in 2021	Feb	Apr	May	Jul	Aug	Sep	Oct	Nov	Dec
Financial reporting									
Approval of financial results announcements, including interim and year-end results	●	●	●		●		●	●	
Review of financial statements, ensuring that disclosures are fair, balanced and understandable, significant accounting judgements, going concern assumptions and the viability statement		●							●
Focus on streamlining external reporting						●			●
Deep dive on drivers of financial results						●			
Assessment of the process and reports, consideration of APM, going concern, approval of the viability statement		●							●
Internal audit and internal control									
Review of the 2021 Internal Audit reports, and any remedial action plans	●		●			●		●	
Review of deficiencies and effectiveness of internal financial controls						●			
Evaluation of the effectiveness of the Internal control systems	●		●			●		●	
Recruitment of a new Head of Internal Audit								●	
Review of the Internal Audit Charter									●
Review and approval of the 2022 Internal Audit Plan and budget								●	●
Evaluation of the effectiveness and independence of the internal Audit function	●								●
IT engagements with co-sourcing arrangement with EY			●						
External audit									
2021-2022 External Audit Plan, engagement terms and fees			●						
Terms of engagement for the half-year review					●				
External auditors' half-year review findings					●				
2020 full-year external auditors' report and findings		●							
Appointment, remuneration, non-audit services and effectiveness							●		●
Governance									
Review of the Committee terms of reference						●			
Committee evaluation								●	
Committee schedule of work	●								

WAS THE COMMITTEE EFFECTIVE?

In 2021, the Board decided to work with Lintstock Ltd within the framework of its three-year Board Development Programme. Committee performance assessment was undertaken as part of the broader evaluation of the effectiveness of the Board and its Committees via a tailored questionnaire for Committee members. Directors felt that the performance of the Committee continues to be effective. The specific conclusions of the evaluation were discussed in the Committee and we will explore opportunities for incremental enhancements to the way the Committee operates during the 2022 financial year.

In addition to addressing core aspects of Committee governance, the Reviews had a particular focus on oversight in the following areas:

- The performance of the Group's internal and external auditors;
- The integrity of the Group's internal controls and financial reporting; and
- The Group's financial health and accounting treatment.

Feedback on the performance of the Audit Committee was positive overall, and Directors felt that the Committee is discharging its responsibilities effectively. The Review also identified a number of areas where performance could be improved, such as further enhancing the effectiveness of the Company's reporting. The results of evaluation have been reported to the Board and the Committee will track progress on the recommendations during 2022.

AUDIT COMMITTEE REPORT CONTINUED

HOW THE GROUP'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM WORKS

Internal Control

The Board has delegated to the Committee responsibility for reviewing the effectiveness of the system of internal control. This covers all material controls including financial, operational and compliance controls, as well as the financial reporting process.

A sound system of internal control helps safeguard the best interests of all stakeholders and the Group's assets and liabilities. While management is responsible for establishing and maintaining adequate internal controls over the capturing, processing and reporting of financial information, the Committee is responsible for ensuring the effectiveness of these controls and confirming they are sufficiently robust to cope with changing economic conditions and continued strong growth in the Group. The Internal Audit function reports on control weaknesses and breakdowns providing robust root cause analysis and recommendations for improvements, along with clear ownership/accountability and deadlines for remediation. The Committee regularly reviews the progress of this vital function and alerts the CEO, CFO, CRO and divisional heads as well as, if necessary, the full Board if it sees intractable problems and insufficient commitment to continuous process improvement.

Group management regularly reviews the accounting and presentation practices applied by the reporting team to ensure the approach is aligned with the accepted framework, corresponds to industry best practice and responds to readers' requirements of Group financial statements. Once management decides on any changes (including any need for restatements in prior year accounts), the important updates are discussed with the Audit Committee to obtain their clearance. The external audit firm is kept informed in order to collect their views and reach an agreement on the final approach.

As a result of the aforementioned process, certain updates have been applied to the 2021 annual accounts, restating prior year amounts where appropriate. These restatements are summarised in Note 2 to the financial statements.

The Committee is aware of increased regulatory and stakeholder focus on Internal Control Over Financial Reporting (ICFR) issues and the need for proactive responses from companies and audit committees. Much of the finance function involves data gathering, the vast majority of which is system generated. The Group is increasing its automation of remaining manual controls, which reduces the risks of human error or malpractice (operational risk) and also delivers cost-saving benefits. The Group's finance function is also considering how both data analytics and artificial intelligence can deliver improved predictive insights relevant to the Group's reporting system and provisioning schedule. The Committee will continue to monitor the Group's Finance function during its transformation strategy, considering the risk of change inherent in the process.

The Committee is also monitoring the effect on the Group of the planned international expansion and diversification, and is taking steps to ensure the finance function as well as internal control functions have sufficient resources in place to cope with the extra workload involved. The Committee has reviewed the opinion of the Internal Audit team on the robustness of the Group's internal controls, risk management and governance systems.

The Committee considers that there is a proper system and allocation of responsibilities for day-to-day monitoring of financial and other controls within the Group, with no significant systemic failings or weaknesses. It has also considered the risk of executive override of controls, and discussed with PwC its assessment of this mandatory significant audit risk.

The Committee reviewed PwC's management letter from the 2020 audit and discussed the management's responses to it. The Committee is satisfied that there are no major issues raised in it. We are also content with PwC's requested management representation letter (signed by the CEO and CFO) in relation to the 2021 audit.

Internal Control and Risk Management effectiveness

Following the Committee's review and recommendation, the Board agreed that the system of internal control (including risk management) continues to be effective.

During the year, Internal Audit has conducted several engagements in the Risk Management functions. Having considered the actions taken, the Committee also confirms that no significant failings or weaknesses have been identified during 2021 or up to the date of this report's publication. Processes are in place to ensure that necessary action is taken, and progress is monitored where areas for improvement have been identified.

Regulatory compliance

The Committee oversaw the Group's compliance with:

- All necessary regulatory requirements, including those regarding the performance of internal audits of certain processes within the Group; and
- All necessary regulatory reporting.

HOW THE AUDIT COMMITTEE REVIEWED THE FINANCIAL STATEMENTS

The Committee, in line with the powers delegated to it under its Terms of Reference, has reviewed the annual report and financial statements with the intention of providing advice to the Board on whether, as required by the UK Corporate Code, "the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy".

To make this assessment, the Committee considered the annual report and financial statements in detail to ensure the key messages of the report were aligned with the Group's performance and the strategy being pursued. The significant issues relating to the financial statements were consistent with those identified by the Independent Auditors' report on pages 204 to 211. Before the audit, the Committee considered the audit coverage levels and underlying audit materiality levels and agreed them with the external auditor, PwC. The Committee ensured that the materiality levels agreed were sufficient to obtain appropriate audit evidence and that key risk areas were adequately addressed. Details of the materiality levels agreed are disclosed in the Independent Auditor's report on page 209.

The Committee has also considered Alternative Performance Measures (APMs) used by the Group. APMs are used in accordance with European Securities and Markets Authority (ESMA) guidelines and the Management highlights any impact on APMs as a result of changes to accounting methods. In conjunction with the work undertaken by the Company's Risk Committee, the Committee was satisfied the impact of the COVID-19 global pandemic has been reflected in the analysis of the Group's financial position. This gave the Board confidence to agree the preparation of accounts on a Going Concern basis, and approve the Viability statement prepared in accordance with the UK Corporate Governance Code.

The Audit Committee also undertook a robust review of the financial statements published at the half year and the two quarterly statements. The Committee has reviewed the various actions the Company has taken to ensure that all decisions have been taken in accordance with Section 172 of the UK Companies Act 2006, and that all stakeholder considerations have been taken into account when making key decisions. This has enabled the Board to approve the Stakeholder Engagement disclosure on pages 38 to 41 of the Strategic Report.

THE EFFECTIVENESS OF THE EXTERNAL AUDIT PROCESS

To prepare for the 2021 audit the Committee held planning meetings with PwC. The Committee suggested priority areas for PwC to consider, highlighting any concerns.

The Committee carried out a formal External Auditor Assessment Review for 2021, which confirmed its view that PwC continues to perform satisfactorily. A series of relationship meetings were held with PwC to discuss potential improvements in their delivery to the Group, including introductory and hand-over meetings when a new Committee chair was appointed in July 2021.

The Committee, with the agreement of the Board, concluded that it had reached a satisfactory understanding with PwC both as to the level of fees to be charged in 2022 and the resources to be made available. At present, the Committee considers that it continues to offer an independent, professional and cost-effective service, and is satisfied that PwC has a robust process for maintaining independence and monitoring compliance in accordance with the FRC's Revised Ethical Standard 2019 and the 2019 International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code), to which Georgian law also refers.

Given the structure of the Group, both the UK and Georgia practices of PwC are involved in the external audit process. PwC Georgia is part of PwC's Central and Eastern Europe network. In the opinion of the Committee, this 'double coverage' works well and provides added reassurance in terms of scrutiny. The cooperation and communication between the two practices is well coordinated and draws, as required, on the wider international subject knowledge of the firm's experts, for example in insurance. The UK team coordinates the audit, issuing instructions and putting processes in place to monitor PwC Georgia's work.

AUDIT COMMITTEE REPORT CONTINUED

SIGNIFICANT ISSUES CONSIDERED IN RELATION TO THE FINANCIAL STATEMENTS AND HOW THEY WERE ADDRESSED

Significant issues considered during 2021

Areas of focus	Key issues	Conclusions and actions
Financial and Regulatory Reporting	Key financial metrics and reporting materials The Audit Committee considered the key judgements in relation to external reporting to investors Regulatory and other reporting The Committee reviewed the required regulatory reporting, such as the Company's Pillar 3 disclosures, and reviewed the Company's Sustainability Report.	In exercising its oversight, the Committee assessed management's assurance and preparation of external financial reporting. The Committee reviewed the draft external reporting disclosures and provided feedback and challenge on the top sensitive disclosures and key financial metrics to ensure that the Company was effective, consistent and transparent in its messaging. As mandated by the local regulations in Georgia, the Audit Committee reviewed and recommended the Bank's regular Pillar 3 reporting, as requested by the Board.
Significant accounting judgements	Key significant accounting matters raised by the external auditors The Committee engaged with the external auditors during regular reports throughout the year and held detailed discussions on matters raised during the audit process.	Expected Credit Losses (ECLs) are a measure of the probability-weighted estimate of credit losses, which the management needs to estimate every year. Certainly, the COVID-19 pandemic continued to have impact, but economic recovery has been promising in this regard. The Committee has noted that government restrictions imposed due to the pandemic had been lifted during 2021 and 2022, which has allowed the most affected sectors (such as those related to tourism and hospitality) to recover. The Committee discussed with PwC the current provisioning methodology for ECLs and the key management judgements and assumptions used in the ECL estimation process, including: the staging criteria, updates in assumptions as a result of the model monitoring ('backtesting') procedure, post-model adjustment (PMAs), changes in ECL provision levels, forward-looking information, business-segment specific findings, write-offs and recoveries, and the external auditor's observations on improvements going forward.
Other judgements and matters	The founders' litigation case and IT-related observations	The Committee carefully considered various matters and external events that might affect the reporting process, such as the founders' litigation and IT-related observations. The Committee was satisfied that the issues were appropriately considered and did not result in a material impact to the Company's financial reporting.
Matters raised in the letter from the FRC	Matters raised: Explanation was requested regarding Expected Credit Losses (ECL), Alternative Performance Measures (APMs), and a number of items from the financial statements of the Group.	The Committee received a letter from the FRC in December 2021. The Committee discussed each matter raised by the FRC at its February 2022 meeting. In addition to questions regarding ECL and APM disclosures, the FRC requested additional clarification in our Annual Report and Accounts 2021 about our compliance with certain disclosure requirements under International Accounting Standard (IAS) 1, IAS 7, IFRS 16, as well as disclosures concerning greenhouse gas emissions, energy consumption and energy efficiency action. The Group's responses were scrutinised and reviewed by Committee members, while management assured the FRC the requested feedback letter will be delivered within the provided deadline. All recommendations and requests for additional explanation from the FRC have been reflected in our Annual Financial statements starting on page 204 and in the other relevant sections of the report.

INDEPENDENCE OF OUR EXTERNAL AUDITOR

In line with its Terms of Reference the Committee is required to consider: the reappointment of the auditors; the suitability of the lead engagement partner and the wider audit team; their remuneration; and the terms of engagement. PwC has been the auditor of JSC TBC Bank since 2008, and became auditor of TBC Bank Group Plc in 2016 following the Company's premium listing on the London Stock Exchange. Under the UK implementation of the EU Audit Regulations for Public Interest Entities, the audit rotation rules set the date for the 10-year mandatory tendering of the Group audit in 2016; therefore a mandatory audit tender is not required until 2026. The Committee, however, noted that new regulations from the National Bank of Georgia required a shorter period for rotation of the Bank's auditor to another firm, which is necessary starting from 2023. In 2021, the Committee therefore conducted a tender process for the whole Group audit, in line with those regulations.

On 20 December 2021, we announced our intention to appoint EY as our external auditor for the financial year starting 1 January 2023, subject to shareholder approval at the 2022 AGM. This followed an extensive competitive tender process, overseen by the Audit Committee and conducted in compliance with the Competition and Markets Authority's Order, after which EY was recommended, and approved by the Board of Directors, as external auditor for the next three years. PwC, our current external auditor, will undertake the TBC Bank Group PLC audit for the financial year ending 31 December 2022.

The tender process was initiated and finalised in 2021, led by the Committee chair and supported by the CFO of JSC TBC Bank and the Bank's Finance function. The Committee chair invited all Big Four companies to tender, considering their local market presence and experience. PwC was not eligible to submit a proposal, because of the aforementioned local banking regulations. After initial discussions, Deloitte and KPMG did not tender, owing to a lack of local resources to support a banking audit of the scale and scope required. EY offered a strong local presence and local banking audit experience and was therefore recommended as auditor for the Group.

The Group re-tendered the audit of some smaller subsidiaries and invited non-Big Four companies to participate. BDO was considered to offer the best match of price and experience and was selected as external auditor of these subsidiaries for two years.

The PwC partner leading the audit across the Group is Allan McGrath, who was rotated into this position in 2019. The engagement leader of the Bank's audit was rotated to Thomas Magill in 2020.

The Committee considers that the Company has complied for the financial year under review, and to the date of this report, with the requirements of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 relating to the frequency and governance of tenders for the appointment of external auditors, and to the scrutiny of a policy on the provision of non-audit services (see below).

In addition to the annual review of effectiveness, the Committee considered the independence and objectivity of PwC through a combination of:

- Assurances provided by the External Auditor on the safeguards in place to maintain independence; and
- Oversight of the non-audit services policy and fees paid.

In their annual independence letter and annual audit plan update to the Audit Committee, PwC has confirmed in writing both its independence and that only permitted non-audit services were provided in 2021. Reviewing and ensuring the continuing independence and objectivity of PwC as our external statutory auditor was an important factor in fulfilling our governance as a Committee, and was equally monitored by PwC through its own procedures for pre-approving any non-audit services.

The Group's non-audit services policy governs the engagement of PwC to provide non-audit services. The policy requires the Committee to approve all non-audit services in advance, following a recommendation by the Group Chief Financial Officer, and only permits the use of PwC for non-audit services where there is a clear synergy with its audit role (that is, an immediate 'by product' of the audit process), or when required by legislation. The Group monitors all tracking procurement and tendering for all non-audit fees. Amounts approved under the policy are reported at Committee meetings.

In 2021, the Group spent US\$ 1.81 million (net of VAT) (2020 US\$ 1.28 million) on work undertaken by various accounting-based professional services firms for both audit and non-audit services. Group contractual fees to PwC were US\$ 1.35 million (net of VAT), of which US\$ 1.06 million (net of VAT) was for audit services. This was predominantly for the Company's and the Bank's audit, but included audits of the subsidiaries of both the Bank and the Company, notably that of TBC Bank Uzbekistan, TBC Leasing and TBC Insurance. PwC's proposed fees were benchmarked against similar services provided by other auditors. Non-audit fees of US\$ 289.4 thousand (net of VAT) were paid to PwC in 2021, with US\$ 282.4 thousand of that sum spent on the issuance of AT1 Notes in October 2021. The figure represents 32% of the average fees paid to PwC for Group

AUDIT COMMITTEE REPORT **CONTINUED**

audit services over the preceding three years and is still well within the 70% cap required by Group policy on non-audit services. In 2020, the respective ratio was 1% due to the immateriality of the amounts spent on non-audit services with PwC.

The Group has a policy of sharing business between suitable audit firms to provide diversification, promote competition and build relationships. In 2021, excluding the above, non-audit work was allocated to six different accounting-based firms, including non-Big Four companies. The largest single non-audit contractual spend in 2021 was US\$ 62.5 thousand (net of VAT) paid to KPMG for the valuation of options. The largest total non-audit contractual spend in 2021 was US\$ 98.4 thousand (net of VAT) paid to EY for multiple projects performed for the Bank and subsidiaries. The largest contract with EY was US\$ 43.9 thousand (net of VAT) for the audit of IT systems, which is not in conflict with their upcoming 2023 audit year for the Group.

INTERNAL AUDIT

Internal Audit provides an objective and professionally challenging review of how the Group handles both key financial and non-financial reporting and data management tasks to protect the assets, reputation and sustainability of the organisation.

While primary responsibility to manage risk under the Group's risk model resides with the Management, Internal Audit's role, as the "third line of defence", is to identify potential problems and recommend ways of improving risk management and internal controls. Internal Audit has unrestricted access and scope for review across the whole organisation.

The Head of Internal Audit attends all Committee meetings, as well as Risk Committee meetings. The Committee meets regularly with the Head of Internal Audit (Chief Audit Executive) with no management present. On 1 November 2021, the Head of Internal Audit left to take an executive leadership role at one of the Company's subsidiaries. The Audit Committee commenced a comprehensive search process for a new Head of Internal Audit, while the previous deputy Head of Internal Audit now serves as an interim Head.

Internal Audit regularly undertakes audits of all the Group's key operating units, with a rolling audit plan agreed in advance with the Committee. In 2021, 99% of all pre-agreed internal audit assignments were completed. The Head of Internal Audit reports the outcome of all audits and identifies any deficiencies to the Committee, which then considers the issue both in terms of severity and underlying trends, noting management's proposed remediation. Appropriate follow-up is then monitored by the Committee. Operational units of the Group that have shown continuing weaknesses are routinely re-inspected to confirm that improvements

have been made as the Committee advised. Despite the further improvement in the rate and speed of remediation of deficiencies, the CEO has confirmed that all deficiencies will be addressed and will be prioritised according to the potential systemic risk they represent.

Internal Audit delivers an annual assurance statement to the Committee, which sets out the Head of Internal Audit's opinion, together with summarised reports of the internal audit work performed in comparison to the plan during the year, and an assessment of compliance with auditing standards. The hiring and retention of local Georgian internal auditors remains a challenge and, whilst attracting new talent, the Group also embraces alternative and more flexible staffing models.

The Committee is, nevertheless, satisfied that Internal Audit has sufficient human and financial resources to perform its role and the Committee has the correct training and tools (for example, specialist software) to ensure that team members can function effectively. All managerial Internal Audit executives are currently training to achieve the internationally recognised qualification of Certified Internal Auditor.

The Committee considers, with corroboration from an External Quality Assessment (EQA), that Internal Audit has established its arms-length independence from the management and is free from any interference in determining the scope and performance of its work and the communication of its results. The Committee is overseeing an ongoing project to move the Internal Audit function towards a more 'agile' and risk-based approach. The Committee agreed that work conducted by the Internal Audit in 2021 already effectively applied a risk-based approach to designing its annual work for the year. Internal Audit is seeking to use robust root cause analysis to develop more themed reports, prioritising the higher risk areas of the Group and responding rapidly to emerging issues, undertaking special deep-dive investigations (particularly arising from situations where the Group may have heightened vulnerability or has been the victim of fraud) and ensuring that Internal Audit is able to add more strategic value.

During 2021, the aim of Internal Audit work was to provide risk-based assurance and insightful, proactive and future-focused advice. The annual work program was designed to focus on the most significant risks for the Group and focus was split between branch and head office processes. In addition, Internal Audit maintained its focus on identification and reporting processes involved in capturing and disclosing related party lending and anti-money laundering procedures within the Group, in line with regulatory requirements in Georgia. Internal Audit provided a deep-dive review of the processes and procedures for annual performance assessment and implementation of the Company's executive Directors' remuneration policy, and continued to audit the cyber risk management function of the Bank.

There is a shortage of IT internal auditors in Georgia. Given the importance of mitigating IT risk, the Committee continued to co-source these skills from EY during 2021 and, at the same time, educate our own audit staff. However, the co-sourcing arrangement with EY has not continued into 2022 so the Committee has begun the search for new co-sourcing partners, while Internal Audit continues to recruit qualified IT internal auditors for development in this area.

Internal Audit's Charter was reviewed and approved in February 2022 as appropriate for the Group. The Committee routinely reviews Internal Audit's remit and the annual and rolling five-year plan of audits in place. The plan allows for some flexibility so that urgent matters or emerging risks can be reviewed. The Committee undertakes a formal assessment of Internal Audit to ensure that it is effective and suitably embedded in the organisation. The Head of Internal Audit attends all monthly Management Board meetings to identify developments in the business that might need review. The Committee determines both the Internal Audit budget for the Group and compensation, including variable bonus payments, for the staff. The Committee is also responsible for supervising the annual personal performance assessment of the Head of Internal Audit, drawing on input from peers, direct reports and senior management, including the CEO and CFO.

FOCUS FOR THE COMMITTEE IN 2022

At the beginning of each year, the Committee discusses its key priorities for the year ahead in addition to its mandatory responsibilities. In 2022, the Committee will continue to incorporate its newly assigned oversight responsibility for the Compliance and AML functions of the Group. The Committee will finalise the recruitment of the new Head of Internal Audit and ensure a proper handover and on-boarding process. As noted earlier, the Committee will also closely oversee plans for a robust handover process for the new external auditors, who take over in January 2023, subject to shareholder approval at the AGM 2022. Finally, the Committee will ensure continued effective cooperation with the Risk Committee. We will also maintain a high level of engagement with the ESG and Ethics Committee as it takes up the oversight of ESG strategy setting, implementation and sustainability reporting of the Company to Task Force on Climate-related Financial Disclosures (TCFD) requirements.

Chair's Letter

Dear stakeholders,

On behalf of the Board Risk Committee (the Committee), I am pleased to report on activities and accomplishments for the financial year ended 31 December 2021. The role of the chair of the Committee was handed over to me on the 17 June 2021 from Abhijit Akerkar, who served as interim chair from 1 March 2021. Prior to that, the Committee was chaired by Arne Berggren, who stepped down upon assuming his current Chairmanship of the Board of Directors. I would like to thank both Arne and Abhijit for their valuable insight and contributions to the Committee during the year.



In its new synthesis, the Committee displays the right balance of skills, knowledge, and experience in risk management. The Committee has strengthened its capacity in information data and security, capital and liquidity management, regulatory compliance and international expansion. All new Committee members benefitted from a comprehensive induction process which enabled a seamless handover and immediate operational effectiveness. The renewed Committee is proving to be an incubator of new ideas and a guardian of judicious and risk based thinking.

During 2021, the Committee worked on the enterprise wide risk management framework and better articulated the risk appetite appropriate for each individual business area. The Committee monitored the alignment of the risk framework to the Group's growth strategy while fostering a culture of risk taking within the principles of sound risk governance.

The Committee organised its work around four main pillars: capital, liquidity/funding, asset quality, and earnings capacity. One focus was NPL (Non-Performing Loans) reduction and the effectiveness of moratoria and other remedial actions intended to cure clients who faced financial distress during the global pandemic. Another focus was provisioning and prudence in the governance of the credit underwriting process. We continued to examine the Group's capability to support and strengthen its client base with effective products and services for post-COVID recovery processes.

Macroeconomic and environmental headwinds faced the Group and were addressed by ensuring robust scenario stress testing, including our first full execution of an Internal Capital Adequacy Assessment Plan (ICAAP), despite this not being a regulatory require-

ment. The Committee also oversaw the development of the Group's recovery and resolution capabilities development in line with the expectations of the National Bank of Georgia.

TBC Bank PLC resumed its payment of dividends in 2021 and distributed its first interim dividend in September of 2021. The Committee focused on the appropriateness of capital structure and liquidity profile projections over the medium and long term to support the Company's strategic objectives within the boundaries of the risk appetite framework while delivering to shareholders the returns they deserve.

Looking forward to 2022, we aim to collectively monitor emerging risks arising from our expansive business model, the impact of the global pandemic, and geopolitical risks unfolding in the region. The following section provides detail on how the Committee discharged its responsibilities during 2021 alongside principal activities and priorities.



Thymios Kyriakopoulos
Chair of the Risk Committee

13 April 2022

WHAT IS THE COMMITTEE'S ROLE?

The primary purpose of the Committee is to help the Board fulfil its risk governance and oversight roles and responsibilities.

The Committee is also responsible for ensuring the risk culture is embedded into the culture of the Company as a whole and supports the Group's risk appetite by defining the extent and categories of risk the Board considers acceptable.

In seeking to achieve this, the Committee is responsible for reviewing and reporting its conclusions to the Board on the Group's risk management framework, which embraces risk principles, policies, methodologies, systems, processes, procedures and people. It also reviews new or material amendments to risk principles and policies, and oversees any action resulting from material breaches of such policy. The Committee works closely with the Audit Committee and schedules joint meetings on common topics. More details on the Group's wider approach to risk management can be found in the Risk Management section on pages 112 to 126.

The Risk Committee advises the Board on strategic transactions, focusing on risk aspects and implications for the risk appetite and tolerance of the Group, and ensures robust assessment of the emerging and principal risks faced by the Group, including those that would threaten the business model, future performance, solvency and liquidity. More information on the Company's Material Existing and Emerging Risks is provided on page 102. The Risk Committee also reviewed and approved the statement concerning internal risk management and the Group's viability statement included in this Annual Report.

Full details of the Committee's responsibilities are set out in its Terms of Reference, which can be found on TBC's website at www.tbcbankgroup.com. The terms were updated on 2 March 2022 and now reflect the Board's decision to hand the responsibility for overseeing the Company's Compliance Function to the Audit Committee. The new Risk Committee Terms of Reference also reflect the Board's decision to assign the responsibility to support the Board in overseeing the ESG strategy and climate-related risk to the ESG and Ethics Committee.

RISK COMMITTEE REPORT **CONTINUED**

WHAT THE COMMITTEE DID IN 2021

During the year under review, the Committee met 13 times and considered the following matters. Attendance of Committee members is provided on page 144.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Risk Governance												
Considering and approving the risk appetite statements		●			●	●		●			●	●
Risk function deep dives on thematic topics		●	●	●			●	●			●	
Risk division action plan							●					●
Risk culture annual assessment			●									●
Review and make recommendations on the Group's risk-related policies, procedures, frameworks and principles for the approval of the Board			●		●		●				●	●
Subsidiary risk governance, including review of the Group Subsidiary Governance Framework			●			●	●	●	●		●	
Financial and non-financial risk												
Long-term capital plan							●					●
Monitoring post-COVID-19 recovery and reviewing and approving	●			●		●						●
Recovery and resolution planning	●			●		●						●
Liquidity, funding and market risk	●			●		●	●					●
Asset quality and NPL reduction, provisioning and prudence of the overall process	●			●		●						●
Governance of the credit underwriting process		●										
Investment risk assessment framework									●			
Regulatory and legal updates					●		●	●			●	
Compliance and regular AML reports		●				●		●			●	●
Model risk management											●	
ESG Strategy											●	
People, reputation, cyber, operational and other non-financial risk deep dives			●	●			●				●	
Lending activities												
Review of lending activities and portfolio management per segment (corporate, SME, retail)		●									●	
Approval of top 20 borrower credit applications								●			●	●
Committee governance												
Updating the Committee terms of reference									●			
Committee schedule of work and annual meeting calendar		●									●	●
Committee performance assessment and design of the Committee action plan											●	●

WHO IS ON THE COMMITTEE

As of 17 June 2021, the Committee has been chaired by Thymios Kyriakopoulos and as at 13 April 2022, comprised Eran Klein, Maria Luisa Cicognani and Per Anders Fasth. A record of Committee composition changes and attendance throughout 2021 is provided on page 144. Arne Berggren chaired the Committee until 1 March 2021 when he was appointed as Chairman of the Board, and Abhijit Akerkar was appointed as interim chair until 17 June 2021. Abhijit Akerkar stepped down from the Board on 15 September 2021, as announced on that date by the Company, in order to pursue other career opportunities.

Only members of the Committee have the right to attend meetings but the Committee may invite other independent Board members, as well as the Chief Executive Officer, the CRO and external advisers, to attend all or part of any meeting. The Committee meets at least on a quarterly basis and schedules additional meetings when appropriate. The number of meetings was higher during 2021 owing to the increased pandemic-related workload and hybrid-working arrangements, during which meetings were shorter but more frequent. The Company Secretary attends all meetings of the Committee and serves as the Secretary of the Committee.

WAS THE COMMITTEE EFFECTIVE?

In 2021, the Board decided to work with Lintstock Ltd within the framework of their three-year Board Development Programme, which the Board found to be better aligned with the time horizon of our Board. The externally facilitated survey-based approach the Board undertook in 2021 was completed in December 2021. The performance of the Board's Committees was also assessed as part of the review via surveys tailored for each Committee. In addition to addressing core aspects of Committee governance, the reviews had a particular focus on oversight in the following areas:

- The Group's risk management framework and systems;
- The Group's procedures for complying with regulation;
- The extent to which a culture of risk management and compliance has been embedded throughout the Group.

Feedback on the performance of the Risk Committee was positive overall, and Directors felt that the Committee was discharging its responsibilities effectively. The Review also identified a number of areas where performance could be improved, such as rebalancing the length and the focus of the Committee's schedule of work during the year. The results of the Committee evaluation have been reported to the Board and the Committee will track progress on the recommendations during 2022.

WHAT ARE THE PRIORITIES FOR 2022?

In addition to the regular duties detailed in the responsibilities section on page 171, the Committee will have the following priorities for 2022. It will:

- Continue to organise around its three main pillars of work - capital, liquidity and funding, and asset quality;
- Maintain focus on risk appetite, reporting on the principal subsidiaries based on the approved Subsidiary Governance Framework, implementation of the investment assessment framework, international expansion and respective risks, and the provisioning principles;
- Continue deep discussions on risk-adjusted returns and effective capital consumption;
- Monitor the completion of the Recovery Planning process in line with the regulatory deadlines; and
- Continue monitoring the implementation of the Risk Division action plan, led by the CRO.

PRINCIPAL ACTIVITIES AND SIGNIFICANT ISSUES CONSIDERED DURING 2021

During 2021, the Risk Committee continued to concentrate on its key responsibilities: monitoring the Group's risk management processes, promoting progress in risk management tools and techniques, and implementing actions to mitigate against prevailing risks. The table below summarises significant issues considered during 2021 and actions taken by the Committee. Information on the key risks and uncertainties facing the Company is provided in the Material Existing and Emerging Risks chapter on pages 102 to 111.

RISK COMMITTEE REPORT **CONTINUED**

Principal activities and significant issues considered during 2021

Areas of focus	Key issues	Description of actions
Risk appetite	Reviewing and approving the Group risk appetite and the JSC TBC Bank risk appetite statements	The Group risk appetite statement defines our risk appetite and tolerance thresholds, based on which the Company's manages risk, our capacity and capabilities to support our customers, and the pursuit of the Group's strategic goals. The Risk Committee received and reviewed risk appetite compliance reports at quarterly meetings. In addition, the Committee reviewed and recommended the approval of the Group-wide risk appetite statement to the Board in February 2022.
Financial Risk	Financial risk management Close monitoring in light of the macro-economic outlook, and other dynamic risks and opportunities facing the Group. Credit Risk and credit quality Oversight of risks related to retail, MSME and corporate lending.	The Risk Committee continued monitoring the Company's financial risk position and provided assurance to the Board on the Company's capability to deliver on its strategic objectives. The Risk Committee actively monitored the performance of the Group's credit portfolio throughout the year and received regular updates on the overall portfolio quality, changes in non-performing loans and the cost of risk. The Committee was satisfied that appropriate lending controls and monitoring were in place to control risks across lending portfolios.
Operational resilience	Managing the Company's operational risk across different areas Including oversight of people, conduct and culture, ESG and climate, cyber, information security and data, macroeconomic environment, and reputation risk.	The Committee maintains specific focus on the Group's operational resilience and receives valuable insight from the discussions with the management team throughout the year. As part of this work, the Committee continued to closely monitor the Risk and Control Self-Assessment (RCSA) results, together with progress on the mitigation action plan. The Committee also approved the Company's ESG Strategy in November 2021. The Board's ESG and Ethics Committee will take over the responsibility for overseeing the ESG Strategy implementation and all relevant reporting to the Board from January 2022. The Risk Committee receives a deep dive report on information and cyber security every year. Additionally, the Risk Committee receives thematic updates at least twice a year, as well as case by case updates, as needed, every month in the CRO report to the Committee. Risk Committee findings and reports are regularly delivered to the Board, at least on a quarterly basis.
Capital and liquidity risk including ICAAP	Development of ICAAP, continued capital and liquidity risk management oversight The Risk Committee continued to closely monitor the Bank's capital position, including reviewing the stress test results conducted by the management.	The Risk Committee provided oversight of the ICAAP development process. It also assessed the Bank's long-term capital adequacy position based on its four-year financial plan to ensure that the Bank holds sufficient capital to stay within risk appetite limits and regulatory requirements. For more details, please see the Risk Management section on pages 112 to 126.
Recovery Plan	Recovery planning in line with regulatory requirements	The Risk Committee oversaw for the Bank's recovery planning process, and recommended for approval to the Board its submissions to the National Bank of Georgia over a 4-stage process, due to complete in June 2022.
Compliance and regulatory and legal risk	Continued oversight of compliance, regulatory and legal risk	The Committee places significant focus on understanding and providing assurance on the implementation of regulatory changes, as well as ensuring effective horizon scanning of upcoming trends and evolving risks. Throughout the year, the Risk Committee received regular updates on significant pieces of legislation that were introduced in 2021. Furthermore, the Risk Committee also assessed and approved updated group-wide compliance policies such as the AML Policy, Whistleblowing Policy, Financial Crime Risk Appetite and other documents subject to annual update.

Chair's Statement

Dear stakeholders,

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2021.

This report is divided into two sections: the Annual Report on Remuneration and the Directors' Remuneration Policy (Policy). Our Policy was last approved by shareholders at our 14 June 2021 Annual General Meeting (AGM), along with the new maximum fixed-to-variable ratio. The Policy is effective from 1 January 2022 and the Policy table is reproduced in full on pages 190 to 202 to provide context for the decisions taken by the Remuneration Committee.



This was another challenging year as the pandemic continued to spread around the world and the emergence of new virus variants slowed the return to normality. Change is, however, in sight helped by effective vaccination campaigns and new medical treatments. We have maintained a clear focus on making balanced decisions while facing challenges posed by the on-going economic realities, rewarding our people for performance while ensuring equitable outcomes for the entire workforce, and driving effective engagement with our stakeholders.

The Committee considers sustainable performance as one of the main principles for rewarding our workforce. During 2021, the Georgian economy rebounded from the pandemic at remarkable speed. Our colleagues have done outstanding work throughout the year delivering robust results for our Group. Record levels of profitability have been recorded with a net profit of GEL 809 million resulting in a Group Return on Equity (ROE) of 24.4%. This robust profitability was driven by strong income generation across all business areas, improvements in asset quality and effective management of our capital and liquidity levels.

We continued to maintain market-leading positions in total loans and deposits in Georgia and further increased our digital footprint. The Group also continued to move closer to its medium-term cost-efficiency targets, achieving a cost-to-income ratio of 37.6% in 2021, while continuing to invest in our Uzbek business.

People continue to be one of our main and most important assets, and at the core of our success and ability to continue delivering outstanding results. In these challenging times, we will continue to focus on ensuring that our colleagues are supported as they are our key drivers for sustainable performance.

THE DIRECTORS' REMUNERATION POLICY

The Committee has set out in the Policy approved at the 2021 AGM the underlying principles that have guided its remuneration decision-making. These are clarity and simplicity, risk alignment, predictability, proportionality and alignment with culture - as required by the 2018 UK Corporate Governance Code.

Following the approval of the Policy at the 2021 AGM, the Committee has put in place procedures for its policy's implementation. In particular, the Committee clarified the parameters and metrics for setting short-term and long-term key performance indicators (KPIs), and for the definition of grant levels for long-term variable compensation - in line with the new guidelines of the National Bank of Georgia. The new long-term incentive plan (LTIP) cycle, starting in 2022 and granted annually to the Chief Executive Officer (CEO) and the senior management of JSC TBC Bank, incorporates ex-ante gateway KPIs as well as a set of ex-post medium-term KPIs linked to our new mid-term strategy, including environmental, social and governance (ESG) metrics as per our ESG strategy described on page 26.

The ex-ante gateway KPIs - to be agreed with the Board Risk Committee annually - need to be met, in order for an LTIP grant to occur; the grant will then be awarded if the medium-term KPIs are achieved. For the 2022-2024 cycle, the ex-ante gateway KPIs were met in relation to CET1 ratio, liquidity and profitability so confirming senior management eligibility for an LTIP grant.

KEY REMUNERATION DECISIONS FOR DIRECTORS

The 2021 strategic corporate financial, non-financial and personal KPIs for the CEO's annual bonus assessment are set out in the table on page 181, together with, as part of the main report, a full assessment of performance against these KPIs and a description of all remuneration components. With respect to the 2021 bonus, the KPIs were met at 98.7% compared to a maximum possible achievement of 140% - as such, 70.5% of the maximum award was achieved. The CEO's maximum bonus potential is 135% of salary; so, applying the 70.5% KPI achievement against this, would give an award of 95% of salary. The Committee then implemented a discretionary adjustment of -12.25% to the bonus calculated by the KPI-based formula to make sure the final payment was aligned to the performance achieved and the shareholder and broader stakeholder experience. Based on this discretionary adjustment, the final value of the CEO bonus award is US\$ 805,392 (that being 62% of the maximum award) and is awarded fully in deferred shares. The Committee is satisfied that the annual bonus outcome for 2021 is based on the results and value delivered by performance during the year, and is fair, reasonable and proportionate.

Following the end of the three-year performance period 2019-2021, applicable to the 2019 LTIP award, the Committee assessed outcomes against the LTIP performance targets. The Group's performance against the LTIP performance targets was significantly impacted by the external environment in 2020 due to the COVID-19 pandemic and, consequently, the Committee assessed the performance outcome was 60% of the target opportunity granted in 2019 (that being 43% of the maximum). Specifically, achievement against total shareholder return (TSR) targets was below the thresholds set, while achievement against ROE and Loan Market Share KPIs was at the maximum performance level (see details on page 183). This applies to the CEO but also to the senior management team of JSC TBC Bank. In total, 26,821 shares performance vested to the CEO in 2022, although these remain subject to a two-year holding period and clawback.

The CEO and the senior management team of JSC TBC Bank did not receive a 2020 LTIP award. Details of the 2021 LTIP award granted to the CEO are set out below on page 183.

Considering the 2021 performance year achievements that met the gateway KPIs, and given a maximum LTIP opportunity of 161% of salary, the Board approved a 2022 LTIP grant of US\$ 1,489,949 to the CEO. This represented 96% of the maximum opportunity and 155% of the salary as set out on page 190. The 2022 grant will be subject to performance conditions related to ROE, TSR and ESG KPIs (Volume of Sustainable Assets at the end of the 2024), which will be assessed after the 2024 annual results close. Full details of the targets, including in the KPIs for the LTIP, are set out on page 184.

In line with the Directors' Remuneration Policy approved at the 2021 AGM, a salary increase of 2.0% has been agreed for the CEO effective 1 May 2022, which is aligned to the general workforce salary increase of 2.94%. This increase reflects the continued development and growth in Vakhtang Butskhrikidze's role and it is the first increase since 2019.

No change is proposed to non-executive directors' fees. More details on non-executive compensation are on page 190.

WIDER WORKFORCE REMUNERATION

The Bank continued to provide support to our employees as they work through the on-going challenges and economic recovery. Our main subsidiary in Georgia, JSC TBC Bank, maintained its flexible work-from-home policies for all non-client-facing staff. The Bank has not introduced any redundancy programs and applied no reductions in the overall variable pay levels in 2021. We continue to have an active talent retention, training, promotion and recruitment approach as our business grows at a fast pace and we seek to acquire new skills.

We engaged with our workforce through our annual employee surveys - see more on pages 148-149. Additionally, as part of her wider mandate, our designated non-executive Director for workforce engagement, Tsira Kemularia, facilitated feedback from workforce stakeholders on the Bank's compensation structure and its alignment to company values and strategy.

With support from the Group Human Capital Management Function, the Committee reviewed the compensation structure, including fixed and variable pay levels, for the entire Group. We are also reviewing the incentive structure of the executive management of our operations in Uzbekistan to ensure consistency with pay principles across the Group.

The employee engagement results regarding compensation levels and policies are discussed more on pages 148-149, while additional information on how our Bank supports its workforce is provided on page 42.

SHAREHOLDER ENGAGEMENT

At the 2021 AGM, a supporting advisory vote of 76.1% was received for the Directors' Remuneration Report. Together with the Chairman, Arne Berggren, and the Senior Independent Director, Tsira Kemularia, I held discussions with several shareholders to understand their concerns. We found these were primarily around the discretion exercised by the Committee in allowing the departing CFO to retain his unvested share awards - see more details in the Directors' Remuneration Report on page 189. To address this, the Committee approved at Board level a new Post-Employment Policy for Share Awards, which consolidates the principles underpinning the treatment of share awards upon cessation of employment by any member of the senior management team within TBC Group. This, and other steps taken following our consultation with shareholders are discussed on page 132.

The Committee welcomes open engagement with shareholders and, as described above, we reached out to shareholders with respect to their concerns on the previous Directors' Remuneration Report. I look forward to engaging with shareholders during 2022, as we continue to implement the new Policy ahead of the 2022 AGM.

SUMMARY

The aim of this report is to communicate the basis for the CEO's remuneration outcomes and how this is clearly linked to performance. We are committed to maintaining an open and transparent dialogue with shareholders and I welcome any comments you may have. I very much hope you will support the resolutions to approve the Annual Report on Remuneration at the upcoming AGM.



Maria Luisa Cicognani

Chair of the Remuneration Committee

13 April 2022

Directors' Remuneration Report

This part of the report has been prepared in accordance with Part 3 of the revised Schedule 8 set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and with Listing Rule 9.8.6R. The Annual Report on Remuneration will be put to an advisory shareholder vote at the upcoming AGM.

Remuneration principles

The 2018 UK Corporate Governance Code sets out principles against which the Remuneration Committee should determine the Policy for executives. A summary of the principles and how the Company's Remuneration Policy reflects these is set out here:

- **Clarity and simplicity** - the Committee strives to ensure that performance measures are clear and straightforward. Executive Directors' performance is measured against their KPIs, both financial and non-financial.
- **Risk** - the Committee has the discretion to reduce an executive Director's variable remuneration if specific KPIs have not been met and every element of executive Directors' variable compensation is subject to the relevant malus and clawback provisions. Malus applies before vesting of awards and clawback applies for up to three years after the vesting of awards. Triggers include, material misstatement, material downturn in financial performance and misconduct that causes serious reputational harm. In addition, the Committee has the discretion under the LTIP and deferred annual bonus to reduce awards if it considers that either the underlying financial performance of the Company or the performance of the individual is such that the level of vesting cannot be justified.
- **Predictability** - the maximum possible value of the executive Directors' remuneration has been detailed in the new Remuneration Policy and is operating the 1:2 fixed to variable remuneration cap.
- **Proportionality/alignment with culture** - the Committee strives to make sure that performance measures are aligned with the corporate culture of the Group. This is intended to foster the right behaviour and deliver remuneration that is proportional in the circumstances, by measuring executive Directors' remuneration against a mix of financial, non-financial and personal KPIs. Also, by delivering a large proportion of executive Directors' salary in shares, this intrinsically aligns the executive Directors' pay to the long-term success of the Group and fosters a culture of sustainable long-term growth.

Committee structure and meetings

Committee members' details are set out on page 143. All members of the Remuneration Committee are independent non-executive Directors. Nikoloz Enukidze stepped down as a member of the Committee on 6 April 2021. Arne Berggren joined as a member of the Committee on 6 April 2021. Nicholas Haag and Eric Rajendra stepped down as members of the Committee on 14 June 2021, and Per Anders Fasth and Tsira Kemularia joined the Committee with effect from 17 June 2021. Tsira Kemularia stepped down as a member of the Committee on 28 January 2022.

The Committee met formally 10 times during the year. Details of attendees at these meeting for the current members of the Committee, as at 13 April 2022, are shown in the next table:

Committee member	Eligible/ Attended
Maria Luisa Cicognani	10/10
Per Anders Fasth (appointed on 17 June 2021)	5/5
Arne Berggren (appointed on 6 April 2021)	5/5
Nino Suknidze (appointed on 28 January 2022)	0/0

Note to the table: Full list of Committee members for the year 2021, including those members who have left the Committee and their respective attendance, are shown in the Corporate Governance Statement on page 144.

Meetings of the Committee normally take place shortly before Board meetings, and the Chair reports the activities of the Committee to the Board as a separate agenda item. All Committee meetings are formally minuted by the Company Secretary, with copies circulated to the members.

Responsibilities of the Committee

The Committee is responsible for establishing and overseeing the Group's Remuneration Policy principles and considering and approving the remuneration arrangements of executive Directors. Full details of the Committee's responsibilities are set out in the Remuneration Committee terms of reference, which are available on our website at www.tbcbankgroup.com. Terms of reference for the TBC Bank Group PLC were reviewed and approved on 2 March 2022.

Committee Effectiveness

As mentioned on pages 147-148, the Board commissioned an externally facilitated survey-based review of the effectiveness of the Board and each Board committee, which was completed in December 2021. Overall, the review concluded that the Remuneration Committee operates effectively. The Committee has considered and discussed the outcomes of the review and accepts the findings with a number of actions suggested already in progress. In particular, the feedback highlighted areas of improvement regarding the processes in setting senior management remuneration KPIs and the interaction with other Board Committees and management. The areas of improvement highlighted in the review have been discussed with the Board and the Committee will monitor progress on addressing them during the year.

Advisors

Members of the Remuneration Committee provide valuable input in updating the Committee on the recent developments in remuneration. However, when there is a need, the Committee receives external advisory services.

During 2021 the new Committee members received an induction training session on remuneration policy governance and structure from Baker McKenzie LLP. The fees were charged as part of their ongoing retainer.

As disclosed in the 2020 Annual Report and Accounts, Aon provided advisory services to the Committee for the period up to the AGM. The advice was in relation to drafting the remuneration policy that was approved by the AGM in June 2021, and to regulatory advice with fees of £57,257 (excluding VAT). The fees were charged on a time and materials basis.

The Board is satisfied that the Aon's advice was objective and independent and that Aon team giving the advice did not have any connection with the Group that may impair its independence. Aon was selected by the Committee from four firms invited to submit both a technical and a financial proposal. Aon was considered to have the best offer for the scope of work the Committee had agreed and was seeking to be completed within set deadlines. The Board reviewed the potential for conflicts of interest and decided that Aon had appropriate safeguards in place.

Directors' single total figure of remuneration for 2021 (audited)

The next table provides a breakdown of the various elements of Directors' pay for the year ended 31 December 2021 and for the prior year. This comprises the total remuneration earned in respect of the period from 1 January 2021 to 31 December 2021, and the prior period from 1 January 2020 to 31 December 2020.

REMUNERATION COMMITTEE REPORT **CONTINUED**

	Salary/ Fees		Taxable benefits ²		Total Fixed		Deferred share bonus award ³		LTIP 2019-2021 ⁴		Total Variable		Total	
US\$'000	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Vakhtang Butskhrikidze ¹	964	964	17	18	981	982	805	-	445	-	1,250	-	2,231	982
Nikoloz Eukidze ⁵	99	350	-	-	99	350	-	-	-	-	-	-	99	350
Nicholas Haag ⁵	73	175	-	-	73	175	-	-	-	-	-	-	73	175
Eric Rajendra ⁵	65	142	-	-	65	142	-	-	-	-	-	-	65	142
Tsira Kemularia	164	157	-	-	164	157	-	-	-	-	-	-	164	157
Maria Luisa Cicognani	156	154	-	-	156	154	-	-	-	-	-	-	156	154
Arne Berggren ⁷	315	148	-	-	315	148	-	-	-	-	-	-	315	148
Nino Suknidze ⁸	12	-	-	-	12	-	-	-	-	-	-	-	12	-
Eran Klein ⁹	96	-	-	-	96	-	-	-	-	-	-	-	96	-
Per Anders Fasth ¹⁰	97	-	-	-	97	-	-	-	-	-	-	-	97	-
Thymios P. Kyriakopoulos ¹¹	97	-	-	-	97	-	-	-	-	-	-	-	97	-
Rajeev Sawhney ⁸	12	-	-	-	12	-	-	-	-	-	-	-	12	-
Abhijit Muralidhar Akerkar ⁶	104	54	-	-	104	54	-	-	-	-	-	-	104	54

Notes to table

All of above compensation is denominated in US\$, except taxable benefits, for which, average period exchange rate is used. Non-executive Directors have not received any other payments or benefits from the Group in 2021 and 2020. Non-executive and executive Directors also do not receive any pension contributions.

1. Vakhtang Butskhrikidze's (the CEO) salary was delivered as US\$ 454,000 in cash and US\$ 510,000 in shares in both 2021 and 2020. He did not receive any remuneration other than that disclosed in the table.
2. Taxable benefits for the CEO includes security allowances and insurance.
3. As reported last year, top management forfeited their right to receive a bonus for 2020, so there was no deferred share bonus for 2020. See below for details of the deferred share bonus award for 2021.
4. The first LTIP award was granted in 2019 for the performance period 2019 to 2021 and vested on 10 March 2022. The 2019 LTIP performance achieved an outcome of 43% of the maximum available 2019 award, equalling 33,951 shares (on a gross basis). However, after deducting applicable taxes for Georgia and the UK, 26,891 shares were transferred to the CEO. The Single Total Figure table above reflects the value of the award on a gross basis, calculated using the share price at the vesting date of GBP 9.96 and the foreign exchange rate on that date of 1.3171 US\$:GBP. The CEO and the senior management team at JSC TBC Bank did not receive a 2020 LTIP grant.
5. Nikoloz Eukidze, Nicholas Haag and Eric Rajendra did not stand for re-election at the AGM of 14 June 2021.
6. Abhijit Akerkar stepped down as a Board member on 15 September 2021.
7. Arne Berggren was appointed as Chairman of the Board on 1 March 2021.
8. Nino Suknidze and Rajeev Sawhney were appointed to the Board on 24 November 2021.
9. Eran Klein joined the Group on 4 May 2021.
10. Per Anders Fasth joined the Group on 4 May 2021.
11. Thymios P. Kyriakopoulos joined the Group on 4 May 2021.

DETAILS OF VARIABLE PAY EARNED IN THE YEAR (AUDITED)

Vakhtang Butskhrikidze, Chief Executive Officer

Determining the CEO's performance

Awards made to the CEO reflected the Committee's assessment of performance against corporate and individual objectives, which were developed with consideration for the Group's strategic priorities and risk appetite. For non-financial objectives, the performance assessment involved considering targets set in line with our survey results for employee experience and customer satisfaction measures, as detailed in the non-financial performance assessment table.

Performance achieved against each measure was applied to the weighting of each objective to determine the outcome percentage. As part of this assessment, the Committee consulted the Group Risk Committee and took into consideration its feedback in determining outcomes for the CEO's risk and compliance measures. It also considered whether any discretion should be exercised with respect to the risk and compliance targets of the Group Risk Appetite Framework (RAF).

As set out in the KPI assessment table on page 182, the target KPIs were mostly met. The exceptions were the corporate KPI related to Customers: Best Service Company, which was not met, and the CEO's individual KPI related to IT system stability. Several of the KPIs were exceeded.

Overall, this level of performance resulted in a score against KPIs of 98.7%, with the maximum score being 140%. Based on this, the calculation was that 70.5% of the maximum award was achieved. The CEO's maximum bonus potential is 135% of salary, in line with the Remuneration Policy approved for 2021. So, applying the 70.5% KPI achievement against this gives an award of 95% of salary. The Committee reviewed these outcomes in the context of several internal and external considerations to determine whether it should exercise discretion to reduce the outcome, including:

- Overall share price performance in the year and dividend payments;
- The change in the average per employee compensation for our wider workforce;
- Profit before tax and ROE; and
- The positive actions taken by the Board to support our customers, colleagues and communities in these difficult and uncertain times.

As a result of this, the Committee implemented a discretionary adjustment of -12.25% to the bonus that was calculated by formula from the performance versus KPIs, to make sure the final payment was proportionate. The final bonus award amount, therefore, is US\$ 805,392 (that being 61.9% of the maximum award). The outcome is shown in the next table:

A	Overall total KPI Score (see table below)	98.70%
B	Maximum KPI Score	140.00%
C	KPI Score as a % of Maximum Score (A)/(B)	70.50%
D	Maximum Bonus as % of Salary	135.00%
E	Bonus Payout based on KPI Score as a % of Salary (C)X(D)	95.18%
F	Salary US\$'000	US\$ 964
G	Bonus Award as per KPIs (F)X(E)	US\$ 918
H	Remuneration Committee discretionary Adjustment (-12.25%)	US\$ -113
I	Final Deferred Share Bonus Award (G)+(H), an outcome of 62% of the maximum bonus (I)/((D)X((F))	US\$ 805

Following the adjustment, the Committee determined that the final bonus amount for 2021 appropriately rewards the CEO for his performance within the context of overall company performance and stakeholder experience.

The award is 100% deferred in shares and is subject to continuous employment and malus and clawback provisions. The continuous employment condition is applied as follows: 50% of the award vests the first anniversary from the award date and 50% of the award vests on the second anniversary from the award date.

The KPI outcomes are set out below with the CEO's individual KPI outcome to show the overall outcome:

REMUNERATION COMMITTEE REPORT **CONTINUED**

Main KPI category (weight) Subcategory: measurement	Below Target (60%)	Target (100%) ¹	Above Target (140%)	Actual Result 2021	KPI Weighting	Achieved KPI Performance	Weighted KPI Performance
Corporate KPIs (70%)							
Profitability: ROE	17.9% - 20.2%	20.2% - 24.6%	> 24.6%	24.4%	16%	100%	16%
Efficiency: Cost to Income	45.6% - 41.8%	41.8% - 34.2%	< 34.2%	37.6%	16%	100%	16%
Asset Quality: Non-Performing Loans (NPLs)	6.0% - 4.5%	4.5% - 3.5%	3.5% - 2.0%	2.4%	15%	140%	21%
HR – Employee Net Promoter Score (ENPS)	The ENPS measures employee loyalty and reflects the likelihood of our colleagues recommending their workplace to their friends and family. The ENPS was measured for the Bank's employees by an independent consultant in October 2021				10.5%	140%	14.7%
Customers: Best Service Company (gap with number 2)	Based on the survey conducted by the independent research company IPM in December 2021, the “Best Service Company in Georgia in Retail” was identified among the following industries: banking, telecommunications, insurance, pharmaceuticals as well as the Public Service Hall.				12.5%	0%	0%
Corporate KPIs Total outcome					70%		67.7%
Individual KPIs (30%)							
Non-JSC Subsidiaries							
Uzbek Bank: Gross Loans	24.6 - 27.7 m US\$	27.7 - 33.9 m US\$	> 33.9 m US\$	33.6 m US\$	5%	100%	5%
Uzbek Bank: Deposits	6.2 - 6.9 m US\$	6.9 - 8.5 m US\$	> 8.5 m US\$	66.8 m US\$	5%	140%	7%
Net Income for non-JSC subsidiaries (excluding the Uzbek Bank)	(9.2) - (8.5) m GEL	(8.5) - (6.9) m GEL	< (6.9) m GEL	(7.98) m GEL	5%	100%	5%
IT initiatives							
IT system stability number	Ensuring IT system stability by minimising the number and duration of IT incidents				2.5%	60%	1.5%
Duration of major incidents					2.5%	100%	2.5%
Project Interstellar	A technological transformation project which spans the whole organisation and covers areas such as upgrading our existing IT systems, channels and infrastructure, as well as IT talent development				5%	100%	5%
Leadership	During the year, we split the leadership KPI to make it more precise; we gave more weighting to the IT responsibility of the CEO since the Committee wanted to place specific emphasis on his role in leading the IT transformation in the Group. Therefore, we split the leadership weighting between IT and overall leadership, because it was important to reflect the element of leading the IT transformation in the weighting, given that IT reports to the CEO.				5%	100%	5%
Individual KPIs Total outcome					30%		31%
Overall total KPIs					100%		98.7%

Notes to table

1. Target is aligned to the budget

LONG-TERM INCENTIVE PLAN AWARDS (LTIP)

a) Vesting of the 2019 LTIP award (audited)

The 2019 grant performance was achieved with a 60% outcome (that being 43% of the maximum). The same level of award applied to the entire management team of our main subsidiary. The performance outcome is set out below:

KPI (with weighting)	Below Target (60%)	Target (100%)	Above Target (140%)	Actual Result 2021	KPI Weighting	Achieved KPI Performance	Weighted KPI Performance
Total Shareholders Return for a period of 3 years (2019-2021)	15-17%	17-20%	20% +	4.22%	40%	0.00%	0.00%
Average ROE for 3 years (2019-2021)	15-18%	18-21%	21% +	19.5%	40%	100.0%	40.00%
Loan Market Share at the end of (2019-2021)	34-36%	36-40%	40% +	38.84%	20%	100.0%	20.00%
Total KPIs					100%		60.00%

Notes to table

- The Average result of total shareholder return (TSR) is calculated based on the changes of share prices for the following period: January 2022 vs January 2019 divided by 3. Calculations consider dividends paid during the performance period.
- Loan market share measured in Georgia.

b) LTIP grant in 2021 for the performance period 2021 to 2023 (audited)

Due to COVID-19, there was no LTIP grant in the previous financial year, 2020. The following LTIP award was granted to the CEO during the 2021 financial year:

	Type of award	Award Size	Face Value	Number of shares ¹	Grant Date	Performance Period	Performance Targets
Vakhtang Butskhrikidze (CEO)	LTIP	161% salary	US\$ 1,554,240	100,284	11/03/21	2021 to 2023	See next table

Notes to table

- Gross number of shares is provided in the table. The net number of shares awarded, which was 80,227, is calculated from the gross amount, at the time of award, by deducting the applicable taxes in Georgia and UK, in line with the requirements of the Georgian tax legislation. The share price used to determine the number of shares is the average share price over the ten day period following the preliminary announcement of results for the financial year ended 31 December 2020 of GBP 11.06 and US\$: GBP exchange rate of 1.4, in line with the approved policy

Performance conditions and targets together with corresponding weightings for the CEO for LTIP awards granted in 2021 in respect of the forward-looking performance period 2021-2023, are as follows:

	KPI weight	Threshold (60%)	Target (inclusive) (100%)	Above Target (140%)
TSR for a period of 3 years (2021-2023)	40%	Below 15%	17-20%	Above 20%
Average ROE for 3 years (2021-2023)	40%	Below 15%	18-21%	Above 21%
Loan market share at the end of (2021-2023)	20%	Below 34%	36-40%	Above 40%

c) LTIP granted in 2022 for the performance period 2022 to 2024

Following the approval of the new Remuneration Policy in 2021 and in line with the new National Bank of Georgia Governance Code requirements on executive remuneration, a new process for granting LTIP has been adopted to incorporate ex-ante risk adjustments to the LTIP award process.

Whether or not an LTIP is granted to the CEO and the senior management of JSC TBC Bank is subject to whether certain ex-ante gateway KPIs are met. For the 2022-2024 cycle the following gateway KPIs were met as at the end of 2021, confirming senior management eligibility for an LTIP grant in 2022:

- CET1 ratio:** The lower end of the amber zone of the Risk Appetite Framework (RAF) at 31 December each year as approved by the Risk Committee. This was 60 basis points above the regulatory ratio as per the existing risk appetite at the year-end 2021.

REMUNERATION COMMITTEE REPORT **CONTINUED**

- **Liquidity (NSFR ratio):** The lower end of the amber zone of the RAF at 31 December each year as approved by the Risk Committee. This was currently 3 basis points above the regulatory ratio as per the existing risk appetite at the year-end 2021.
- **Profitability (IFRS Group Net Income):** The Group shall not make a loss after incurring LTIP and bonus expenses.

As shown in the next table, the status against the KPIs set with respect to the LTIP grant gateway was well above the respective targets as at the end of 2021:

CET1 ratio	NBG CET 1 Reg Requirement	11.73%
	Min Range of Amber Zone, regulatory +0.6%	12.3%
	Actual CET1 Capital Ratio	13.65%
	Buffer above min range of Amber Zone	1.35%
Liquidity (NSFR ratio)	NBG NSFR Reg Requirement	100.00%
	Risk Appetite Amber Zone	103.00%
	Actual NSFR	127.29%
	Buffer above min range of Amber Zone	24.29%
(IFRS Group Net Profit)	Group IFRS Net Profit in FY 2021	GEL 809mln
	Top Management Variable Comp in 2021 & 2022-2024 LTIP at grant gateway target	GEL 27.2mln

As the per the Remuneration Policy approved for 2022, the maximum LTIP grant value is 161% of the executive Director's salary. As the gateway performance against KPIs have been met, this allows the grant of an LTIP award. With respect to the amount of the grant, and as per the new NBG regulation which came into effect from 1 January 2022 and will be applied going forward, the Remuneration Committee considers the achievement of Corporate KPIs for 2021, which was at 96% (67.7% of a total of 70% as set out in the Corporate KPIs table on page 182). Based on this, the Committee approved a grant of US\$ 1,489,949 for the CEO. This represents 96% of the maximum opportunity and 155% of the CEO's salary. The Remuneration Committee has considered share price movement during the year and, given the current volatility in the market, decided not to adjust the LTIP grant at this time. However, it will use its discretion to review the overall position at the time of vesting to determine the appropriate vesting outcome.

The 2022 grant will be subject to performance conditions for the period 2022 to 2024 as set out in the next table, and will be assessed after the closing of the 2024 annual results. These goals include those related to the volume of TBC's sustainable loan portfolio in line with TBC's Environmental, Social and Governance (ESG) strategy stated on page 26 of this report.

LTIP KPI 2022-2024 Measures (with weighting)	Minimum (25% pay-out)	Target (Straight-line calculation)	Above target (100% pay-out)	KPI Weighting
Average ROE ¹	15% - 19%	19% - 22%	22% +	40%
Absolute Target for Total Shareholder Return (TSR) ²	15% - 17%	17% - 20%	Above 20%	40%
ESG KPI - Volume of Sustainable Assets at the end of 2024 ³	GEL 900mln -1bln	GEL 1 bln - 1.1bln	> GEL 1.1bln	20%

Notes to table

1. Exceptional one-offs caused by regulatory changes (taxation, NBG lending rules, etc.) to be excluded from ROE calculations; exclusion will be subject to Committee discussion and approval.
2. TSR is calculated based on the assumption that dividends are re-invested at the share price on the ex-dividend date. It represents average TSR over the three year period. For calculations, the average share prices for February will be used.
3. The volume of sustainable, performing assets that went through the standard credit underwriting process: such as sustainable loans, including those loans which will be originated at TBC and could be syndicated within the KPI performance period, and bonds issued by TBC Capital.

Subject to the performance conditions above being met over the 3-year period (2022 – 2024), the LTIP awards would crystallize and remain unvested for further 2 year period and be subject to continued employment requirements before being released to the employee at the end of 5 years. No dividend equivalents will be paid on 2022 LTIP award until shares fully vest.

This award remains fully subject to the 2022 Directors' Remuneration Policy as approved by shareholders in 2021, including features related to malus, clawback and Remuneration Committee discretion.

DIRECTORS' OUTSTANDING INCENTIVE SCHEME INTERESTS (AUDITED)

The following tables summarise the outstanding awards made to Executive Directors:

a) Salary in shares⁴

	Year of Grant	Interest at 01/01/2021	Granted in year	Vested in year	Interest at 31/12/2021	Grant date	Share used for calculation ³	Vesting date ^{1,2}
	2021 ¹	-	23,752	-	23,752	11/03/2021	£12.43 ⁵	11/03/2023
Vakhtang Butskhrikidze	2020 ¹	24,072	-	12,036	12,036	19/02/2020	£12.93 ⁶	19/02/2022
	2019 ²	15,860	-	1,762	14,098	21/03/2019	\$11.00	21/03/2022
	2018 ²	14,098	-	14,098	-	09/03/2018	\$11.00	09/03/2021
	Total	54,030	23,752	27,896	49,886			

Notes to table

- Refers to the policy approved at the 21 May 2018 AGM. Subject to a condition of continuous employment for 2 years and malus and clawback provisions. The continuous employment condition is lifted as follows: 50% of the award on the first anniversary from the award date and the other 50% on the second anniversary from the award date.
- Refers to the policy approved at the 19 May 2015 AGM. Subject to continuous employment and malus and clawback provisions. The continuous employment condition is lifted as follows: 10% of the award on the first anniversary from the award date, another 10% on the second anniversary from the award date and the final 80% of the on the third anniversary from the award date.
- This table provides share prices used in calculation instead of previously reported grant date share price (which was reported in the 2020 Annual report), as the latter was only presented for informational purposes and had not been used in calculations.
- All share interests are presented net of all applicable taxes for Georgia and the UK.
- Applicable FX rate for US\$:GBP used for the 2020 award was 1.2977.
- Applicable FX rate for US\$:GBP used for the 2021 award was 1.3780.

b) Bonus deferral⁵

	Year of Grant	Interest at 01/01/2021	Granted in year	Vested in year	Interest at 31/12/2021	Grant date	Share used for calculation ⁴	Vesting date ^{1,2}
	2021 ³	-	-	-	-	-	-	-
Vakhtang Butskhrikidze	2020 ¹	42,571	-	21,285	21,286	19/02/2020	£12.93 ⁶	19/02/2022
	2019 ²	80,479	-	8,942	71,537	21/03/2019	\$11.00	21/03/2022
	2018 ²	74,678	-	74,678	-	09/03/2018	\$11.00	09/03/2021
	Total	197,728	-	104,905	92,823			

Notes to table

- Refers to the policy approved at the 21 May 2018 AGM. Subject to a condition of continuous employment for 2 years and malus and clawback provisions. The continuous employment condition is lifted as follows: 50% of the award on the first anniversary from the award date and the other 50% on the second anniversary from the award date.
- Refers to the policy approved at the 19 May 2015 AGM. Subject to continuous employment and malus and clawback provisions. The continuous employment condition is lifted as follows: 10% of the award on the first anniversary from the award date, a further 10% on the second anniversary from the award date and the final 80% of the on the third anniversary from the award date.
- As a result of COVID-19 a decision was taken not to make bonus awards for 2020, so there are no grants in 2021 for the executive Directors.
- This table provides share prices used in calculation instead of previously reported grant date share price (which was reported in the 2020 Annual report), as the latter was only presented for informational purposes and had not been used in calculations.
- All share interests are presented net of all applicable taxes for Georgia and the UK.
- Applicable FX rate for US\$:GBP used for the 2020 award was 1.2977.

c) LTIP

	Year of Grant	Interest at 01/01/2021 ²	Granted in year ²	Vested in year	Lapsed in year	Exercised in year	Interest at 31/12/2021 ²	Grant date	End of performance period	Vesting date	Holding date ²
	2021	-	100,284	-	-	-	100,284	11/03/2021	31/12/2023	03/2024	03/2027
Vakhtang Butskhrikidze	2020	-	-	-	-	-	-	-	-	-	-
	2019 ¹	79,217	-	-	-	-	79,217	19/02/2020	31/12/2021	10/03/2022	03/2024
	Total	79,217	100,284	-	-	-	179,501	-	-	-	-

Notes to table

- Performance conditions and targets, together with corresponding weightings, are set out in the earlier LTIP section above.
- To comply with the requirements of the National Bank of Georgia, the holding period for 2021 LTIP grant was increased to 3 years from the previously approved 2 years. The holding period in relation to the 2019 LTIP grant remained unchanged.

REMUNERATION COMMITTEE REPORT **CONTINUED**

Directors Shareholdings (audited)

The following table sets out a summary of the Directors' interests in shares, including any interests held by connected persons. Vakhtang Butskhrikidze's shareholding of 2,367% of salary at 31 December 2021 exceeds the share ownership requirement of 200% of salary.

	Shareholding guidelines (% of salary)	Shareholding at 31 Dec 2021 not subject to either continuing employment requirements or performance conditions ¹ (A)	Shareholding at 31 Dec 2021 subject only to continuing employment requirements ² (B)	Total number of shares held (C = A+B)	Shares as a percentage of salary (D) ⁴	Number of shares subject to the performance conditions in relation to LTIP (E) ³	Total interests in shares still subject to conditions (B+E)	Total interests in shares (A+B+E)
Vakhtang Butskhrikidze (CEO)	200%	883,556	142,707	1,026,263	2,367%	179,501	322,208	1,205,764
Nikoloz Eukidze ⁵	-	-	10,000	-	-	-	-	10,000
Arne Berggren	-	-	-	-	-	-	-	-
Maria Luisa Cicognani ⁶	-	-	-	-	-	-	-	-
Thymios Kyriakopoulos ⁷	-	-	-	-	-	-	-	-
Eran Klein	-	-	-	-	-	-	-	-
Per Anders Fasth	-	-	-	-	-	-	-	-
Tsira Kemularia	-	-	-	-	-	-	-	-
Nino Suknidze	-	-	-	-	-	-	-	-
Rajeev Sawhney	-	-	-	-	-	-	-	-
Abhijit Akerkar ⁸	-	-	-	-	-	-	-	-
Nicholas Haag ⁹	-	-	-	-	-	-	-	-
Eric Rajendra ¹⁰	-	-	-	-	-	-	-	-

Notes to table

1. This figure includes all shares held that are no longer subject to any performance conditions restrictions. Some of these shares may still be subject to clawback requirements.
2. This figure includes shares that are still subject to transfer restrictions, a continuous employment condition and malus and clawback provision. The figure includes shares granted as a deferred share bonus each year and deferred share salary up to and including the performance year 2020.
3. This figure includes awards granted, but not vested, under the LTIP that are subject to performance conditions. Details of these interests are described on page 185.
4. The shares as a percentage of salary has been calculated based on a share price of GBP 16.50 as at 31 December 2021 converted into US\$ using the cross rate of the official exchange rates published by the NBG of 3.0976 for GEL/US\$ and of 4.1737 for GEL/GBP for the same date.
5. Nikoloz Eukidze, who did not stand for re-election at the 14 June 2021 AGM holds 10,000 shares which were acquired before premium listing in August 2016.
6. On 22 February 2022, Maria Luisa Cicognani purchased 1,428 shares at an average share price of £13.80.
7. On 8 March 2022, Thymios P. Kyriakopoulos purchased 5,000 shares at an average share price of £9.65.
8. Abhijit Akerkar stepped down from the Board on 15 September 2021.
9. Nicholas Haag did not seek re-election by the shareholders at the 14 June 2021 AGM and stepped down from the Board on 14 June 2021.
10. Eric Rajendra did not seek re-election by the shareholders at the 14 June 2021 AGM and stepped down from the Board on 14 June 2021.

Payments to past Directors (audited)

As disclosed in the 2020 Annual Report and Accounts, Giorgi Shagidze stepped down from his positions as Deputy CEO of the Bank and Group CFO and as a member of the TBC PLC Board on 28 October 2020. He remained at the Company in an advisory role until 31 December 2020.

Giorgi Shagidze was classified as a Good Leaver and part of his outstanding LTIP award granted in 2019 and subject to performance conditions until the end of 2021, vested on the normal vesting date of 10 March 2022. This award vested on a pro-rata basis for services performed up to 28 October 2020 and subject to the performance outcome of 43% as set out above. The 2019 LTIP vesting (based on the performance outcome and pro-rata stated) had an award value of US\$ 203,531 gross of tax (which net of taxes was then allocated as 8,238 shares). This reflects a reduction from the 39,609 shares granted to Giorgi Shagidze in 2019, as reported in the 2020 Annual Report on page 191. These shares are subject to a two-year post-vesting holding period and remain subject to clawback for three years after vesting.

No other payments have been made to past Directors during the year.

Payments for loss of office (audited)

No payments have been made for loss of office in the year.

Relative importance of the expenditure on pay

The next table shows the Group's expenditure on pay compared with distributions to shareholders.

US\$000	2021	2020	% change
Remuneration paid to or receivable by all employees ¹	96,034	78,478	22%
Distributions to shareholders by way of dividends	26,223	-	100%
Other significant distributions and payments	-	-	NA

Notes to table

- Total spend on pay includes total staff costs per Group's IFRS consolidated financial statements and is converted into US\$ using the average US\$/GEL exchange rate 3.22 for 2021 and of 3.11 for 2020 respectively. Dividends paid to shareholders in 2021 were gross amounts converted into US\$ using official exchange rate prevailing at the date of payment of the dividends, GEL 3.1183. The dividend amount included both cash and scrip dividend. No dividends were distributed in 2020. No share buy-back was carried out either in 2020 or in 2021.

Year-on-year change for Directors compared to global average for employees

The next table shows the percentage change in salary, benefits and bonus earned between 31 December 2019 and 31 December 2021 for the Directors compared to the average for other employees. In accordance with the Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, which apply to financial years commencing on or after 10 June 2019 this analysis has been expanded to cover each Executive and Non-executive Director. The table will be built up over time to display a five-year history.

In the next table, as per the requirements of the Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, changes to the base pay (or fees), taxable benefits and annual bonus of Directors are compared to employees over the same period (2020 to 2021 and 2019 to 2020).

REMUNERATION COMMITTEE REPORT **CONTINUED**

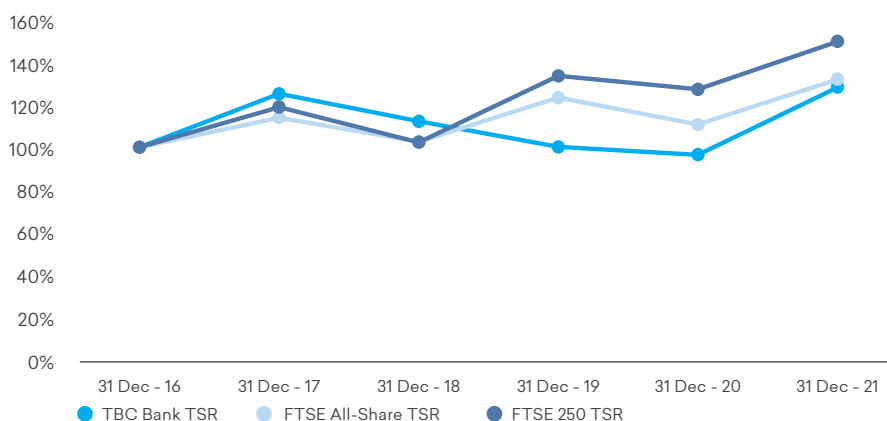
	Change in 2021 against 2020 (%)			Change in 2020 against 2019 (%)		
	Salary/ fees	Taxable Benefits	Bonus	Salary/ fees	Taxable Benefits	Bonus
Executive Directors						
Vakhtang Butskhrikidze	0%	-4%	100% ⁶	0%	-14%	-100% ⁶
Non-executive Directors						
Nikoloz Enukidze ¹	-72%	-	-	41%	-	-
Nicholas Haag ¹	-59%	-	-	11%	-	-
Eric Rajendra ¹	-54%	-	-	109%	-	-
Arne Berggren ³	113%	-	-	190%	-	-
Tsira Kemularia	5%	-	-	9%	-	-
Maria Luisa Cicognani	1%	-	-	3%	-	-
Eran Klein ⁵	-	-	-	-	-	-
Per Anders Fasth ⁵	-	-	-	-	-	-
Thymios P. Kyriakopoulos ⁵	-	-	-	-	-	-
Nino Suknidze ⁵	-	-	-	-	-	-
Rajeev Sawhney ⁵	-	-	-	-	-	-
Abhijit Muralidhar Akerkar ²	91%	-	-	-	-	-
Average employee^{4,7}	2%	63%	11%	18%	-25%	-61%

Notes to table

1. Nikoloz Enukidze, Nicholas Haag and Eric Rajendra stepped down from the Board at the AGM on 14 June 2021.
2. Abhijit Akerkar joined the Board as an independent non-executive Director on 27 July 2020 and was appointed as a member of JSC TBC Bank Supervisory Board on the same date. He stepped down as a Board member on 15 September 2021.
3. Arne Berggren was appointed as the Chairman of the Board on 1 March, 2021. He joined the Board as an independent non-executive Director on 13 August 2019 and was appointed as a member of JSC TBC Bank Supervisory Board on 18 July 2019.
4. These numbers include employees of the Group, except for the executive and non-executive Directors' remuneration provided in the given table.
5. These non-executive directors were appointed during the 2021 year.
6. The management forfeited their right to receive a bonus for 2020 and so no deferred share bonus award was granted for 2020.
7. Percentage change for the workforce salary, benefits and bonus, where applicable, is provided in GEL. However, the annual percentage change in the salary in US\$ for the average employee in 2021 was 2.94% as reported in the Chair's statement on page 175.
8. Percentage change for the Board members' salary, benefits and bonus is provided in US\$.

Performance graph and total remuneration history for Chief Executive Officer

The next graph shows the Company's performance, measured by TSR, compared with the performance of the FTSE 250 Index and the FTSE All-Share Index from 10 August 2016- when the shares were listed on the premium segment of the London Stock Exchange to 31 December 2021. These market indexes were selected because they are most comparable to the Company in terms of listing and relevant governance and transparency standards. Further, the Company is included in the FTSE All-Share Index and FTSE 250 Index.



The total remuneration figures for the CEO for 2015 to 2021 are shown in the next table. The annual bonus and long-term incentive award vesting level as a percentage of the maximum opportunity are also disclosed:

Financial Year	Single Total figure of remuneration (US\$'000)	Deferred share bonus as a percentage of maximum bonus opportunity (%)	LTIP vesting as a percentage of the maximum opportunity of shares that could have vested (%)
2021	2,231	62%	43%
2020	982	N/A	N/A
2019	1,887	69%	N/A
2018	3,356	85%	N/A
2017	4,084	88%	N/A
2016	3,017	85%	N/A
2015	1,809	87%	N/A

Statement of voting on remuneration at 2021 AGM

The next table shows the most recent voting outcomes on the remuneration-related resolutions:

Resolution	Votes For	% of votes cast For	Votes Against	% of votes cast Against	Total votes	% of issued share capital voted	Votes Withheld
To approve the directors' remuneration Report	29,034,558	76.10%	9,116,452	23.90%	38,151,010	69.17%	1,919,485
To approve the directors' remuneration policy.	38,535,269	96.17%	1,533,490	3.83%	40,068,759	72.65%	1,736
To approve the management's variable remuneration ratio	40,070,492	100.00%	3	0.00%	40,070,495	72.65%	0

Resolution on the Directors' remuneration report

A supporting vote of 76.1% was received for the Directors' Remuneration Report Resolution at the AGM and was included in the Investment Association's Public Register. The Company's Remuneration Committee Chair, together with the Chairman and Senior Independent Director held discussions with a number of shareholders that voted against this resolution to understand their concerns.

The Directors appreciate the shareholders sharing their views and understand that the voting outcome was principally related to a specific, one-off discretion exercised by the Committee for the departing CFO. The dialogue with the shareholders has highlighted that there remains strong support for the Company's remuneration policy which was approved by 96.17% of shareholders.

A number of investors expressed concerns regarding the discretion exercised by the Committee on the award of unvested shares for variable compensation to the departing CFO and the precedent that this may set for future cases if applicable. Some shareholders also expressed the view that fixed management compensation should be paid in cash given the already high percentage of shares held by the Director as a proportion of salary (see page 186), which has also led to executives frequently selling shares in the market to cash-in their salary. Finally, some shareholders expressed the view that non-executive Directors should be also compensated with shares of the Company in lieu of fees.

The Committee has implemented a series of actions to address investors' concerns. In particular, a new Post-Employment Policy for Share Awards has been drafted to consolidate the principles underpinning how the Committee will evaluate the exercise of discretion going forward. For the Executive Director, it has been decided to move fixed salary to a 70% to 30% cash-to-share delivery as set out on page 190. All variable compensation continues to be delivered in deferred shares as described on page 192.

IMPLEMENTATION OF REMUNERATION POLICY FOR 2022

Remuneration Policy Summary – Executive Director

This section summarises how the Remuneration Policy will be implemented in 2022 for executive and non-executive Directors. The Policy was approved at the AGM on 14 June 2021 to be effective from 1 January 2022 and is intended to apply for three performance years until 31 December 2024.

REMUNERATION COMMITTEE REPORT CONTINUED

Salaries for Executive Directors	Salary for the Executive Director: Chief Executive Officer (CEO) - remained unchanged for the period of 1 January 2022 – 30 April 2022 at US\$963,994. Starting from 1 May 2022, 70% of the CEO's salary will be delivered in cash and 30% in shares. Furthermore, his salary will increase by 2% and will be delivered in GEL.														
2022 Bonus	Consistent with the Policy requiring at least 60% of performance to be measured on financial KPIs, the 2022 bonuses will be based on 70% corporate and 30% individual objectives. Corporate performance will be assessed on a number of measures including ROE, (Non-Performing Loans) NPL, portfolio larisation¹, digitalization and employee NPS). Individual non-financial KPIs are linked to the CEO leadership assessment and in particular to his continuing responsibilities to implement important IT and digital transformation projects across the group. The performance targets for 2022 are deemed to be commercially sensitive and will be disclosed in next year's Annual Report on Remuneration. In accordance with the Remuneration Policy, the maximum bonus opportunity for the CEO officer will be 135% of salary.														
2022 LTIP	LTIP awards granted to the CEO will be over shares worth a maximum of 161% of salary. The 2022 LTIP grant will be measured over the three years to 31 December 2024 and subject to the conditions set out below. The shares crystallise at the third anniversary of the grant and remain unvested for further 2 years. Further information on these is provided at page 184 above. Additionally, following the approval of the new Remuneration Policy at the 14 June 2021 AGM, and in line with the new National Bank of Georgia Governance Code requirements on executive remuneration, a new process for granting LTIP has been adopted to incorporate ex-ante risk adjustments to the LTIP award process. Further information on these is provided on page 183 above. <table border="1"> <thead> <tr> <th>LTIP KPI</th><th>Weighting</th></tr> </thead> <tbody> <tr> <td>Average ROE (subject to CET1 Ratio)</td><td>40%</td></tr> <tr> <td>Absolute TSR</td><td>40%</td></tr> <tr> <td>ESG KPI – Volume of sustainable assets at the end of 2024</td><td>20%</td></tr> </tbody> </table>	LTIP KPI	Weighting	Average ROE (subject to CET1 Ratio)	40%	Absolute TSR	40%	ESG KPI – Volume of sustainable assets at the end of 2024	20%						
LTIP KPI	Weighting														
Average ROE (subject to CET1 Ratio)	40%														
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ESG KPI – Volume of sustainable assets at the end of 2024	20%														
Chairman and Non-executive Director fees	The fees for the Chairman and Non-executive Directors are: <table border="1"> <thead> <tr> <th></th><th>US\$'000</th></tr> </thead> <tbody> <tr> <td>Chairman (eligible for committee fees)</td><td>338</td></tr> <tr> <td>Non-executive Director (other than Chairman)</td><td>130</td></tr> <tr> <td>Senior independent director</td><td>15</td></tr> <tr> <td>Committee Chairmanship</td><td>12</td></tr> <tr> <td>Committee membership</td><td>6</td></tr> <tr> <td>Designated Employee engagement independent Board member role</td><td>3</td></tr> </tbody> </table>		US\$'000	Chairman (eligible for committee fees)	338	Non-executive Director (other than Chairman)	130	Senior independent director	15	Committee Chairmanship	12	Committee membership	6	Designated Employee engagement independent Board member role	3
	US\$'000														
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Committee Chairmanship	12														
Committee membership	6														
Designated Employee engagement independent Board member role	3														

Notes to table

- The Board has taken a strategic decision to further increase focus on both loan and deposit Larisation, which is the increase of the GEL share in total loans and deposits, in order to optimise regulatory requirements for capital and reserve allocation.

DIRECTORS' REMUNERATION POLICY

The rest of this section of the report sets out the Policy approved by shareholders at the 14 June 2021 AGM and that came into effect from then. While no formal changes are being proposed this year, following discussion with investors the Committee has decided to pay 70% of Vakhtang Butskhrikidze's salary in cash. This is to reduce the frequency with which he sells his shareholding to realise cash.

The Policy promotes the delivery of sustainable long-term performance through the long-term nature of the incentive plans (bonus deferral and LTIP), the variety of performance measures used (aligning with the business strategy and supporting a rounded assessment of performance), and the balanced approach to target setting and performance assessment.

The Directors' Remuneration Policy is effective from 1 January 2022 and will apply for three years to 31 December 2024. Full details of this can be found in the 2020 Annual Report, which is available at our website at www.tbcbank-group.com.

POLICY TABLE: EXECUTIVE DIRECTORS

FIXED PAY

Salary – delivered as cash and shares

Purposes and link to the strategy of the Group	Salaries are determined based on market practice and provide each executive director with a competitive fixed income to efficiently retain and reward the director, based upon each director's roles and responsibilities within the Group and relative skills and experience. Salary in cash The cash part of the salary is aimed to provide fixed cash remuneration. Salary in shares Part of the salary is delivered in the form of shares to align executive directors' and shareholders' interests.
Operation	An executive director may be paid separate salaries for roles and responsibilities at different entities within the TBC Group as set out in a separate service contract with any relevant entity. Currently the Executive Director receives a salary from JSC TBC Bank and TBC Bank Group PLC. The aggregate is disclosed in the Remuneration Report. Salaries are reviewed annually by the Remuneration Committee. Salaries will be reviewed against relevant bank peers and other companies of a similar size and complexity. Delivery of shares Shares are usually delivered during the first quarter of the second year (i.e. the year after the work is performed) and the exact date is determined by the Remuneration Committee. All shares must be held for one year and 50% of the shares must be held for a second year. They are registered in the trustees name as nominee for the participants. The participants are entitled to receive dividends and have voting rights from the delivery date.
Maximum Opportunity	Salary is set and reviewed annually to ensure that the Directors receive a fair compensation which is competitive for the role the individual is asked to play within the Group and is commensurate with experience. Salary for the executive Director is determined by the Remuneration Committee, taking account his skills, performance and experience. The maximum salary level will be determined by the Board in line with the principles outlined. Whilst there is absolute no maximum salary level, any increase will normally be in line with those awarded to the workforce. Where an increase is to be awarded above those granted to the workforce, we will engage with our shareholders and maintain the objective that the total reward potentially available is not excessive from the standpoint of relevant employment data. Any changes to salary must be recommended by the Remuneration Committee and approved by the Board. For the element of salary paid in shares, the number of shares is calculated based on the average share price of the last 10 days preceding the Remuneration Committee decision date. However, the maximum value is fixed by reference to a cash amount on that date.
Performance Measures	Not performance based
Malus / clawback	Malus and clawback provisions are not applicable to salary delivered in cash or shares.
Pension	
Purposes and link to the strategy of the Group	To assist our employees in providing for their retirement and to maintain a market competitive benefits package to attract and retain executive directors ¹ .
Operation	The Georgian government has a mandatory pension scheme, under this scheme 2% of total employee compensation is to be contributed to a national pension fund. At the time of the pension reform in 2019, in line with the Georgian government's regulations, the CEO was given the opportunity to opt out of the pension scheme and he decided to choose this option.
Maximum Opportunity	In line with the workforce, the maximum employer contribution will not exceed 2% of total compensation.
Performance Measures	Not performance measures apply to the contribution level.
Malus / clawback	Malus and clawback provisions are not applicable.

¹ At the time of the pension reform in 2019, in line with the transitional provisions of the Law on Pensions of Georgia, individuals above certain age were given a one-time opportunity to opt out of the pension scheme and the CEO decided to opt out from the Georgian state pension scheme.

REMUNERATION COMMITTEE REPORT **CONTINUED**

Benefits	
Purposes and link to the strategy of the Group	Benefits are in line with Georgian market practice and are designed to be sufficient to attract and retain high calibre talent.
Operation	Benefits available to executive directors consist of insurance (such as medical, life and disability insurance), physical examinations, Directors' and officers' liability insurance, a car service, personal security arrangements and assistance with filling out tax returns, where required. The Remuneration Committee retains the discretion to provide additional benefits, where necessary or relevant in the context of the Director's location. Executive directors are reimbursed for reasonable business expenses incurred in the course of carrying out duties under their service contracts, on provision of valid receipts.
Maximum Opportunity	The maximum amount payable depends on the cost of providing the benefits that the Remuneration Committee is willing to provide to an employee in the location at which the executive director is based. Shareholders should note that the cost of providing comparable benefits in different jurisdictions may vary widely. Disclosure of amounts paid will be provided in the implementation report and will be explained where the cost of benefits is significant.
Performance Measures	Not performance based
Malus / clawback	Malus and clawback provisions are not applicable.
VARIABLE PAY	
Annual bonus delivered in shares	
Purposes and link to the strategy of the Group	To provide a strong motivational tool to achieve the annual KPIs and to provide rewards to the extent those KPIs are achieved. The annual KPIs are chosen to align our executive directors' interests with the short-term strategic objectives of the Group.
Operation	Determination of annual bonus KPIs are set at the beginning of each year in relation to that year (see more detail below). The nature of the KPIs will be disclosed in the annual report published in the performance year. The precise weightings and targets may be considered by the Remuneration Committee to be commercially sensitive and in that case will be disclosed retrospectively, which is generally expected to be in the following annual report. Delivery structure Annual bonus is delivered entirely in shares, which are subject to a holding period. Once shares are delivered, 50% of the shares will be subject to a holding period for 1 year and the other 50% for 2 years from the delivery date. The shares are registered in the trustees' name as the nominee for the participants and the participants are entitled to receive dividends. Shares are usually delivered during the first quarter of the second year (i.e. the year after the work is performed) and the exact date is determined by the Remuneration Committee. Administration Key discretions the Remuneration Committee has with respect to the plan are summarised further on in this Remuneration Policy.
Maximum Opportunity	The maximum value of the annual bonus for the Chief Executive Director, under the annual short-term incentive arrangements, is 135% of fixed salary. For achieving target performance, no more than 50% of the maximum bonus opportunity is payable. The number of shares is calculated based on the average share price of the last 10 days preceding the Remuneration Committee decision date.

Performance Measures	The KPIs consist of corporate and individual performance measures. Corporate KPIs include financial measures, and non-financial measures with long term focus. At least 60% of annual bonus will be earned against a challenging set of financial KPIs with the targets set with reference to the bank's planning for the year. Individual performance measures may include individual strategic objectives which vary per person. The performance period is one year. To the extent that the KPIs are achieved, the Remuneration Committee may decide whether an award may be made and the amount of such award. The Remuneration Committee may also adjust KPIs during the year to take account of material events, such as (without limitation): material corporate events, changes in responsibilities of an individual and/or currency exchange rates.
Malus / clawback	Awards are subject to the operation of malus at any time before the end of the holding period and clawback at any time before the third anniversary of the end of the holding period. The precise powers of the Remuneration Committee to operate malus and clawback are set out in the terms and conditions governing the awards. In summary, for awards granted whilst this Policy is in effect, if the Board determines (based on the recommendation of the Remuneration Committee) that: – the Director deliberately mislead the Company or the Bank in relation to financial performance; – there has been a material misstatement or material error in the financial statements of the Company or the Bank; – the Director participated in or was responsible for conduct which resulted in significant losses to the Company or the Bank; – the Director failed to meet the relevant fit and proper criteria set by the NBS; – there is evidence of misconduct or serious errors by the Director, including (without limitation) a breach of any code of ethics or any other material breach of internal company rules; – the Company, the Bank and/or a relevant business unit suffers a significant downturn in its financial performance (e.g. specific business indicators) (for malus purposes), or the Director has caused the Company, the Bank and/or a business unit to suffer a significant downturn in its financial performance (for clawback purposes); – the Company, the Bank and/or a business unit in which the Director works suffers a significant failure of risk management (for malus purposes), or the Director has caused the Company, the Bank and/or the business unit in which the Director works to suffer a significant failure of risk management (for clawback purposes); – there is significant increase in the Company's and or Bank's or relevant business unit's economic or regulatory capital base (for malus purposes), or the Director's participation caused significant increase in the Company's and or Bank's or relevant business unit's economic or regulatory capital base (for clawback purposes); or – the conduct of the Director contributed to the imposition of regulatory sanctions on the Company or the Bank. the Board has the right to cause some or all of the award for that year or any subsequent financial year that is unvested (or unpaid) to lapse (or not be paid) (i.e., operate malus), and/or to require the return of shares and/or cash value received by the Director pursuant to the award (i.e., operate clawback), may be as determined by the Board in its absolute discretion. Further, malus may be operated if it is considered that the underlying financial performance of the Company or the performance of the Director during the holding period is such that the number of shares cannot be justified. For awards granted prior to the effective date of this Policy, the awards are subject to the Company's previous malus and clawback policy as summarised in the Policy in effect from 1 January 2019.
Long Term Incentive Plan (LTIP)	
Purposes and link to the strategy of the Group	To provide a strong motivational tool to achieve long-term performance conditions and to provide rewards to the extent those performance conditions are achieved. Performance conditions are chosen to align our executive directors' interests with strategic objectives of the Group over multi-year periods and encourage a long-term view.

REMUNERATION COMMITTEE REPORT **CONTINUED**

Operation	Determination of award Awards are discretionary and are granted if the Remuneration Committee considers that there has been satisfactory performance over the prior base year. Delivery structure Awards may be granted in the form of conditional share awards, options or restricted share awards. Awards are structured so that when combined with the annual bonus no less than 60% of variable pay is delivered as LTIP in any one year. For each award, forward-looking performance conditions are set by the Remuneration Committee for a period of 3-years. (see more detail below). The Remuneration Committee determines the level of award at the end of the performance period, based on the extent to which the performance conditions have been met. The performance conditions and respective targets will be disclosed in the annual report published in the year of the award. Timing of receipt For the shares to be delivered, the performance conditions need to be met over the 3-year performance period. To the extent that performance conditions have been met, the LTIP awards remain subject to 2 years vesting period and continued employment requirements before vesting at the end of 5 years. Awards may benefit from dividend equivalents. No dividend equivalents will be paid on any awards (or part thereof) that lapse on or before vesting. Dilution For newly issued and treasury shares, the LTIP is limited to using 10% in 10 years for employee plans and 5% in 10 years for discretionary plans. These limits will exclude shares under awards that have been renounced, forfeited, released, lapsed or cancelled or awards that were granted prior to the Company's IPO or awards that the Remuneration Committee decide will be satisfied by existing shares. Administration The plan will be administered by the Remuneration Committee. Key discretions the Remuneration Committee has with respect to the plan are summarised further on in this Remuneration Policy.
Maximum Opportunity	The maximum value of the award for the Chief Executive Director in any given year, under the long-term incentive arrangements, to be awarded is 161% of salary. The number of shares is calculated based on the average share price during the 10 days after the preliminary annual results of the year preceding the year of each grant is announced.
Performance Measures	Forward-looking performance measures will be based on financial performance, appropriate risk taking, and other long-term strategic measures and set by the Remuneration Committee each year. Measures and weightings will be set out in advance of each grant to reflect the Company's strategy. At threshold level of performance, for each measure, 25% of the award opportunity for that measure will vest, 100% of the award will vest for achieving the maximum performance set for each measure. The Remuneration Committee has the discretion, any time after an award has been granted, to reduce (including to zero) an award if the Remuneration Committee considers that either the underlying financial performance of the Company or the performance of the individual is such that the level of vesting cannot be justified. The performance period is three years, commencing no earlier than the beginning of the financial year during which the Award is granted. The Remuneration Committee may adjust performance conditions during the performance period to take account of material events, such as (without limitation): material corporate events, changes in responsibilities of an individual and/or currency exchange rates, provided that the altered KPIs will, in the reasonable opinion of the Remuneration Committee (acting fairly and reasonably), be not materially less difficult to satisfy.

Malus / clawback	Awards are subject to the operation of malus until two years after the shares have been delivered and to clawback until three years after the shares have been vested. The precise powers of the Remuneration Committee to operate malus and clawback are set out in the terms and conditions governing the awards. In summary, for awards granted whilst this Policy is in effect, if the Board determines (based on the recommendation of the Remuneration Committee) that: – the Director deliberately mislead the Company or the Bank in relation to financial performance; – there has been a material misstatement or material error in the financial statements of the Company or the Bank; – the Director participated in or was responsible for conduct which resulted in significant losses to the Company or the Bank; – the Director failed to meet the relevant fit and proper criteria set by the NBG; – there is evidence of misconduct or serious errors by the Director, including (without limitation) a breach of any code of ethics or any other material breach of internal company rules; – the Company, the Bank and/or a relevant business unit suffers a significant downturn in its financial performance (e.g. specific business indicators) (for malus purposes), or the Director has caused the Company, the Bank and/or a business unit to suffer a significant downturn in its financial performance (for clawback purposes); – the Company, the Bank and/or a business unit in which the Director works suffers a significant failure of risk management (for malus purposes), or the Director has caused the Company, the Bank and/or the business unit in which the Director works to suffer a significant failure of risk management (for clawback purposes); – there is significant increase in the Company's and or Bank's or relevant business unit's economic or regulatory capital base (for malus purposes), or the Director's participation caused significant increase in the Company's and or Bank's or relevant business unit's economic or regulatory capital base (for clawback purposes); or – the conduct of the Director contributed to the imposition of regulatory sanctions on the Company or the Bank. the Board has the right to cause some or all of the award for that year or any subsequent financial year that is unvested (or unpaid) to lapse (or not be paid) (i.e., operate malus), and/or to require the return of shares and/or cash value received by the Director pursuant to the award (i.e., operate clawback), as determined by the Board in its absolute discretion. Further, the Board has the discretion to operate malus if it considers that the underlying financial performance of the Company or the performance of the Director during the performance period is such that the number of shares cannot be justified. In addition, if it is discovered during the three years after cessation of employment that a good leaver is in fact a bad leaver according to the rules of the plan, the provisions of the plan applicable to bad leavers will apply and the individual will be required to return all shares acquired pursuant to awards that vested on or after the cessation of employment. For awards granted prior to the effective date of this Policy, the awards are subject to the Company's previous malus and clawback policy as summarised in the Policy in effect from 1 January 2019.
Shareholding Requirement	
Purposes and link to the strategy of the Group	To further enhance the alignment of shareholders' and Executive Directors' interests in long-term value creation
Operation	The Company has a minimum shareholding requirement of 200% base salary, built up within five years of appointment. Until it is met, executive directors are expected to retain 50% of shares (net of tax).
	Shares counted for this purpose include any deferred annual bonus and any vested awards from the LTIP (notwithstanding that holding / continued employment conditions may still apply). Unvested awards from the LTIP will not be counted. After employment the lower of the executive director's shareholding at termination or 50% of the minimum shareholding requirement are required to be held for two years post-cessation.
Maximum Opportunity	Minimum shareholding requirement of 200% of base salary to be built up within five years of appointment. For two years post-cessation, the lower of the executive director's shareholding at termination or 50% of the minimum shareholding requirement
Performance Measures	Not performance based

REMUNERATION COMMITTEE REPORT **CONTINUED**

Pre-existing obligations

It is a provision of this Policy that the Group will uphold all pre-existing obligations and commitments that were agreed prior to this Policy taking effect. The terms of those pre-existing obligations and commitments may differ from the terms of the Policy and may include (without limitation) obligations and commitments under service contracts, deferred share compensation schemes and pension and benefit plans.

We believe, the new policy meets the best and regional practices, is competitive and aligns executives' long-term interests with those of the Group and its shareholders.

Performance measures and targets

Annual Bonus

Annual share bonuses are awarded to reward past performance over the year. At the end of the performance year, the shares will be delivered to the extent that annual KPIs have been met (as determined by the Remuneration Committee). Once shares are delivered, the shares will be subject to a 2-year post performance holding period (with 50% released each year).

The Remuneration Committee's goal for each KPI is to establish a level of performance that is not certain to be attained, so that achieving or exceeding the targets requires diligent efforts by the executive director.

KPIs for the annual share bonus, consist of corporate, financial (such as ROE, cost to income ratio, Cost of Risk) and non-financial KPIs (such as strategic, people and customer satisfaction levels) and individual KPIs (such as leadership and/or performance of specific function) and which reflect the executive Directors' required contribution to the Group's overall key strategic and financial objectives for that financial year. At least 60% of the annual bonus will be determined by financial performance KPIs. The actual weighting on financial performance may exceed this.

The nature of the KPIs will be disclosed in the annual report published in the performance year. Specific weightings and targets for each KPI may be considered by the Remuneration Committee to be commercially sensitive as a measure to the Group's business; in that case, these details will be disclosed retrospectively, which is generally expected to be in the following annual report.

Each KPI will have a threshold, target and maximum level and conditions to meet these levels. Targets for each corporate KPI will be determined by the Remuneration Committee and will be approved by the Board. Individual KPIs will be approved by the Remuneration Committee, based on the recommendations of the CEO. Target annual bonus will not exceed 50% of the maximum policy limit.

LTIP

The award grant will be based on an assessment of the base i.e. prior year performance (i.e. for the LTIPs grant in early 2022, the base year is 2021). Awards granted will then be subject to 3-year LTIP forward-looking performance conditions. After three years, the shares will be delivered to the extent the performance conditions have been met (as determined by the Remuneration Committee). Once shares are delivered, the shares will be subject to 2 years of vesting period subject to continued employment and Malus and Clawback.

The Remuneration Committee's goal for each performance condition is to establish a level of performance that is not certain to be attained, so that achieving or exceeding the targets requires diligent efforts by our executive directors. The Remuneration Committee's current view is that performance condition will include three categories of objectives:

- Maintain a strong value creation incentive (such as absolute TSR);
- Focus on long-term sustainability (ratios such as ROE, NIM, Cost/Income; individually or in combination); and
- Appropriate risk framework (such as Non-Performing Loans (NPL) ratio, Common Equity Tier 1 (CET1) ratio, Loan Loss Provision (LLP) ratio, individually or in combination).

One of the LTIP KPIs will continue to be the absolute TSR. The Committee considered that it is difficult to find a peer group against which to benchmark TBC TSR relative performance. The Group is listed on a major stock exchange (LSE) which reflects in its high standard of governance, it is a systemic bank in Georgia with a diversified business model, it is rapidly expanding its digital offering while continuing to offer traditional banking services and it is expanding in a high growth country. Finding a suitable peer group has been considered sub-optimal with the above considerations.

Any measure selected, will be closely aligned with the group strategy at the time of grant.

The performance conditions for each three-year performance period will be set at the start of each performance period. The performance conditions and targets will be disclosed in the annual report published in the year of the award.

The Remuneration Committee has discretion to amend the agreed performance conditions in exceptional circumstances if, in the opinion of the Remuneration Committee, the original performance conditions are no longer appropriate; provided that the amended conditions will, in the reasonable opinion of the Remuneration Committee, be not materially less difficult to satisfy. Performance conditions are not capable of being re-tested.

Each performance condition will have a threshold, target and maximum level and conditions to meet these levels. Targets for each corporate performance condition are determined by the Remuneration Committee and are approved by the Board.

Remuneration throughout the Group

Remuneration of other top management members of JSC TBC Bank is similar to that of the executive members of the Company. Other senior and middle management across the Group including material risk takers, employees who are part of the agile structure, as well as some other key employees receive their entire salary in cash and are also eligible for cash and share bonus variable compensation. The share bonuses granted are subject to 3 years of continued employment condition and holding period gradually lifting the conditions. The long-term incentive plan applies only to top management.

All other employees within the Group receive cash salaries and may be eligible to receive cash bonuses. Executive Director and employee pay is reviewed based on role and experience and determined through the application of appropriate market data usually with input from a compensation consultant.

All employees receive a competitive benefit package in line with Georgian market practice and participate in the mandatory state pension scheme effective from 1 January 2019. According to the scheme, the company pays 2% of the employee's total remuneration as pension contribution to the State.

Discretions retained by the Committee

The Committee operates the Company's incentive plans according to their respective rules and (where applicable) in accordance with relevant legislation. In order to ensure efficient administration of these plans, certain operational discretions are reserved to the Committee.

These include but are not limited to:

- determining who may participate in the plans;
- determining the timing of grants of awards and/or payments under the plans;
- determining the quantum of any awards and/or payments (within the limits set out in the policy table above);
- determining the performance measures and targets applicable to an award (in accordance with the statements made in the policy table above);
- discretion to override formulaic outcomes;
- where a participant ceases to be employed by the Company, determining whether 'good leaver' status shall apply;
- determining the extent of vesting or payment of an award based on assessment of the performance conditions and the overall performance of the Company, including discretion as to the basis on which performance is to be measured if an award vests in advance of normal timetable (on cessation of employment as a 'good leaver' or on the occurrence of corporate events);
- whether, and to what extent, pro-ratio shall apply in the event of cessation of employment as a 'good leaver' or on the occurrence of corporate events;
- discretion to vary shareholding and post-cessation holding requirements in exceptional circumstances;
- whether malus and/or clawback shall be applied to any award and, if so, the extent to which they shall apply;
- making appropriate adjustments to awards on account of certain events, such as major changes in the Company's capital structure.

Policy table: Non-Executive Directors

In the same way as the executives, the non-executive Directors receive their compensation both from the Company and the main subsidiary, JSC TBC Bank, proportionate to the time spent working on the respective entity's Boards and committees.

REMUNERATION COMMITTEE REPORT **CONTINUED**

Fees

Purposes and link to the strategy of the Group	To provide appropriate compensation for a non-executive director of the Group, sufficient to attract, retain and motivate high calibre individuals with the relevant skills, knowledge and experience to further the Group's strategy.
Operation	The Group pays fees to non-executive Directors. The fees are determined by the Board. The Chairman is paid an all-inclusive fee for all Board responsibilities. The other non-executive directors receive a basic Board fee, with additional fees where individuals serve as the Senior Independent Director, member or Chairman of a Committee of the Board. The Board (excluding the non-executive directors) reserves the right to structure the non-executive directors' fees differently in its absolute discretion. The Board's (excluding the non-executive directors) discretion will be exercised fairly and reasonably and with regard to appropriate comparable market practice and business strategy. Fees are generally paid monthly in cash. However, the Board reserves the right to pay the fees on a different basis. Fees are periodically reviewed and adjusted by the Board, having regard to external comparators such as the Group's peer group, the chair or committee roles and responsibilities and other market factors.
Maximum Opportunity	The Board will review the amount of each component of fees periodically to assess whether, individually and in aggregate, they remain competitive and appropriate in light of changes in roles, responsibilities and/or time commitment of the non-executive Directors, and to ensure that individuals of the appropriate calibre are retained or appointed. Current fee levels are set out in the Annual Report of Remuneration.
Performance measures	Not performance based.
Malus / clawback	Malus and clawback provisions are not applicable.
Benefits and Expenses	
Purposes and link to the strategy of the Group	To compensate non-executive directors for expenses incurred in connection with the performance of their non-executive director duties and to ensure the Group has the appropriate non-executive director input as and when required.
Operation	The Group may reimburse non-executive directors for their expenses incurred in connection with the performance of their duties including attending Board and committee meetings (such as, for example, travel, accommodation, other subsistence expenses and personal security arrangements), Board/committee dinners and functions, Board training sessions, director's and officers' liability insurance, advice in respect of professional duties and corporate hospitality events (or the Group may pay such expenses directly).
Maximum Opportunity	The maximum amount payable depends on the cost of providing such expenses in the location at which the non-executive director is based. Shareholders should note that the cost of providing comparable expenses in different jurisdictions may vary widely.
Performance measure	N/A
Malus / clawback	N/A

Non-executive Directors are not employees and do not receive compensation or benefits. The non-executive Directors are not eligible for performance-based share awards. Awards with performance conditions are not part of the non-executive remuneration package as we do not wish the non-executive Directors to be driven by short-term Group performance so as to maintain their independence accountable for oversight of the Group.

The non-executive Directors are entitled to broad indemnification by the Group and are covered by the Group's Directors & Officers' Liability Insurance Policy.

Recruitment policy

The Remuneration Committee intends that the components of remuneration set out in the above policy tables, and the approach to those components as set out in the policy tables, will (subject to the remainder of this recruitment policy) be equally applicable to the annual package provided to new recruits, i.e. for executive Directors, salary (with cash and share components), discretionary deferred share bonuses (up to 135% of salary), LTIP (up to 161% of salary), pension (up to 2% of salary) and employee benefits; for non-executive Directors, fees and relevant expenses and benefits.

For an internal appointment of an executive or non-executive Director, any pay element awarded in respect of the prior role may either continue on its original terms or be adjusted to reflect the new appointment, as appropriate. In the year of promotion for an internal appointment, additional awards pro-rated for the time served in the new role may be made to the individual within the maximums set out in the policy tables above.

The Remuneration Committee has a preference not to provide a "buy out" arrangement and/or to establish additional or particular arrangements specifically to facilitate the recruitment of the individual. However, where an individual would be forfeiting remuneration or employment terms in order to join the Group, the Remuneration Committee may award appropriate compensation. The Remuneration Committee would require reasonable evidence of the nature and value of any forfeited arrangements and would, to the extent practicable, ensure any compensation was of comparable commercial value and capped as appropriate, taking into account the terms of the previous arrangement being forfeited (for example the form and structure of award, timeframe, performance criteria and likelihood of vesting). Where appropriate, the Remuneration Committee would have a preference for buy-outs to be delivered in the form of shares in the Company. All such awards will be appropriately discounted to ensure that the Group does not, in the view of the Remuneration Committee, over-pay. The Remuneration Committee will also consider the application of performance conditions and/or clawback provisions, as appropriate. Details of any "buy out" awards will be appropriately disclosed, and any arrangements would be made within the context of minimising the cost to the Group. In any case, total value of "buy out" award, should not exceed 100% of the salary (including cash and share salary) paid for the comparable executive position the year immediately preceding to the recruitment.

The Group may make a contribution towards legal fees in connection with agreeing employment terms. The Group may also agree to pay certain expenses and taxes should an executive director be asked to relocate to a different country, such that the executive director pays no more than would have been required in the home location.

Policy on payments for loss of office

The following paragraphs describe the Group's general policy on payments for loss of office.

Any compensation payable in the event that the employment of an executive director is terminated will be determined in accordance with the terms of any service contract between the Group and the executive, as well as the relevant rules governing outstanding deferred share awards, bonus shares, awards under the LTIP and this Policy.

The Remuneration Committee will take all relevant factors into account when considering whether or not the Director is a good leaver (as set out in their service contract or other applicable plan document). The Remuneration Committee will exercise its absolute discretion to determine whether such terms should be included in any new service contract.

In addition to any payment referred to above, the Remuneration Committee reserves discretion as it considers appropriate to continue benefits beyond the date of termination, pay for relocation to previous location, where applicable, make payments in lieu of notice, accelerate the vesting of equity awards, and/or pay for out placement services and/or legal fees. In certain circumstances, the Committee may approve new contractual arrangements with departing executive Directors, potentially including (but not limited to) settlement, confidentiality, restrictive covenants and/or consultancy arrangements; these arrangements would only be entered into where the Committee believes that it is in the best interests of the Company and its shareholders to do so.

REMUNERATION COMMITTEE REPORT **CONTINUED**

Generally, the Group would require a non-compete and confidentiality agreement from the departing executive Director to protect the interests of the Group.

Vesting and lapse of awards

If an executive Director ceases to be employed by any Group company at his/her sole decision before the service contract expires or if the executive Director leaves for a bad leaver reason, the executive Director must return all bonus shares awarded for which applicable holding period requirement has not been met (or as directed by the Company) and/or any nil cost options awarded will lapse and any unvested awards under the LTIP will lapse. Depending on the circumstances, the Remuneration Committee may, at its sole discretion and with regard to any recommendation made by the CEO of the Company (as applicable), allow the executive Director to partially or fully retain such bonus shares and/or LTIP awards.

If the executive Director is determined by the Remuneration Committee to be a good leaver, the executive Director is entitled to receive an award of deferred salary and deferred bonus shares pro-rated for both time and performance during the performance year. All outstanding awards of deferred salary and deferred bonus will continue to vest on their initial terms. Subject to the achievement of the relevant performance criteria, a portion of any outstanding awards under the LTIP may vest, subject to a reduction pro rata to reflect shortened period of employment between grant and the end of the holding period. In general, the original performance period will continue to apply. However, where, in the opinion of the Remuneration Committee, early vesting is appropriate, or where it is otherwise necessary, awards will vest by reference to performance criteria achieved over the period of employment.

If, during the three years after the dismissal of the executive Director as a good leaver, it is established that the executive Director was a bad leaver, the provisions applicable to bad leavers will apply.

Executive Directors - Notice periods

Notice periods are set out in the executive Director's service contract. Generally speaking, either party may terminate the service contract by giving the other party not more than one year and not less than seven months' notice and the Group will reserve the right to terminate without notice in certain circumstances. Notice periods will be reviewed by the Board and the Remuneration Committee when contracts are due for renewal with consideration given to business continuity and potential candidates in the market, amongst other factors.

Service contracts and letters of appointment

The service contracts of executive Directors do not have a fixed duration and may be terminated by either party (see further details above under "Notice Periods"). They may contain tailored terms which allow for termination payments to be paid if the executive Director's employment is terminated under certain circumstances, such as following a corporate change, a change in control, involuntary termination, termination without cause, for "good leaver" reasons (including) death or disability, each as defined in the applicable executive Director's service contract¹. Details of such terms contained in the current executive Directors' service contract are described below (the executive Directors' service contracts and non-executive Directors' letters of appointment are available for inspection at TBC PLC's registered office):

(a) Service contracts of the Group's current executive director

Service contracts with TBC PLC

On 12 May 2016, TBC PLC entered into a service agreement with Vakhtang Butskhrikidze. The service agreement can be terminated by either party giving to the other party not less than seven months' written notice. In addition, TBC PLC may terminate the service agreement without notice or pay in lieu of notice for cause (as defined in the service contract). The service contract contains non-compete and confidentiality provisions and is governed by English law.

Service contracts with TBC JSC

Vakhtang Butskhrikidze also serves as CEO of TBC JSC. Although it is not strictly required under UK law, we have described the service contract that the Group's executive director has with TBC JSC below for completeness.

The current service agreement provides for Mr Butskhrikidze to act as CEO of TBC JSC. The service agreement contains non-compete and confidentiality provisions and is governed by Georgian law.

¹ This is not to be construed as severance payment as the Director, in each case defined in this paragraph, is not entitled to any extra payment other than what he would have ordinarily received, provided those events did not occur.

(b) Letters of appointment – non-executive directors

Each non-executive director is required to submit himself or herself for annual re-election at the Annual General Meeting. The letters of appointment with the Group for each non-executive director are effective from [2016]. The letters of appointment provide for a one month notice period although the Group may terminate the appointment with immediate effect without notice or pay in lieu of notice if the non-executive director has committed any serious breach or non-observance of his or her obligations to the Group, is guilty of fraud or dishonesty, brings the Group or him/herself into disrepute or is disqualified as acting as a non-executive director, among other circumstances. Upon termination, the only remuneration a non-executive director is entitled to is accrued fees as at the date of termination, together with reimbursement of documented incurred expenses incurred prior to the termination date.

Legacy arrangements

The Remuneration Committee reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the Policy set out above, where the terms of that payment were agreed before the Policy came into effect (including, without limitation, pursuant to awards granted before the Policy came into effect), or before the individual became a Director of the Group (provided the payment was not in consideration for the individual becoming a Director). This includes the exercise of any discretion available to the Remuneration Committee in connection with such payments.

Consideration of employment conditions within the Group

The Company recognises the importance of employee engagement in setting remuneration for the executive Directors, NEDs and senior management. To this end, in 2019, the Board appointed Tsira Kemularia as the designated non-executive Director to enhance the dialogue between the workforce and the Board and to further strength employee engagement on the topic of executive remuneration.

In accordance with prevailing commercial practice, the Remuneration Committee evaluates the compensation and conditions of employees of the Group in determining the Policy with respect to executive directors. The Remuneration Committee may engage external advisors to assist in analysing remuneration in the Group. Consistent with practice in the industry in which the Group operates, it is not the Group's policy to consult with staff on the pay of its directors.

Minor changes

The Remuneration Committee may make, without the need for shareholder approval, minor amendments to the Policy for administrative purposes or to take account of changes in legislation.

FINANCIAL STATEMENTS

Report on the Audit of the Financial Statements

OPINION

In our opinion, TBC Bank Group PLC's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2021 and of the group's profit and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: Consolidated and Separate Statements of Financial Position as at 31 December 2021; Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated and Separate Statement of Changes in Equity and Consolidated and Separate Statements of Cash Flow for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the audit committee.

SEPARATE OPINION IN RELATION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ADOPTED PURSUANT TO REGULATION (EC) NO 1606/2002 AS IT APPLIES IN THE EUROPEAN UNION

As explained in note 2 to the financial statements, the group, in addition to applying UK-adopted international accounting standards, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 34, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

OUR AUDIT APPROACH

Overview

Audit scope

- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of components and other qualitative factors (including history of misstatement through fraud or error).

- Our scoping was primarily driven by legal entity contribution to profit before tax and other key financial metrics. This approach also ensures that we align our resources with the location of the key financial reporting functions and material operations of the group. We also considered overall coverage in assessing the appropriateness of our scoping.

Key audit matters

- Expected credit loss allowance on loans and advances to customers (group)

Materiality

- Overall group materiality: GEL46.1m (2020: GEL23.5m) based on 5% of profit before tax (2020: 5% average profit before tax for the last three years).
- Overall company materiality: GEL17.0m (2020: GEL16.2m) based on 1% of total assets.
- Performance materiality: GEL34.6m (2020: GEL17.6m) (group) and GEL12.8m (2020: GEL12.2m) (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Climate change

Climate change risk is expected to have a significant impact on the financial services industry. As explained in the Strategic Report and Risk Review, the group is mindful of its responsibilities as a responsible lender and is focused on ways to meet the objectives of the Paris Agreement on climate change and to support the Georgian market's transition to a climate-resilient, net-zero economy. The group has set out its own commitments to be a net zero bank by 2025. Further information on this commitment is provided in the Task Force on Climate-Related Financial Disclosures ("TCFD") on page 27.

In planning and executing our audit, we considered the group's governance framework and preliminary risk assessment processes as outlined in the Governance and Risk Management sections of the TCFD disclosures. This, together with our risk assessment procedures, has provided us with an understanding of the potential impact of climate change on the financial statements. We specifically considered managements' assessment as regards the potential impacts of climate change on the Group's loan portfolios. We assessed that the key financial statement line items and estimates which are more likely to be materially impacted by climate risks are those associated with expected credit losses and future cash flows to those loan portfolios. In the current reporting period, the group have concluded that there is no material impact on those line items and the more notable impacts of climate change on the business are expected to arise in the medium to long term.

We discussed with management and the Audit Committee that the estimated financial impacts of climate change will need to be frequently reassessed and our expectation is that climate change disclosures will continue to evolve as greater understanding of the actual and potential impacts on the group's future operations are obtained.

Whilst the group is targeting net zero carbon emissions by 2025, they are continuing to refine their plans to achieve this. The group is starting to quantify some of the impacts that may arise; however, the future financial impacts are clearly uncertain given the medium to long term time horizon. We discussed with management and the Audit Committee that the estimated financial impacts of climate change will need to be frequently reassessed and our expectation is that climate change disclosures will continue to evolve as greater understanding of the actual and potential impacts on the group's future operations are obtained.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Impact of COVID-19, which was a key audit matter last year, is no longer included because of the limited impact on the company's operations, the markets in which it trades and the risk of material misstatement. Otherwise, the key audit matters below are consistent with last year.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TBC BANK GROUP PLC **CONTINUED**

Key audit matter

Expected credit loss allowance on loans and advances to customers (group)

We focused on this area as the management estimates regarding the expected credit loss ('ECL') allowance are complex and require a significant degree of judgement.

Under IFRS 9 management is required to determine the credit loss allowance expected to occur over either a 12 month period or the remaining life of an asset, depending on the categorisation of the individual asset. This categorisation is determined by assessing whether or not there has been a significant increase in credit risk ('SICR') or default of the borrower since loan origination. Some of the criteria applied by management for such an assessment are highly judgemental and involve qualitative assessment of borrowers' creditworthiness.

It is also necessary to consider the impact of different future macroeconomic conditions in the determination of ECLs. There is an increased level of uncertainty in the macroeconomic forecasts due to the ongoing impact of COVID-19 on the economy.

Management has designed and implemented a number of models to achieve compliance with the requirements of IFRS 9. Among others, management has applied judgement to the models in situations where past experience was not considered to be reflective of future outcomes due to limited or incomplete data.

We consider the appropriateness of the model methodologies and the following judgements used in the determination of the modelled ECL allowance to be significant:

- Highly judgemental criteria applied for identification of SICR, involving qualitative assessment of borrowers' creditworthiness;
- Critical assumptions applied in the determination of loss given default ('LGD') and probability of default ('PD');
- Assessment of model limitations and use of post model adjustments ('PMAs') if required to address such risks; and
- Assessment of the key assumptions related to forward-looking information ('FLI') including the appropriateness of scenario weightings and macroeconomic variables

How our audit addressed the key audit matter

Refer to pages 161 to 169 (Audit Committee Chair's report), pages 222 to 240 (Significant Accounting Policies), page 240 to 245 (Critical accounting estimates and judgements in applying accounting policies), and pages 253 to 276 (note 9. Loans and advances to customers).

How we addressed our KAM

We understood and evaluated the design of the key controls over the determination of ECL allowance and tested their operating effectiveness. These controls included among others:

- Controls over model performance monitoring, including periodic reviews of the policy and models, testing model estimates against actual outcomes and approval of model methodology changes;
- Review and approval of the key judgements and assumptions used for determining LGDs, PDs and FLI;
- Controls over key parameters calculation by the calculation engine;
- Controls over regular monitoring of the financial standing of the borrowers;
- Controls over ECL calculation and analysis of results; and
- The Management Risk Committee's review and approval of judgemental assumptions and assessment of ECL modelled outputs.

We noted no exceptions in the design or operating effectiveness of the above controls. In addition we performed the substantive procedures described below.

We assessed whether the IFRS 9 ECL model methodologies developed by management are appropriate, engaging our credit risk modelling specialists and our industry knowledge. This included an evaluation of the judgemental criteria set by management for determining whether there had been a SICR (applicable to corporate and SME portfolios), and the critical judgements and assumptions applied in determination of LGDs, PDs and FLI. We concluded that management's judgements in deriving SICR, LGDs, PDs and FLI were reasonable.

We independently verified the calculation of ECL and assessed whether the ECL calculations were consistent with the approved model methodologies.

We critically evaluated key aspects of model monitoring and validation ("backtesting" of projected ECL) performed by management relating to model performance and stability and critically assessed the monitoring results. The results were interpreted in the context of COVID-19 circumstances and explanations were obtained for deviations from the expectation. Where relevant, particular assumptions made in the ECL estimation process were updated to address the results of backtesting.

We challenged management in respect of the appropriateness of the macroeconomic models as well as weightings applied to each macroeconomic scenario. We are satisfied that macroeconomic assumptions and scenario weightings used by the Bank are reasonable.

We challenged management in respect of the completeness and ongoing appropriateness of PMAs recognised. We assessed the PMAs applied including judgements and assumptions used and calculations involved. As a result, we deem that the PMAs were appropriately recognised where existing models were not able to capture the emerging risks, and management's judgements are reasonable.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

TBC Bank Group's banking and insurance activities are primarily carried out in Georgia, with small subsidiary operations in four other countries. The Group's business activities comprise of four segments for which it manages and reports its operating results and financial position, namely Retail Banking, Corporate and Investment Banking, Micro Small and Medium Enterprises ('MSME') and Corporate Centre.

JSC TBC Bank is the largest subsidiary of the group. Its main operations are Retail and Commercial banking, with all significant operations based in Georgia. Georgian operations account for 96% of the groups assets and 92% of the revenue. We performed audit procedures over this component which is considered financially significant in the context of the group, using a materiality of GEL 43.8m (2020: GEL 22m).

Our audit approach and team was designed to reflect the structure of the group, and we therefore used component auditors from PwC Georgia, whom are familiar with the relevant businesses in their geographical locations, to audit the relevant component that was in scope for the group audit. As part of the planning and execution of the audit, the UK audit team held meetings with the significant component auditors in Georgia on several occasions and reviewed selected workpapers and conclusions, in order to ensure that the procedures performed to support the group audit were sufficient for our purposes. Specific audit procedures were also performed at the UK parent company, mainly related to the presentation of the group financial statements, the consolidation process, taxation and elements of laws and regulations specific to the UK. Based on the procedures we performed our audit scoping/coverage accounted for 96% of revenue and 98% of total assets of the group.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - group	Financial statements - company
Overall materiality	GEL 46.1m (2020: GEL 23.5m).	GEL 17.0m (2020: GEL 16.2m).
How we determined it	5% of profit before tax (2020: 5% average profit before tax for the last three years)	1% of total assets
Rationale for benchmark applied	The group is a profit oriented entity with publicly traded debt and therefore it is appropriate to use a profit oriented benchmark for the calculation of materiality. In the prior year this was based on the average of three years to eliminated the impact of the COVID 19 pandemic.	The parent company is a holding company with investments in the subsidiaries within the Group. The parent company's performance is measured primarily on the value of these investments, and therefore total assets is considered an appropriate materiality benchmark

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was GEL 43.8m to GEL 46.1m. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to GEL 34.6m (2020: GEL 17.6m) for the group financial statements and GEL 12.8m (2020: GEL 12.2m) for the company financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TBC BANK GROUP PLC **CONTINUED**

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the audit committee that we would report to them misstatements identified during our audit above GEL 2.3m (group audit) (2020: GEL 1.1m) and GEL 0.9m (company audit) (2020: GEL 0.8m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

CONCLUSIONS RELATING TO GOING CONCERN

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- A risk assessment to identify factors that could impact the going concern basis of accounting, including the current and forecast financial performance, regulatory metrics and the sector in which the group operates;
- Evaluation of the reasonableness of the group's forecasts, including their assessment of macro scenarios, budget planning, recovery planning, stress testing and estimated financing pipeline;
- Review of the group's regulatory correspondence and reports provided to governance forums such as audit committee; and
- Reviewing the appropriateness of the disclosures in the Annual report.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information, which includes reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

CORPORATE GOVERNANCE STATEMENT

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the audit committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TBC BANK GROUP PLC **CONTINUED**

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to National Bank of Georgia, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Companies Act 2006 and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias through judgements and assumptions in significant accounting

estimates. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Enquiries of management, including the group's Chief Legal Counsel, and Internal Audit, in relation to known or suspected instances of non-compliance with laws and regulations and fraud.
- Evaluation and testing of the operating effectiveness of management's controls designed to prevent and detect fraud and errors in financial reporting.
- Assessment of matters reported on the group's whistleblowing helpline and the results of management's investigation of such matters.
- Attendance at and inquiry of selected key committees including audit committee, risk committee and reviewing management information presented at these meetings.
- Reading key correspondence with regulatory authorities and legal advisors.
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the expected credit loss allowance on loans and advances to customers.
- Identifying and testing journal entries meeting specific risk criteria.
- Incorporated unpredictability into the nature, timing and/or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk char-

acteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

OTHER REQUIRED REPORTING

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- a corporate governance statement has not been prepared by the company.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the members on 11 August 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is 6 years, covering the years ended 31 December 2016 to 31 December 2021.

OTHER MATTER

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.



Allan McGrath (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
13 April 2022

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>in thousands of GEL</i>	Note	31 December 2021	31 December 2020 (restated)	31 December 2019 (restated)
ASSETS				
Cash and cash equivalents	6	1,722,137	1,635,405	1,003,583
Due from other banks	7	79,142	50,805	33,605
Mandatory cash balances with National Bank of Georgia and Uzbekistan*	8	2,087,141	2,098,506	1,591,829
Loans and advances to customers	9	16,637,145	14,594,274	12,349,399
Investment securities measured at fair value through other comprehensive income	10	1,938,196	1,527,268	985,293
Bonds carried at amortised cost	11	49,582	1,089,801	1,022,684
Finance lease receivables	13	262,046	271,660	256,660
Investment properties	17	22,892	68,689	72,667
Current income tax prepayment	37	194	69,888	25,695
Deferred income tax asset	37	12,357	2,787	2,173
Other financial assets	12	453,115	171,302	133,736
Other assets	14	397,079	266,960	255,712
Premises and equipment	15	392,506	372,956	334,728
Right of use assets	16	70,513	53,927	59,693
Intangible assets	15	319,963	239,523	167,597
Goodwill	18	59,964	59,964	61,558
Investments in associates		4,589	4,090	2,654
TOTAL ASSETS		24,508,561	22,577,805	18,359,266
LIABILITIES				
Due to credit institutions	19	2,984,176	4,486,373	3,593,901
Customer accounts	20	15,038,172	12,572,728	10,049,324
Other financial liabilities	23	139,811	227,432	113,608
Current income tax liability	37	86,762	853	1,634
Deferred income tax liability	37	10,979	13,088	18,888
Debt securities in issue	21	1,710,288	1,496,497	1,213,598
Provision for liabilities and charges	22	25,358	25,335	23,128
Other liabilities	24	130,972	87,842	95,162
Lease liabilities	38	66,167	58,983	59,898
Subordinated debt	25	623,647	672,740	591,035
TOTAL LIABILITIES		20,816,332	19,641,871	15,760,176
EQUITY				
Share capital	26	1,682	1,682	1,682
Shares held by trust	26	(25,489)	(33,413)	(27,516)
Share premium		283,430	283,430**	283,430**
Retained earnings		3,007,132	2,281,428	1,961,231
Merger reserve	2	402,862	402,862**	402,862**
Share based payment reserve	27	(5,135)	(20,568)	(17,803)
Fair value reserve for investment securities measured at fair value through other comprehensive income		(10,862)	11,158	(6,476)
Cumulative currency translation reserve		(9,450)	(2,124)	(6,850)
Net assets attributable to owners		3,644,170	2,924,455	2,590,560
Non-controlling interest	41	48,059	11,479	8,530
TOTAL EQUITY		3,692,229	2,935,934	2,599,090
TOTAL LIABILITIES AND EQUITY		24,508,561	22,577,805	18,359,266

* Mandatory cash balances with National Bank of Uzbekistan was added in 2021. Previously, only balances with National Bank of Georgia were included.

** Certain amounts do not correspond to the 2020 and 2019 consolidated financial statements as they reflect the certain restatements as described in Note 2.

The consolidated and the separate financial statements on pages 212 to 359 were approved by the Board of Directors on 13 April 2022 and signed on its behalf by:



Vakhtang Butskhrikidze
Chief Executive Officer

The notes set out on pages 219 to 359 form an integral part of these consolidated and separate financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

<i>in thousands of GEL</i>	Note	31 December 2021	31 December 2020 (restated)	31 December 2019 (restated)
Interest income	30	1,885,856	1,667,999	1,436,843
Interest income calculated using effective interest rate method	30	1,827,418	1,614,916	1,388,909
Other interest income	30	58,438	53,083	47,934
Interest expense	30	(911,267)	(853,516)	(663,860)
Net interest gains on currency swaps	30	28,143	20,950	28,556
Net interest income		1,002,732	835,433	801,539
Fee and commission income	31	412,032	306,177*	289,621*
Fee and commission expense	31	(164,032)	(123,410)*	(102,331)*
Net fee and commission income		248,000	182,767	187,290
Insurance premiums earned	34	80,712	65,689	57,910
Reinsurer's share in Insurance premiums earned	34	(14,722)	(12,330)	(19,711)
Insurance claims incurred and agents' commissions	34	(53,745)	(41,409)	(37,544)
Reinsurer's share in claims incurred	34	11,301	7,535	17,855
Insurance profit		23,546	19,485	18,510
Net gains from currency derivatives, foreign currency operations and translation	33	117,270	98,018	101,187
Net gains/(losses) from disposal of investment securities measured at fair value through other comprehensive income		11,156	(624)	169
Other operating income	32	48,479	20,512	18,916
Share of profit of associates		837	–	632
Other operating non-interest income		177,742	117,906	120,904
Credit loss recovery/(allowance) for loans to customers	9	40,123	(330,811)	(82,030)
Credit loss (allowance)/recovery for finance lease receivables	13	(321)	(8,398)	582
Credit loss recovery/(allowance) for performance guarantees and credit related commitments	22	1,204	3,238	(2,156)
Credit loss allowance for other financial assets	12	(14,726)	(14,067)	(8,098)
Credit loss recovery/(allowance) for financial assets measured at fair value through other comprehensive income		2,602	(1,809)	(290)
Net impairment of non-financial assets		(11,982)	(6,161)*	(2,743)*
Operating income after expected credit and non-financial asset impairment losses		1,468,920	797,583*	1,033,508*
Staff costs	35	(309,302)	(244,043)	(247,803)
Depreciation and amortization	15,16,17	(79,891)	(68,392)	(59,478)
Recovery of provision/(allowance of provision) for liabilities and charges	22	27	(2,706)	(1,264)
Administrative and other operating expenses	36	(156,668)	(122,321)*	(139,438)*
Operating expenses		(545,834)	(437,462)*	(447,983)*
Losses from modifications of financial instruments		(1,726)	(41,015)	–
Profit before tax		921,360	319,106	585,525
Income tax (expense)/credit	37	(112,361)	3,383	(45,184)
Profit for the year		808,999	322,489	540,341
Other comprehensive (expense)/income for the year				
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Movement in fair value reserve for investment securities measured at fair value through other comprehensive income	10	(22,020)	17,633	(15,156)
Exchange differences on translation to presentation currency		(7,326)	4,707	85
Other comprehensive (expense)/income for the year		(29,346)	22,340	(15,071)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		779,653	344,829	525,270
Profit is attributable to:				
– Shareholders of TBCG		800,782	317,752	537,895
– Non-controlling interest		8,217	4,737	2,446
Profit for the year		808,999	322,489	540,341
Total comprehensive income is attributable to:				
– Shareholders of TBCG		771,436	340,092	522,843
– Non-controlling interest		8,217	4,737	2,427
Total comprehensive income for the year		779,653	344,829	525,270
Earnings per share for profit attributable to the owners of the Group:				
– Basic earnings per share (in GEL)	28	14.7	5.8	9.8
– Diluted earnings per share (in GEL)	28	14.3	5.8	9.8

* Certain amounts do not correspond to the 2020 and 2019 consolidated financial statements as they reflect the certain restatements as described in Note 2.

The notes set out on pages 219 to 359 form an integral part of these consolidated and separate financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>in thousands of GEL</i>	Note	Share Capital	Shares held by trust	Share premium (restated)	Group reorganization reserve (restated)	Merger reserve (restated)	Share based payments reserve	Fair value reserve for investment securities at FVTOCI	Cumulative currency translation reserve	Retained earnings	Total equity excluding non-controlling interest	Non-controlling interest	Total Equity
Balance as of 1 January 2019 (as originally presented)		1,650	-	796,854	(162,167)	-	(16,294)	8,680	(6,937)	1,531,562	2,153,348	3,062	2,156,410
Restatement effect*	2	-	-	(565,029)	162,167	402,862	-	-	-	-	-	-	-
Balance as of 1 January 2019 (restated)		1,650	-	231,825	-	402,862	(16,294)	8,680	(6,937)	1,531,562	2,153,348	3,062	2,156,410
Profit for the year		-	-	-	-	-	-	-	-	537,895	537,895	2,446	540,341
Other comprehensive loss		-	-	-	-	-	-	(15,156)	85	-	(15,071)	-	(15,071)
Total comprehensive income for 2019		-	-	-	-	-	-	(15,156)	85	537,895	522,824	2,446	525,270
Business combination	47	-	-	-	-	-	-	-	2	2	4	3,134	3,138
Share issue	26	32	-	51,605	-	-	(35,306)	-	-	-	16,331	-	16,331
Purchase of shares by employee benefit trust		-	(27,516)	-	-	-	-	-	-	-	(27,516)	-	(27,516)
Share based payment expense	27	-	-	-	-	-	33,797	-	-	-	33,797	(35)	33,762
Purchase of additional interest from NCI		-	-	-	-	-	-	-	-	-	-	(19)	(19)
Dividends declared		-	-	-	-	-	-	-	-	(108,622)	(108,622)	-	(108,622)
Other movements		-	-	-	-	-	-	-	-	394	394	(58)	336
Balance as of 31 December 2019 (restated)		1,682	(27,516)	283,430	-	402,862	(17,803)	(6,476)	(6,850)	1,961,231	2,590,560	8,530	2,599,090
Profit for the year		-	-	-	-	-	-	-	-	317,752	317,752	4,737	322,489
Other comprehensive income		-	-	-	-	-	-	17,633	4,707	-	22,340	-	22,340
Total comprehensive income for 2020		-	-	-	-	-	-	17,633	4,707	317,752	340,092	4,737	344,829
Share based payment expense	27	-	-	-	-	-	18,342	-	-	-	18,342	13	18,355
Delivery of SBP shares to employees		-	19,596	-	-	-	(21,107)	-	-	-	(1,511)	-	(1,511)
Purchase of shares by employee benefit trust		-	(25,493)	-	-	-	-	-	-	-	(25,493)	-	(25,493)
Other movements		-	-	-	-	-	-	1	19	2,445	2,465	(1,801)	664
Balance as of 31 December 2020 (restated)		1,682	(33,413)	283,430	-	402,862	(20,568)	11,158	(2,124)	2,281,428	2,924,455	11,479	2,935,934
Profit for the year		-	-	-	-	-	-	-	-	800,782	800,782	8,217	808,999
Other comprehensive loss for 2021:		-	-	-	-	-	-	(22,020)	(7,326)	-	(29,346)	-	(29,346)
Effect of change in business model	2	-	-	-	-	-	-	26,062	-	-	26,062	-	26,062
Other effects during the period		-	-	-	-	-	-	(48,082)	(7,326)	-	(55,408)	-	(55,408)
Total comprehensive income for 2021		-	-	-	-	-	-	(22,020)	(7,326)	800,782	771,436	8,217	779,653
Share based payment expense	27	-	-	-	-	-	24,991	-	-	-	24,991	-	24,991
Dividends declared		-	-	-	-	-	-	-	-	(81,772)	(81,772)	(5,951)	(87,723)
Delivery of SBP shares to employees		-	7,924	-	-	-	(9,558)	-	-	-	(1,634)	-	(1,634)
Purchase of additional interest from NCI		-	-	-	-	-	-	-	-	(13,241)	(13,241)	(2,975)	(16,216)
Sale of investment to NCI	41	-	-	-	-	-	-	-	-	19,125	19,125	37,914	57,039
Other movements		-	-	-	-	-	-	-	-	810	810	(625)	185
Balance as of 31 December 2021		1,682	(25,489)	283,430	-	402,862	(5,135)	(10,862)	(9,450)	3,007,132	3,644,170	48,059	3,692,229

* Certain amounts do not correspond to the 2020 and 2019 consolidated financial statements as they reflect the certain restatements as described in Note 2.

The notes set out on pages 219 to 359 form an integral part of these consolidated and separate financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

<i>in thousands of GEL</i>	Note	31 December 2021	31 December 2020	31 December 2019
Cash flows from/(used in) operating activities				
Interest received		1,981,768	1,462,815	1,360,296
Interest received on currency swaps	30	28,143	20,950	28,556
Interest paid		(867,209)	(839,258)	(647,427)
Fees and commissions received		414,505	297,024	282,715
Fees and commissions paid		(188,214)	(133,385)	(106,526)
Insurance and reinsurance received		96,601	86,447	76,101
Insurance claims paid		(36,806)	(27,139)	(21,787)
Cash received/(paid) from trading in foreign currencies	33	113,043	(92,191)	79,287
Other operating income received		75,378	48,402	44,248
Staff costs paid		(307,633)	(238,577)	(216,465)
Administrative and other operating expenses paid		(195,188)	(134,348)	(169,582)
Income tax paid		(13,756)	(46,268)	(70,413)
Cash flows from operating activities before changes in operating assets and liabilities		1,100,632	404,472	639,003
Net change in operating assets				
Due from other banks and mandatory cash balances with National Bank of Georgia and Uzbekistan*		393,174	(353,975)	(22,009)
Loans and advances to customers		(3,085,488)	(1,059,684)	(2,013,577)
Finance lease receivables		(499)	(2,902)	(43,719)
Other financial assets		(213,126)	(41,774)	47,128
Other assets		5,077	33,109	1,577
Net change in operating liabilities				
Due to other banks		132,826	(32,294)	(1,938)
Customer accounts		2,821,952	1,432,051	272,023
Other financial liabilities		(144,867)	115,370	(8,267)
Other liabilities and provision for liabilities and charges		36,791	(8,153)	5,816
Net cash flows from/(used in) operating activities		1,046,472	486,220	(1,123,963)
Cash flows from/(used in) investing activities				
Acquisition of investment securities measured at fair value through other comprehensive income	10	(797,285)	(763,531)	(1,781,816)
Proceeds from disposal of investment securities measured at fair value through other comprehensive income	10	1,025,775	287,917	240,603
Proceeds from redemption at maturity of investment securities measured at fair value through other comprehensive income	10	412,204	165,632	1,598,536
Dividend received		–	694	–
Acquisition of subsidiaries, net of cash acquired		–	–	(36,301)
Acquisition of bonds carried at amortised cost	11	(47,784)	(668,477)	(613,383)
Proceeds from redemption of bonds carried at amortised cost	11	26,296	413,038	216,871
Acquisition of premises, equipment and intangible assets	15	(163,222)	(164,379)	(120,333)
Proceeds from disposal of premises, equipment and intangible assets		20,826	3,627	13,225
Proceeds from disposal of investment properties		23,639	13,513	13,338
Purchase of additional interest from minority shareholders		(17,215)	–	–
Proceeds from sale of investment to NCI	41	57,039	–	–
Net cash flows from/(used in) investing activities		540,273	(711,966)	(469,260)
Cash flows (used in) /from financing activities				
Proceeds from other borrowed funds	38	1,750,443	4,036,810	1,819,899
Redemption of other borrowed funds	38	(3,338,139)	(3,324,230)	(1,392,897)
Repayment of principal of lease liabilities	38	(12,825)	(13,251)	(6,453)
Redemption of subordinated debt	38	(12,562)	–	(104,079)
Cash paid for purchase of shares by employee benefit trust		–	(25,493)	(27,516)
Proceeds from debt securities in issue	38	295,457	104,838	1,176,049
Redemption of debt securities in issue	38	–	–	(14,296)
Dividends paid		(87,723)	(1,344)	(91,928)
Net cash (used in)/from financing activities		(1,405,349)	777,330	1,358,779
Effect of exchange rate changes on cash and cash equivalents		(94,664)	80,238	71,116
Net increase/(decrease) in cash and cash equivalents		86,732	631,822	(163,328)
Cash and cash equivalents at the beginning of the year	6	1,635,405	1,003,583	1,166,911
Cash and cash equivalents at the end of the year	6	1,722,137	1,635,405	1,003,583

* Mandatory cash balances with National Bank of Uzbekistan was added in 2021. Previously, only balances with National Bank of Georgia were included

The notes set out on pages 219 to 359 form an integral part of these consolidated and separate financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION

<i>in thousands of GEL</i>	Note	31 December 2021	31 December 2020 (restated)	31 December 2019 (restated)
ASSETS				
Cash and cash equivalents		15,391	10,444	5,546
Due from other banks		-	27,700	40,815
Loans issued		10,862	-	-
Other financial assets		-	108	278
Investments in subsidiaries:				
Investments in subsidiaries' equity*		1,652,825	1,585,839	1,509,293
Contributions for subsidiaries' compensation scheme*		22,781	2,823	10,629
Other assets		463	478	465
TOTAL ASSETS		1,702,322	1,627,392	1,567,026
LIABILITIES				
Other financial liabilities		18,096	5,095	1,751
Debt securities in issue	21	126,930	76,985	-
TOTAL LIABILITIES		145,026	82,080	1,751
EQUITY				
Share capital	26	1,682	1,682	1,682
Shares held by trust	26	(25,489)	(33,413)	(27,516)
Share premium	2	283,430	283,430**	283,430**
Merger reserve	2	565,029	565,029**	565,029**
Retained earnings		687,436	781,678	681,048
Profit/(loss) for the year		72,030	(12,476)	100,630
Share based payment reserve	27	(26,822)	(40,618)	(39,028)
TOTAL EQUITY		1,557,296	1,545,312	1,565,275
TOTAL LIABILITIES AND EQUITY		1,702,322	1,627,392	1,567,026

* To further foster clarity and understandability of financial statements the Group has separated investment in subsidiaries' equity and contributions for subsidiaries' compensation scheme from investment in subsidiaries and presented separately.

** Certain amounts do not correspond to the 2020 and 2019 consolidated financial statements as they reflect the certain restatements as described in Note 2.

The consolidated and the separate financial statements on pages 212 to 359 were approved by the board of directors on 13 April and signed on its behalf by:



Vakhtang Butskhrikidze
Chief Executive Officer

The notes set out on pages 219 to 359 form an integral part of these consolidated and separate financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY

<i>in thousands of GEL</i>	Note	Share Capital	Shares held by trust	Share premium (restated)	Merger reserve (restated)	Share based payment reserve	Retained earnings	Total
Balance as of 1 January 2019 (as originally presented)		1,650	-	796,854	-	(35,828)	789,670	1,552,346
Restatement effect*	2	-	-	(565,029)	565,029	-	-	-
Balance as of 1 January 2019 (restated)		1,650	-	231,825	565,029	(35,828)	789,670	1,552,346
Profit for the year		-	-	-	-	-	100,630	100,630
Total comprehensive income for 2019		-	-	-	-	-	100,630	100,630
Share issue	26	32	-	51,605	-	(34,941)	-	16,696
Purchase of shares by employee benefit trust	26	-	(27,516)	-	-	-	-	(27,516)
Dividends declared	26	-	-	-	-	-	(108,622)	(108,622)
Share based payment expense	27	-	-	-	-	31,741	-	31,741
Balance as of 31 December 2019 (restated)		1,682	(27,516)	283,430	565,029	(39,028)	781,678	1,565,275
Loss for the year		-	-	-	-	-	(12,476)	(12,476)
Total comprehensive loss for 2020		-	-	-	-	-	(12,476)	(12,476)
Purchase of shares by employee benefit trust	26	-	(25,493)	-	-	-	-	(25,493)
Shares award to employees under share based payment scheme		-	19,596	-	-	(19,596)	-	-
Share based payment expense	27	-	-	-	-	18,006	-	18,006
Balance as of 31 December 2020 (restated)		1,682	(33,413)	283,430	565,029	(40,618)	769,202	1,545,312
Profit for the year		-	-	-	-	-	72,030	72,030
Total comprehensive income for 2021		-	-	-	-	-	72,030	72,030
Dividends declared		-	-	-	-	-	(81,766)	(81,766)
Shares award to employees under share based payment scheme		-	7,924	-	-	(9,558)	-	(1,634)
Share based payment expense	27	-	-	-	-	23,354	-	23,354
Balance as of 31 December 2021		1,682	(25,489)	283,430	565,029	(26,822)	759,466	1,557,296

* Certain amounts do not correspond to the 2020 and 2019 consolidated financial statements as they reflect the certain restatements as described in Note 2.

The notes set out on pages 219 to 359 form an integral part of these consolidated and separate financial statements.

SEPARATE STATEMENT OF CASH FLOWS

<i>in thousands of GEL</i>	31 December 2021	31 December 2020	31 December 2019 (restated)
Cash flows from/(used in) operating activities			
Interest received	2,329	3,179	9,933
Interest paid	(7,207)	(447)	(42)
Fees and commissions paid	(11)	(11)	(17)
Staff costs paid	(3,916)	(3,738)	(4,520)
Administrative and other operating expenses paid	(4,725)	(5,582)	(10,439)
Other operating income received	–	256	215
Cash flows used in operating activities before changes in operating as- sets and liabilities	(13,530)	(6,343)	(4,870)
Net change in operating assets			
Other financial assets	8	161	(10)
Other assets	7	(16)	(101)
Net change in operating liabilities			
Other financial liabilities	(31)	2,274	360
Loans issued	(10,841)	–	–
Net cash used in operating activities	(24,387)	(3,924)	(4,621)
Cash flows from/(used in) investing activities			
Acquisition of subsidiaries, net of cash acquired	–	–	(40,162)
Investments in subsidiaries	(65,466)	(76,546)	(8,857)
Dividends received	94,615	6,155	99,662
Inflow from recharge agreement	–	25,749	43,521
Placement of deposits	–	(85,369)	(153,369)
Withdrawal of deposits	26,995	99,066	187,376
Net cash flows (used in)/ from investing activities	56,144	(30,945)	128,171*
Cash flows from/(used in) financing activities			
Dividends paid	(81,766)	–	(91,925)*
Cash paid for purchase of shares by employee benefit trust	–	(25,493)	(27,516)
Proceeds from debt securities in issue	55,107	73,237	–
Net cash (used in)/from financing activities	(26,659)	47,744	(119,441)*
Effect of exchange rate changes on cash and cash equivalents	(151)	(7,977)	(767)
Net increase in cash and cash equivalents	4,947	4,898	3,342
Cash and cash equivalents at the beginning of the year	10,444	5,546	2,204
Cash and cash equivalents at the end of the year	15,391	10,444	5,546

* Certain amounts do not correspond to the 2019 consolidated financial statement as they reflect the certain restatements as described in Note 2.

The notes set out on pages 219 to 359 form an integral part of these consolidated and separate financial statements.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

1. INTRODUCTION

Principal activity. TBC Bank Group PLC is a public limited liability company, incorporated in England and Wales. TBC Bank Group PLC held 99.88% of the share capital of JSC TBC Bank (hereafter the “Bank”) as at 31 December 2021 (2020: 99.88%, 2019: 99.88%), thus representing the Bank’s ultimate parent company. The Bank is a parent of a group of companies incorporated in mainly in Georgia, Uzbekistan and Azerbaijan, their primary business activities include providing banking, leasing, brokerage and card processing services to corporate and individual customers. TBC Bank Group PLC and its subsidiaries is referred as “TBCG” or “Group”. The Group’s list of subsidiaries is provided in below.

The shares of TBCG (“TBCG Shares”) were admitted to the Premium Listing segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange PLC’s Main Market for listed securities effective on 10 August 2016 (the “Admission”). TBC Bank Group PLC’s registered legal address is Highdown House, Yeoman Way, Worthing, West Sussex, United Kingdom, BN99 3HH. Registered number of TBC Bank Group PLC is 10029943. The Bank is the Group’s main operating unit and it accounts for most of the Group’s activities.

JSC TBC Bank was incorporated on 17 December 1992 and is domiciled in Georgia. The Bank is a joint stock company limited by shares and was set up in accordance with Georgian regulations. The Bank’s registered address and place of business is 7 Marjanishvili Street, 0102 Tbilisi, Georgia.

The Bank’s principal business activity is universal banking operations that include corporate, small and medium enterprises, retail and micro operations within Georgia. The Bank has been operating since 20 January 1993 under a general banking license issued by the National Bank of the Georgia (“NBG”). In 2018, the Bank launched fully-digital bank, Space.

The Bank has 147 (2020:149; 2019:148) branches within Georgia.

As of 31 December 2021, 31 December 2020 and 31 December 2019, the following shareholders directly owned more than 3% of the total outstanding shares of the Group. Other shareholders individually owned less than 3% of the outstanding shares. As of 31 December 2021, 31 December 2020 and 31 December 2019 the Group had no ultimate controlling party.

Shareholders	% of ownership interest held as of 31 December		
	2021	2020	2019
Dunross & Co.	7.45%	7.42%	6.61%
European Bank for Reconstruction and Development	5.05%	5.05%	8.04%
Allan Gray Investment Management	4.89%	4.26%	2.03%
Schroder Investment Management	3.18%	3.12%	6.48%
JPMorgan Asset Management	3.15%	4.56%	6.22%
Fidelity International	3.13%	1.84%	N/A
Creation Investments Capital Management	3.12%	3.22%	3.00%
Founders*	14.61%	14.63%	16.26%
Other**	55.42%	55.90%	51.36%
Total	100.00%	100.00%	100.00%

* Founders include direct and indirect ownerships of Mamuka Khazaradze, Badri Japaridze.

** Other includes individual as well as corporate shareholders.

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

1. INTRODUCTION **CONTINUED**

Subsidiaries and associates. The TBC Bank Group PLC holds 99.88% of the Bank as of 31 December 2021. The consolidated financial statements include the following principal subsidiaries:

Subsidiary name	Proportion of voting rights and ordinary share capital held as of 31 December			Principal place of business or incorporation	Year of incorpora- tion	Principal activities
	2021	2020	2019			
JSC TBC Bank	99.88%	99.88%	99.88%	Tbilisi, Georgia	1992	Banking
United Financial Corporation JSC	99.53%	99.53%	99.53%	Tbilisi, Georgia	1997	Card processing
TBC Capital LLC	100.00%	100.00%	100.00%	Tbilisi, Georgia	1999	Brokerage
TBC Leasing JSC	100.00%	100.00%	100.00%	Tbilisi, Georgia	2003	Leasing
TBC Kredit LLC	100.00%	100.00%	100.00%	Baku, Azerbaijan	1999	Non-banking credit institution
TBC Pay LLC	100.00%	100.00%	100.00%	Tbilisi, Georgia	2009	Processing
TBC Invest LLC	100.00%	100.00%	100.00%	Ramat Gan, Israel	2011	PR and marketing
Index LLC	100.00%	100.00%	100.00%	Tbilisi, Georgia	2011	Real estate management
TBC Capital Asset Management LLC	100.00%	N/A	N/A	Tbilisi, Georgia	2021	Asset Management
JSC TBC Insurance	100.00%	100.00%	100.00%	Tbilisi, Georgia	2014	Insurance
Redmed LLC	100.00%	100.00%	100.00%	Tbilisi, Georgia	2019	Insurance
TBC Net LLC ¹	100.00%	100.00%	100.00%	Tbilisi, Georgia	2019	Asset management
Swoop JSC ²	N/A	100.00%	100.00%	Tbilisi, Georgia	2010	Retail Trade
Online Tickets LLC	55.00%	55.00%	55.00%	Tbilisi, Georgia	2015	Computer and Software Services
TKT UZ	75.00%	75.00%	75.00%	Tashkent, Uzbekistan	2019	Retail Trade
My.Ge LLC ²	N/A	65.00%	65.00%	Tbilisi, Georgia	2019	E-Commerce
Mypost LLC	100.00%	100.00%	100.00%	Tbilisi, Georgia	2019	Postal Service
Billing Solutions LLC	51.00%	51.00%	51.00%	Tbilisi, Georgia	2019	Software Services
Vendoo LLC (Geo)	100.00%	100.00%	100.00%	Tbilisi, Georgia	2019	Retail Leasing
Allproperty.ge LLC ²	N/A	90.00%	90.00%	Tbilisi, Georgia	2013	Real estate management
F Solutions LLC	100.00%	100.00%	100.00%	Tbilisi, Georgia	2019	Software Services
TBC Connect ²	N/A	100.00%	N/A	Tbilisi, Georgia	2020	Software Services
Inspired LLC	51.00%	51.00%	51.00%	Tashkent, Uzbekistan	2011	Processing
Vendoo LLC (UZ Leasing)	100.00%	100.00%	100.00%	Tashkent, Uzbekistan	2019	Retail Leasing
Marjanishvili 7 LLC	100.00%	100.00%	N/A	Tbilisi, Georgia	2020	Food and Beverage
TBC Bank JSC UZ	60.24%	100.00%	N/A	Tashkent, Uzbekistan	2020	Banking
TBC Group Support LLC	100.00%	100.00%	N/A	Tbilisi, Georgia	2020	Risk Monitoring
SABA LLC	85.00%	-	-	Tbilisi, Georgia	2012	Education
Artarea.ge LLC	100.00%	-	-	Tbilisi, Georgia	2012	PR and marketing
TBC Art Gallery LLC	100.00%	-	-	Tbilisi, Georgia	2012	PR and marketing
Space JSC	100.00%	N/A	N/A	Tbilisi, Georgia	2021	Software services
Space International JSC	100.00%	N/A	N/A	Tbilisi, Georgia	2021	Software services

1. INTRODUCTION CONTINUED

The Group has investments in the following associates:

Associate name	Proportion of voting rights and ordinary share capital held as of 31 December			Principal place of business or incorporation	Year of incorporation	Principal activities
	2021	2020	2019			
CreditInfo Georgia JSC	21.08%	21.08%	21.08%	Tbilisi, Georgia	2005	Financial intermediation
Tbilisi Stock Exchange JSC	28.87%	28.87%	28.87%	Tbilisi, Georgia	2019	Finance, Service
Georgian Central Securities Depository JSC	22.87%	22.87%	27.70%	Tbilisi, Georgia	2019	Finance, Service
Georgian Stock Exchange JSC ³	17.33%	17.33%	17.33%	Tbilisi, Georgia	2019	Finance, Service
Kavkasreestri JSC ³	10.03%	10.03%	10.03%	Tbilisi, Georgia	2019	Finance, Service

The country of registration or incorporation is also the principal area of operation of each of the above subsidiaries.

The Group's corporate structure consists of a number of related undertakings, comprising subsidiaries and associates, which are not consolidated or equity accounted due to immateriality. A full list of these undertakings, the country of incorporation and the ownership of each share class is set out below.

Company name	Proportion of voting rights and ordinary share capital held as of 31 December			Principal place of business or incorporation	Year of incorporation	Principal activities
	2021	2020	2019			
TBC Invest International Ltd ⁴	100.00%	100.00%	100.00%	Tbilisi, Georgia	2016	Investment Vehicle
University Development Fund ⁴	33.33%	33.33%	33.33%	Tbilisi, Georgia	2007	Education
Natural Products of Georgia LLC ⁴	25.00%	25.00%	25.00%	Tbilisi, Georgia	2001	Trade, Service
TBC Trade LLC	100.00%	100.00%	100.00%	Tbilisi, Georgia	2008	Trade, Service
Georgia Large Cap Diversified Credit Portfolio JSC	100.00%	N/A	N/A	Tbilisi, Georgia	2021	Asset Management
Freeshop.ge LLC	100.00%	100.00%	100.00%	Tbilisi, Georgia	2010	Retail Trade
The.ge LLC	100.00%	100.00%	100.00%	Tbilisi, Georgia	2010	Retail Trade

Operating environment of the Group. Georgia, where Group's most activities are located, displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 37). In 2021 the Georgian economy rebounded at 10.4%. While the restart was certainly expected, the Georgian economy has rebounded at a speed exceeding even the most optimistic scenarios. Importantly, the growth was broad based and has been reflected in all sources of inflows, as well as in domestic demand. The latter was fuelled by the reversal of the excess pandemic period related savings in an affluent segment being supported by the low USD deposit rates. The credit growth was also strong, while, the fiscal stance was slightly contractionary on the back of still large, however, much lower deficit than a year ago. At the same time, Georgia continues to face downside risks to economic growth due to prolongation of the pandemic, internal and external political tensions, possible military conflicts in the region, as well as undesirable side effects of the Fed's sooner-than-expected rate hike.

¹ The company was renamed from TBC Ecosystem companies LLC to TBC Net LLC during 2021.

² The companies were merged with TBC Net LLC during 2021.

³ The Group has a significant influence on Georgian Stock Exchange JSC and Kavkasreestri JSC held as an investment in associates.

⁴ Dormant.

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

1. INTRODUCTION CONTINUED

COVID-19 new cases continue to surge at an unprecedented speed. However, a much less severity of Omicron now appears to be well confirmed. At the same time, Georgia, among some other region countries, faces vaccination process challenges, lagging behind the world average. In 2022, compared with 2021, the growth will much more depend on the continued recovery in tourism inflows and therefore, the materialization of pandemic related and other risks could severely restrict economic activity in Georgia, negatively impacting business environment and clients of the Group.

Management is taking necessary measures to ensure sustainability of the Group's operations and support its customers and employees. There is continuous work on stress testing to better understand possible implications for the group of certain adverse scenarios. In addition, the Management took additional measures to identify inefficient processes and further supported the financial condition of the Group through optimisation.

The future effects of the current economic situation and the above measures are difficult to predict and management's current expectations and estimates could differ from actual results.

For the purpose of measurement of expected credit losses ("ECL") the Group uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Note 39 provides more information of how the Group incorporated forward-looking information in the ECL models.

Since February 2022 ongoing political tension in the region escalated as a result of Russian invasion in Ukraine. This have negatively impacted commodity and financial markets, and increased volatility, particularly with regard to foreign exchange rates. As a result of sanctions imposed from a number of countries, many companies left Russian market and as a result ceased providing services and products to Russian Market. There is an expectation of further sanctions and limitations on business activity of companies operating in Russia. To avoid the severe effects on Georgian economy the Georgian Government has not joined on all sanctions, but the full nature and possible effects of the imposed restrictions against Russia and Ukrainian economy downturn are yet unknown. However, taking into account Georgia's vulnerability to developments in Ukraine and Russia and economic links with this countries, there will be adverse implications for the growth outlook, as well as, for the other macro variables, which may also negatively affect the Bank's capital adequacy, liquidity and credit risks.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation. The consolidated financial statements of the Group and the separate financial statements of TBC Bank Group PLC, together referred as "financial statements" has been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 and, for the group, in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The consolidated and separate financial statements have been prepared in line with the valuation methods described in the accounting policies below. The principal accounting policies applied in the preparation of the consolidated and separate financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated below.

In accordance with the exemption permitted under section 408 of the Companies Act 2006, the standalone statement of comprehensive income of TBCG is not presented as part of these separate financial statements. TBCG's income for the year is disclosed within the separate statement of financial position and the separate statement of changes in equity.

Climate Change. TBC Bank Group PLC as a responsible lender continues to develop its assessment of the potential impacts that climate change and the transition to a low carbon economy may have on the assets and liabilities recognised and presented in its financial statements. During the year the Group has performed a high level sectoral risk assessment as different sectors might be vulnerable to different climate-related risks over different time horizons. On the other hand, the understanding of climate related risks, which have longer-term impacts need to be increased in coming years. At 31 December 2021, management specifically considered the potential impact of climate change and the transition to a low carbon economy on at a high level sectoral risk assessment. See more details outlined in risk management disclosures in note 39.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Going Concern. The Board of Directors of TBC Bank Group PLC has prepared these financial statements on a going concern basis. In making this judgement, management considered the Group's financial position, current intentions, profitability of operations and access to financial resources. Management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern.

Presentation currency. These consolidated financial statements are presented in thousands of Georgian Lari ("GEL thousands"), except per-share amounts and unless otherwise indicated.

Changes in presentation of the net impairment of non-financial assets. During 2021, the Group reclassified impairment/recovery of non-financial assets from "Administrative and other operating expenses" to "Net impairment of non-financial assets". Significant part of any impairment/recoveries recorded are related to repossessed assets and investment properties. Management believes, that those type of assets are not actively used in daily operations, but are primarily targeted for sale in future. Considering nature of those expenses/recovery such presentation is more appropriate and would increase understandability and clarity of the Group's audited consolidated annual financial statements. The presentation of comparative figures has been adjusted to confirm to the presentation of the current period amounts:

<i>In thousands of GEL</i>	31 December 2020 (as originally presented)	Reclassification	31 December 2020 (as restated)
Net impairment of non-financial assets	-	(6,161)	(6,161)
Administrative and other operating expenses	(128,482)	6,161	(122,321)
<i>In thousands of GEL</i>	31 December 2019 (as originally presented)	Reclassification	31 December 2019 (as restated)
Net impairment of non-financial assets	-	(2,743)	(2,743)
Administrative and other operating expenses	(142,181)	2,743	(139,438)

Restatement of cashbacks and incentive payments received for card operations. To further foster clarity of the consolidated statement of comprehensive income, the Group has re-considered the presentation of cash backs and incentive payments received from Visa and Mastercard for card operations. The amount of cash backs and incentive payments receivable depend on the scale of Groups operations with Visa and Mastercard cards and related commission expenses paid to them. Management believes, presenting commission expenses made to Visa and Mastercard net of cash backs and incentive payments received from them, will increase clarity and understandability of the financial statements and related accounting treatments. As a result of reclassification, Management has moved cashbacks and incentive payments from Visa and Mastercard from "Fee and commission income" to "Fee and commission expense". The presentation of comparative figures has been adjusted to confirm to the presentation of the current period amounts:

<i>In thousands of GEL</i>	31 December 2020 (as originally presented)	Reclassification	31 December 2020 (as restated)
Fee and commission income	314,177	(8,000)	306,177
Fee and commission expense	(131,410)	8,000	(123,410)

<i>In thousands of GEL</i>	31 December 2019 (as originally presented)	Reclassification	31 December 2019 (as restated)
Fee and commission income	293,431	(3,810)	289,621
Fee and commission expense	(106,141)	3,810	(102,331)

Changes in presentation of the merger reserve. Group has re-considered the presentation of the reorganisation reserve, recognised in respect of the reorganisation which occurred back in 2016, when TBC Bank PLC (TBCG), as a parent entity has been established and the shares of JSC TBC Bank has been exchanged for shares of TBC Bank Group PLC. The re-presentation includes a correction of an error in the recognition of share premium, which impacts both the separate and consolidated statements of financial position and statements of changes in equity, and a voluntary change of presentation for the group merger reserve, which impacts the consolidated statements only.

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

2. SIGNIFICANT ACCOUNTING POLICIES **CONTINUED**

Correction of error. Following a group restructuring occurred in 2016, TBC Bank Group PLC was established as a parent entity of JSC TBC Bank Group, and was successfully listed on the London Stock Exchange on 10 August 2016. For the reorganisation in the consolidated statements, share capital and share premium were recognised with the same amounts, as recognised in the TBCG standalone financial statements, whilst retained earnings were set at an amount equal to the retained earnings of JSC TBC Bank Group at the moment of reorganisation. The balancing figure, to arrive at the total equity amount of the reorganised entity, was credited to the share premium and amounted to GEL 565,029. However, upon reorganisation merger relief should have been applied according to Companies Act 2006 section 612, and the amounts previously recognized under share premium in the separate and consolidated statements, should have been recognised as a merger reserve instead. As a result, management has corrected the previous classification by moving GEL 565,029 under the correct caption.

Effect on separate statement of financial position

<i>In thousands of GEL</i>	31 December 2020 (as originally presented)	Reclassification	31 December 2020 (as restated)
Share premium	848,459	(565,029)	283,430
Merger reserve	-	565,029	565,029

<i>In thousands of GEL</i>	31 December 2019 (as originally presented)	Reclassification	31 December 2019 (as restated)
Share premium	848,459	(565,029)	283,430
Merger reserve	-	565,029	565,029

Voluntary re-presentation of the group merger reserve. Following the admission to the premium listing, TBCG's Management undertook a reduction of capital in order to create distributable reserves for TBCG. The capital cut was made as follows:

Each TBCG share had an original (Tender Offer) nominal value of GBP 5.00. Following the capital reduction, the nominal value of TBCG shares was reduced to GBP 0.01. The capital reduction created a distributable reserve on the statement of TBCG's financial position amounting to GEL 745,637 thousand (being the difference between original nominal value of GBP 5.00 and the reduced nominal value of GBP 0.01 per share, multiplied for each outstanding number of shares). This additional reserve was included the offsetting carrying value of the acquired carrying values of GEL 907,804 so that the total reorganization reserve was a negative GEL 162,167 thousand.

Group has voluntarily opted to combine "Group reorganisation reserve" and share premium at the reorganization date, the latter previously recognized in "share premium", under one financial statement line item "Merger reserve". Management believes, that such presentation will allow the Group to present the results of the reorganisation clearly and allow the users to better understand the nature of the Group's equity line items. Effect of a reclassification on consolidated financial statements is GEL 162,167 thousand moving from the group reorganization reserve to the merger reserve, being the net movement of the capital reduction of GEL 745,637 and the acquired carrying values of GEL 907,804. The net impact of this voluntary restatement with the correction of the error above is the creation of the merger reserve of GEL 402,862 thousand.

The presentation of comparative figures has been adjusted to confirm to the presentation of the current period amounts:

Effect on consolidated statement of financial position

<i>In thousands of GEL</i>	31 December 2020 (as originally presented)	Reclassification	31 December 2020 (as restated)
Share premium	848,459	(565,029)	283,430
Group reorganization reserve	(162,167)	162,167	-
Merger reserve	-	402,862	402,862

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

<i>In thousands of GEL</i>	31 December 2019 (as originally presented)	Reclassification	31 December 2019 (as restated)
Share premium	848,459	(565,029)	283,430
Group reorganization reserve	(162,167)	162,167	-
Merger reserve	-	402,862	402,862

Changes in presentation of the separate statement of cash flows of TBC Bank Group PLC from investing to financing activities. To further foster classification and understandability of the separate statements of cash flows of TBC Bank Group Plc, the management has revisited the classification of dividend paid from cash flow from investing to cash flow from financing activities.

Under previous classification, the Group has reflected the dividend paid in the investing activities from the perspective, that the dividend received from TBC Bank JSC as a subsidiary, has in turn been fully paid to the shareholders of TBC Bank Group PLC. Management thinks, that previously disclosed amounts were misclassified. As a result, revisited the existing classification of dividends paid for 2019 by disclosing it into financing activities.

Effect on separate statement of cash flows

<i>In thousands of GEL</i>	31 December 2019 (as originally presented)	Reclassification	31 December 2019 (as restated)
Cash flows from investing activities: dividends paid	(91,925)	91,925	-
Cash flows used in financing activities: dividends paid	-	(91,925)	(91,925)

Business model change. The Group historically used Ministry of Finance (MoF) securities to invest the excess monetary resources and receive interest charges in return of the investment. In majority of the cases the securities were held till their maturity and the Group has not been engaged in trading activities for profit making purposes. As a result, according to their business model such securities were classified under hold to collect category and were recorded as "Bonds carried at amortised cost" in the consolidated and separate statements of financial position.

Towards the end of 2020 Ministry of Finance launched a new primary dealer platform to increase liquidity of the securities, to further encourage the trading of Government notes and develop Georgian securities market. Third party dealers were established for trading between the Ministry of Finance and investors. The platform was to expand investor data base and enhance liquidity of secondary market. JSC TBC Bank was given primary dealer status in the platform that enabled to act as an intermediary between investors and the Ministry of Finance by executing an order on behalf of investors.

As secondary market became more active, the Group began to monitor beneficial market opportunities and started selling Ministry of Finance securities in beneficial cases, provided the sale wouldn't impact significantly the liquidity position of the Group and would generate strong profit compared to collecting principal and interest till their maturity. As a result, practices for managing treasury securities changed by the end of 2020.

Respective change in Management's processes caused changes in existing business model from hold to collect to hold to collect and sell. Accordingly MoF securities had been re-classified from "Bonds carried at amortised cost" to "Investment securities measured at fair value through other comprehensive income" in the consolidated and separate statements of financial position, with respective effects also accounted in the audited consolidated annual financial statement of profit or loss and other comprehensive income. According to IFRS 9 requirement the change has been accounted for prospectively from the reclassification date. The reclassification date represents the first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets, which is 1 January 2021. Management believes that such presentation is more appropriate for the nature of the transactions.

Based on business model assessment performed, Management considered respective securities should have been carried at fair value through other comprehensive income (FVTOCI). Internally performed test of solely payment of principal and interest ('SPPI') had shown, that those securities were held for collection of contractual cash flows and for selling, where those cash flows represented SPPI, and they were not designated at fair value through profit and loss (FVTPL). Subsequent period sales recorded during 2021 has also demonstrated respective changes in business operations of the Group.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Effects on respective periods are disclosed below:

<i>In thousands of GEL</i>	Balance as at 31 December 2020	Change in business model	Balance as at 1 January 2021
Fair value reserve	11,158	26,062	37,220
Bonds carried at amortised cost	1,089,801	(1,059,946)	29,855
Investment securities measured at fair value through other comprehensive income	1,527,268	1,086,008	2,613,276

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because it (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than the majority of voting power in it. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

Business combinations and goodwill accounting. Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured at the fair value of the consideration, including contingent consideration, given at the acquisition date. Acquisition-related costs are recognised as an expense in the profit or loss in the period in which they are incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures the non-controlling interest that represents the current ownership's interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquired entity. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the acquiree's net assets from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after the management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services.

Transaction costs incurred for issuing equity instruments are deducted from the equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

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

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests that are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Group's equity.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Associates. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 per cent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investments in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

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

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (ie an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs

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

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

The effective interest method is a method of allocating interest income or interest expense over the term of the financial instrument so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy). For assets that are purchased or originated defaulted ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

The time value of money element may be modified, for example, if a contractual interest rate is periodically reset but the frequency of that reset does not match the tenor of the debt instrument's underlying base interest rate, for example a loan pays three months interbank rate but the rate is reset every month. The effect of the modified time value of money was assessed by comparing relevant instrument's cash flows against a benchmark debt instrument with SPPI cash flows, in each period and cumulatively over the life of the instrument. The Group applied a threshold of 10% to determine whether differences against a benchmark instruments are significantly different. In case of a scenario with cash flows that significantly differ from the benchmark, the assessed instrument's cash flows are not SPPI and the instrument is then carried at FVTPL.

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

Financial assets – reclassification. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Group changed its business model in 2020 in relation to the securities held at amortised cost, which took effect from 1 January 2021 in these financial statements as required by IFRS 9. Details and subsequent measurement are discussed in Note 2.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The Group applies a three stage model for impairment, based on changes in credit quality since initial recognition:

- Stage 1: A financial instrument that is not defaulted on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL");
- Stage 2: If the Group identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis ("Lifetime ECL"). If a SICR is no longer observed, instrument will move back to Stage 1. Financial instrument moves back from stage 2 to stage 1 with 6 month cure period in case of loans previously having default flag, while restructured loans remain in stage 2 until the restructured status is removed. In order to remove restructured status, borrower should make at least 12 consecutive payments, unless financial monitoring is performed. Refer to Note 39 for a description of how the Group determines, on a forward-looking basis, when a SICR has occurred;
- Stage 3: Defaulted assets are transferred to Stage 3 and allowance for Lifetime ECL is recognized. The Group's definition of defaulted assets and definition of default is based on the occurrence of one or more loss events, described further in Note 39.

Change in ECL is recognized in the statement of profit or loss with a corresponding allowance reported as a decrease in carrying value of the financial asset on the statement of financial position. For financial guarantees and credit commitments, provision for ECL is reported as a liability in Provisions for Liabilities and Charges.

Gross carrying amount and write offs. Gross carrying amount of a financial asset is the amortised cost of a financial asset, before adjusting for any loss allowance. The Group directly reduces the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The latter includes penalties under the local regulation requirements. The loans are collectively assessed for write off based on overdue days criteria or are individually evaluated, depending on the loan segment and product type.

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

The Group assesses whether the modification of contractual cash flows is substantial, in which it considers certain factors. Based on below shown internally developed methodology there are certain qualitative triggers which lead to asset derecognition with no further quantitative testing required. These qualitative criteria are included in the list below:

- Change in contract currency;
- Consolidation of two or more loans into one new loan;
- Change in counterparty;
- Loan with no predetermined payment schedule is changed with loan with schedule or vice versa;
- Change in contractual interest rate due to market environment changes.

The Group compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. It should be assessed whether change in contractual cash flow is significant (significance defined as 10% change). If the test result is above 10% threshold, loan should be derecognized, whereas if the test is passed and result is below or equal to 10%, financial asset can be assessed as modified.

If the risks and rewards do not change, the modified asset will not be substantially different (exceed 10% test) from the original asset and the modification does not result in derecognition. The Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate or, when applicable, the revised effective interest rate and recognises a modification gain or loss in profit or loss. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Payment holidays granted by the Group in response to COVID-19 pandemic are treated as contractual modifications of the respective loans and advances if they do not lead to derecognition as guided by the policy stated above. Their

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

impact of modifications on the gross carrying amount (net modification loss) is presented in profit or loss within losses from modifications of financial instruments. The implication of COVID-19 impact on ECL methodology is described in Note 39.

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

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

An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

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

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, amounts due from the National Bank of Georgia (NBG), excluding mandatory reserves, and all interbank placements and interbank receivables with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

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

Mandatory cash balances with National Bank of Georgia and Uzbekistan. Mandatory cash balances with National Bank of Georgia and National Bank of Uzbekistan are carried at AC and represent mandatory reserve deposits that are not available to finance the Group's day to day operations. Hence they are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks. Amounts due from other banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at fair value through profit or loss (FVTPL). Otherwise they are carried at fair value (FV).

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss. Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Group may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

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

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

Impairment allowances are determined based on the forward-looking ECL models. Note 39 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporates forward-looking information in the ECL models.

Reposessed collateral. Reposessed collateral represents non-financial assets acquired by the Group to settle overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, investment property or reposessed collateral within other assets depending on their nature and the Group's intention in respect of recovery of these assets and are subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets. Reposessed assets are recorded at the lower of cost or net realisable value.

Loan commitments. The Group issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability.

Financial guarantees. Financial guarantees require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts transfer non-financial performance risk in addition to credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Group has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as an asset upon transfer of the loss compensation to the guarantee's beneficiary. These fees are recognised within fee and commission income in profit or loss.

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. The lender provides funds to the borrower and receives security as collateral. Securities sold under such sale and repurchase agreements are not derecognized. The securities are not reclassified in the statement of financial position unless the transferee has, by contract, the right or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to credit institutions. The repurchase agreements are short-term in nature. Investment securities at fair value through other comprehensive income or bonds carried at amortised cost reclassified to repurchase receivables continue to be carried at fair value or amortised cost respectively in accordance with the accounting policies for these categories of assets.

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Group, are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties for a fixed fee are retained in the consolidated financial statements in their original category in the statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in other borrowed funds. Based on classification of securities sold under the sale and repurchase agreements, the Group classifies repurchase receivables into one of the following measurement categories: AC, FVOCI, and FVTPL.

Finance lease receivables. Where the Group is a lessor in a lease that substantially transfers all risks and rewards incidental to ownership to the lessee, the assets leased out are presented as finance lease receivables and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the early date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivables and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the profit or loss.

The ECL is determined in the same way as for loans and advances measured at AC and recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows discounted at the interest rates implicit in the lease investments. There is a 'three stage' approach which is based on the change in credit quality of financial lease receivables since initial recognition. Immediate loss that is equal to the 12-month ECL is recorded on initial recognition of financial leases that are not defaulted. In case of a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

The Group normally structures its finance lease contracts so that the lessee makes a minimum prepayment of 20% of the equipment purchase price at the inception of the lease term. The Group holds title to the leased assets during the lease term. The title to the asset under the finance lease contract is transferred to the lessees at the end of the contracts terms, including full repayment of lease payments. Generally the lease terms are up to five years.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral obtained are:

- Leased assets (inventory and equipment);
- Down payment;
- Real estate properties;
- Third party guarantees.

The financial effect of collateral is presented by disclosing the collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed the assets' carrying value ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the assets' carrying value ("under-collateralised assets").

The Group classifies its portfolio into three stages:

- Stage 1 – assets for which no significant increase of credit risk since initial recognition is identified;
- Stage 2 – assets for which significant increase in credit risk since initial recognition is identified;
- Stage 3 – defaulted exposures.

For stage 1 exposures the Group creates 12 months expected credit losses, whereas for stage 2 and stage 3 lifetime expected credit losses are created.

For the Stage 2 classification purposes the Group applies both quantitative and the qualitative criteria including, but not limited to:

- 30 days past due (DPD) overdue;
- Downgrade of the risk category of the borrower since initial recognition;

Default definition includes criteria such as: (i) 90 DPD overdue (ii) distressed restructuring and (iii) other criteria indicating the borrower's unlikeliness to repay the liabilities.

The Group incorporates forward looking information (FLI) for both individual and collective assessment. For FLI purposes the Group defines three scenarios, which are:

- Baseline (most likely);
- Upside (better than most likely);
- Downside (worse than most likely).

The Group derives the baseline macro scenario and takes into account projections from various external sources – the National Bank of Georgia, Ministry of Finance, IMF as well as other IFIs - to ensure the alignment to the consensus market expectations. Refer to Note 39 for the description of how the Group incorporates FLI in ECL calculations. Upside and downside scenarios are defined based on the framework developed by the Bank's macroeconomic unit.

The Group calculates expected impairment losses for each scenario. In order to come up with the final expected credit loss figures the bank applies probability weighted average approach where probabilities of each scenario are used as weights.

In relation to COVID-19, payment holidays are accounted on the same basis as disclosed above within paragraph of financial assets- derecognition and modification.

Receivables from terminated leases. The Group recognizes receivables from terminated contracts at the moment of lease contract termination. These receivables are recognized at amount comprising difference between fair value of repossessed assets and outstanding balance of finance lease receivables. Receivables are accounted for at AC less ECL.

Prepayment for purchase of leasing assets. Prepayment for purchase of leasing assets comprises of advance payments made to purchase assets for transfer into leases. Such advances are accounted for as non-financial assets. On commencement of the leases, advances towards lease contracts are transferred into Finance lease receivables.

Due to credit institutions. Amount due to credit institutions are recorded when counterparty banks advance money or other assets to the Group. The non-derivative liability is carried at AC. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at AC.

Subordinated debt. Subordinated debt can only be paid in the event of a liquidation after the claims of other higher priority creditors have been met and is included in the Bank's "tier 2" capital. Subordinated debt is carried at AC.

Debt securities in issue. Debt securities in issue include promissory notes, bonds, certificates of deposit and debentures issued by the Group. Debt securities are stated at AC. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options are recognized at their fair value. The Group also enters into offsetting deposits with its counterparty banks to exchange currencies. Such deposits, while legally separate, are aggregated and accounted for as a single derivative financial instrument (currency swap) on a net basis where (i) the deposits are entered into at the same time and in contemplation of one another, (ii) they have the same counterparty, (iii) they relate to the same risk and (iv) there is no apparent business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Group does not apply hedge accounting. Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

When derivative instruments are entered into with a view to decrease cost of funding, respective interest effect is presented as a separate line of statement of comprehensive income, within net interest income.

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill, and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation. This is generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

Premises and equipment. Premises and equipment are stated at cost, less accumulated depreciation and provision for impairment, where required. Cost of premises and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses). If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of premises and equipment and right-of-use assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Asset	Useful life
Premises	30 – 110 years;
Furniture and fixtures	5 – 8 years;
Computers and office equipment	3 – 8 years;
Motor vehicles	4 – 5 years;
Other equipment	2 – 10 years;
Right-of-use assets	term of the underlying lease;
Leasehold improvements	term of the underlying lease or if not defined, not more than 7 years.
Intangible assets	1 – 20 years;

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment property. Investment property is property that the Groups owns to earn rental income or for capital appreciation, or both, and that it does not occupy.

Investment property is stated at cost less accumulated depreciation and provision for impairment, where required. It is amortised on a straight line basis over an expected useful lives of 30 to 50 years. In case of any indication that the investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Land included in investment property is not depreciated. Depreciation on other items of investment properties is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives of 30 to 50 years. Residual values of investment properties are estimated to be nil.

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

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment.

Intangible assets. The Group's intangible assets other than goodwill have definite useful lives and primarily include capitalised computer software. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs and direct overheads of the software development team. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 1 to 20 years.

Accounting for leases by the Group as a lessee. The Group leases office, branches and service centre premises. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is recognised at cost and depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

As an exception to the above, the Group accounts for short-term leases and leases of low value assets by recognising the lease payments as an operating expense on a straight line basis.

In determining the lease term, management of the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The Group applied the Amendment to IFRS 16 to COVID-19 related rent concessions granted by lessors 2020 and extension of this amendment in 2021, respectively. These concessions were recorded as a reduction in the lease liability and variable rent in the period in which they were granted. The amount was not material to the financial statements.

Accounting for operating leases by the Group as a lessor. When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Insurance and reinsurance receivables. Insurance and reinsurance receivables are recognised based on insurance policy terms and measured at cost. The carrying value of insurance and reinsurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the consolidated statement of income. Reinsurance receivables primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Insurance premiums are recognised as revenue (earned premiums) proportionally over the period of coverage of respective insurance contracts. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance receivables are impaired only if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract that this can be measured reliably.

Liability adequacy test. Liability adequacy tests are performed at each balance sheet date to ensure the adequacy of recognised insurance liabilities net of related deferred acquisition costs. In performing the tests, current best estimates of future contractual cash flows, claims handling and administration costs in respect of claims, as well as investment income from assets backing such liabilities, are used. Where tests highlight a deficiency, insurance liabilities are increased with any deficiency being recognised in the consolidated statement of comprehensive income.

Income taxes. Income taxes are provided in the consolidated financial statements in accordance with the legislation enacted or substantively enacted by the end of reporting period in the respective territories that the Bank and its subsidiaries operate. The income tax charge/credit comprises of current tax and deferred tax and is recognised in profit or loss except if it is recognised directly in other comprehensive income because it relates to transactions that are also recognised, in the same or a different period, directly in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Current tax is the amount expected-to-be-paid to or recovered from the tax authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if consolidated financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill that is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of reporting period that are expected to apply to the extent of time when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

Uncertain tax positions. The Group's uncertain tax positions are reassessed by the management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by the management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on the management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Material provisions include provision for performance guarantees, credit related commitments.

Share capital. Ordinary shares with discretionary dividends are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue, are disclosed in the subsequent events note.

Income and expense recognition. Interest income and expense are recorded for all debt instruments, other than those at FVTPL, using the effective interest method. As part of interest income or expense this method defers all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. The group does not have Interest income on debt instruments at FVTPL.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at FVTPL.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become defaulted (Stage 3), for which interest income is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated defaulted, for which the original credit-adjusted effective interest rate is applied to the AC.

All other fees, commissions and other income and expense items are generally recorded when earned by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Fee and commission income. Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Group's performance. Such income includes recurring fees for account maintenance, account servicing fees, account subscription fees, annual plastic card fees etc. Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur.

Other fee and commission income is recognised at a point in time when the Group satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for arranging a sale or purchase of foreign currencies on behalf of a customer, fees for processing payment transactions, plastic card transactions, merchant fees, fees for cash settlements, collection or cash disbursements, etc.

Foreign currency translation. The Group's presentation currency is the Georgian Lari. TBCG's and the Bank's functional currency is the Georgian Lari. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. 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 are translated into each entity's functional currency at the official exchange rate of the territories where the Bank and its subsidiaries operate, at the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. The effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

The results and financial position of each group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

- i. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;
- ii. Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- iii. Components of equity are translated at the historic rate; and
- iv. All resulting exchange differences are recognised in other comprehensive income.

After losing control over a foreign operation, the exchange differences previously recognised in other comprehensive income are reclassified to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. At 31 December 2021 the closing rate of exchange used for translating foreign currency balances was GBP 1 = 4.1737 (2020: GBP 1 = GEL 4.4529; 2019: GBP 1 = GEL 3.7593); USD 1 = 3.0976 (2020: USD 1 = GEL 3.2766; 2019: USD 1 = GEL 2.8677); EUR 1 = 3.5040 (2020: EUR 1 = GEL 4.0233; 2019: EUR 1 = GEL 3.2095); UZS 1,000 = 0.2861 (2020: UZS 1,000 = GEL 0.3127; 2019: UZS 1,000 = GEL 0.3013).

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Staff costs and related contributions. Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits as well as the cash settled part of the share based payment schemes are accrued in the year in which the associated services are rendered by the Group's employees.

Earnings per share. Earnings per share ("EPS") are determined by dividing the profit or loss attributable to owners of the Group by the weighted average number of participating shares outstanding during the reporting period.

Diluted earnings per share. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. In calculating diluted EPS, non-vested ordinary shares are treated as outstanding on the grant date.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Share based payments. A share-based payment arrangement is an agreement between the entity and another party (including an employee) that entitles the other party to receive cash or other assets of the entity for amounts that are based on the price (or value) of equity instruments (including shares) of the entity or another group entity, or equity instruments (including shares or share options) of the entity or another group entity, provided the specified vesting conditions, if any, are met. Under the share-based compensation plan the Group receives services from the management as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by the reference to the fair value of the equity instruments granted, excluding the impact of any non-market service and performance vesting conditions. Non-market vesting conditions are included in the assumptions about the number of equity instruments that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates of the number of equity instruments that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to equity. Increase in equity on accrued shares resulting from the equity settled scheme is accounted for under share based payment reserve. Upon award of shares to the scheme participants, respective share based payment reserve is transferred to share capital and share premium in case shares are issued on the market. When shares are repurchased from market initially and held via employee benefit trust, these shares are presented as treasury shares under shares held by trust category in the Statement of Financial Position until they are awarded to participants. When award takes place, treasury shares amount are credited with corresponding debit recognized in share based payment reserve. When portions of a single grant vest on two or more dates the entity applies graded vesting for accounting of share based payment arrangement. Vesting period of each tranche of the grant ends when the employee owns the shares with no further service restrictions. Under graded vesting scheme the expense for earlier years is higher than for later years. Each tranche is expensed over its own service period with a credit entry being equity.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Critical Judgements and Estimates

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on the Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements and estimates that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities include following:

Judgements and estimates related to ECL measurement

Measurement of ECLs is a significant estimate that involves determination of methodology, development of models and preparation of data inputs (details of ECL measurement methodology are disclosed in Note 39). Expert management judgement is an also an essential part of calculating expected credit losses.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES CONTINUED

Management considers the significant management judgements and estimates in calculating ECL as follows:

Judgements used to define criteria used in definition of default. The Bank defines default using both quantitative and qualitative criteria. Borrower is classified as defaulted if:

- any amount of contractual repayments is past due more than 90 days; or
- factors indicating the borrower's unlikeliness-to-pay.

In addition, default exit criteria is defined using judgement as well as whether default should be applied on a borrower or exposure level. For more details on the methodology please see Note 39.

Judgements used to define criteria for assessing, if there has been a significant increase in credit risk (SICR) which is defined using both quantitative and qualitative criteria.

Qualitative factors usually include judgements around delinquency period of more than 30 days on contractual repayments; exposure is restructured, but is not defaulted; borrower is classified as "watch".

On a quantitative basis the Bank assess change in probability of default parameter for each particular exposure since initial recognition and compares it to the predefined threshold. When absolute change in probability of default exceeds the applicable threshold, SICR is deemed to have occurred and exposure is transferred to Stage 2. Quantitative indicator of SICR is applied to retail and micro segments, where the Bank has sufficient number of observations.

The table below represents the sensitivity analysis of (i) 20% decrease of SICR thresholds (quantitative criteria applied for retail and micro exposures described above. (ii) 10% increase in total number of stage 2 borrowers.

<i>In thousands of GEL</i>	2021	2020	2019
20% decrease in SICR thresholds	Increase credit loss allowance on loans and advances by GEL 2,470.	Increase credit loss allowance on loans and advances by GEL 2,543.	Increase credit loss allowance on loans and advances by GEL 1,954.
	Change of the Bank's cost of credit risk ratio by 2 basis points.	Change of the Bank's cost of credit risk ratio by 2 basis points.	Change of the Bank's cost of credit risk ratio by 2 basis points.
10% increase in number of Stage 2 contracts	Increase credit loss allowance on loans and advances by GEL 2,511.	Increase credit loss allowance on loans and advances by GEL 3,311.	Increase credit loss allowance on loans and advances by GEL 2,380.
	Change of the Bank's cost of credit risk ratio by 2 basis points.	Change of the Bank's cost of credit risk ratio by 2 basis points.	Change of the Bank's cost of credit risk ratio by 2 basis points.

Judgements used for calculation of credit risk parameters namely exposure at default (EAD), probability of default (PD) and loss given default (LGD). The judgements includes and are not limited by:

- definition of the segmentation for risk parameters estimation purposes,
- decision whether simplified or more complex models can be used,
- time since default date after which no material recoveries are expected,
- collateral haircuts from market value as well as the average workout period for collateral discounting.

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES **CONTINUED**

The table below describes sensitivity on 10% increase of PD and LGD estimates:

<i>In thousands of GEL</i>	2021	2020	2019
10% increase (decrease) in PD estimates	Increase (decrease) credit loss allowance on loans and advances by GEL 25,043 (GEL 18,905).	Increase (decrease) credit loss allowance on loans and advances by GEL 24,901 (GEL 26,013).	Increase (decrease) credit loss allowance on loans and advances by GEL 17,427 (GEL 17,547).
	Change of the Bank's cost of credit risk ratio by 16 (12) basis points	Change of the Bank's cost of credit risk ratio by 18 (19) basis points	Change of the Bank's cost of credit risk ratio by 16 (16) basis points.
10% increase (decrease) in LGD estimates	Increase (decrease) credit loss allowance on loans and advances by GEL 39,900 (GEL 35,129).	Increase (decrease) credit loss allowance on loans and advances by GEL 50,719 (GEL 53,813).	Increase (decrease) credit loss allowance on loans and advances by GEL 24,758 (GEL 26,604).
	Change of the Bank's cost of credit risk ratio by 26 (22) basis points.	Change of the Bank's cost of credit risk ratio by 37 (39) basis points.	Change of the Bank's cost of credit risk ratio by 22 (24) basis points.

Estimates used for forward-looking macroeconomic scenarios and judgements made for their probability weightings. For forward-looking information purposes the Bank defines three macro scenarios. The scenarios are defined as baseline (most likely), upside (better than most likely) and downside (worse than most likely) scenarios of the state of the Georgian economy.

Estimates applied in differentiating between these three scenarios represent GDP, USD/GEL rate, RE price, employment levels, monetary policy rate and other macro variables. Under usual conditions, the scenario weights applied are 50%, 25% and 25% for the base case, upside and downside scenarios respectively. As at 31 December 2021 the weights applied are 50%, 25% and 25% for the base, upside and downside scenarios respectively, (31 December 2020: 60%, 10% and 30% and 31 December 2019: 50%, 25% and 25%). Based on the changes of the macro environment the Bank modifies the weightings based on expert judgement.

The table below describes the unweighted ECL for each economic scenario as at 31 December 2021:

<i>In thousands of GEL</i>	Baseline	Upside	Downside	Weighted
Corporate	48,220	46,752	59,640	50,731
MSME	112,592	104,856	122,768	113,101
Consumer	182,881	179,516	186,478	182,928
Mortgage	63,080	59,464	68,491	63,486
Total	406,773	390,588	437,377	410,246

The table below describes the unweighted ECL for each economic scenario as at 31 December 2020:

<i>In thousands of GEL</i>	Baseline	Upside	Downside	Weighted
Corporate	96,039	94,607	135,188	107,641
MSME	155,709	149,480	166,582	159,910
Consumer	240,827	238,427	245,072	241,825
Mortgage	96,351	95,496	98,329	96,870
Total	588,926	578,010	645,171	606,246

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES CONTINUED

The following table describes the key macroeconomic variables under each scenario for future 3-year period as at 31 December 2021:

Growth rates YoY, %	Baseline			Upside			Downside		
	2022	2023	2024	2022	2023	2024	2022	2023	2024
GDP	6.0%	5.5%	5.0%	7.8%	8.2%	8.3%	4.1%	2.8%	1.7%
USD/GEL rate (EOP)	3.30	3.25	3.20	2.95	2.87	2.80	3.55	3.55	3.52
RE Price (in USD)	1.6%	2.1%	2.6%	4.6%	6.3%	7.7%	-1.6%	-2.5%	-3.5%
Employment	1.0%	1.0%	0.5%	1.5%	1.7%	1.3%	0.6%	0.4%	-0.2%
Monetary policy rate (EOP, Level)	8.5%	7.5%	7.0%	8.0%	6.8%	6.1%	9.4%	8.7%	8.4%

The following table describes the key macroeconomic variables under each scenario for future 3-year period as at 31 December 2020:

Growth rates YoY, %	Baseline			Upside			Downside		
	2021	2022	2023	2021	2022	2023	2021	2022	2023
GDP	4.2%	7.4%	5.3%	4.9%	8.3%	6.5%	2.7%	5.2%	2.6%
USD/GEL rate (EOP)	3.2	3.1	3.0	3.0	2.8	2.7	3.5	3.4	3.3
RE Price (in USD)	-3.5%	5.2%	7.5%	-2.1%	4.6%	6.9%	-5.7%	6.3%	4.2%
Employment	2.6%	1.0%	1.0%	2.8%	1.3%	1.3%	2.4%	0.7%	0.6%
Monetary policy rate (EOP, Level)	7.5%	7.0%	6.5%	7.3%	6.7%	6.1%	8.4%	8.3%	8.1%

The Bank assessed the impact of changes in GDP growth, unemployment and monetary policy rate variables on ECL as a most critical estimates applied in ECL assessment.

The sensitivity analysis was performed separately for each of the variable to show their significant in ECL assessment, but changes in those variables may not happen in isolation as various economic factors tend to be correlated across the scenarios. The variables were adjusted in all three macroeconomic scenarios and the staging has been maintained unchanged. From the assessment of forward looking scenarios, management is comfortable with the scenarios capturing the non-linearity of the losses.

The table below shows the impact of +/-20% change in GDP growth, unemployment and monetary policy variables across all scenarios on the Bank's ECL as at 31 December 2021:

<i>in thousands of GEL</i>	Change in GDP growth		Change in unemployment		Change in Monetary Policy	
	20% increase	20% decrease	20% increase	20% decrease	20% increase	20% decrease
Impact on ECL	(9,036)	10,359	4,805	(4,541)	4,045	(3,493)

The table below shows the impact of +/-20% change in GDP growth, unemployment and monetary policy variables across all scenarios on the Bank's ECL as at 31 December 2020:

<i>in thousands of GEL</i>	Change in GDP growth		Change in unemployment		Change in Monetary Policy	
	20% increase	20% decrease	20% increase	20% decrease	20% increase	20% decrease
Impact on ECL	(6,973)	7,323	3,899	(3,083)	4,136	(3,234)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES CONTINUED

Individual assessment: Individual assessment is mainly used for stage 2 and stage 3 individually significant borrowers.

For selecting individually significant exposures, the management uses the following estimated thresholds above which exposures¹ are selected for individual review: for stage 2 - to GEL 10 million and for stage 3 - GEL 4 million. Additionally, the Bank may arbitrarily designate selected exposures to individual measurement of ECL based on the Bank's credit risk management or underwriting departments' decision. The individual assessment takes into account latest available information in order to define ECL under baseline, upside and downside scenarios.

Use of post model overlays and adjustments

Below we define what we call post model adjustments or overlays for ECL estimation purposes.

Post Model Adjustments

We call PMAs specific set of management adjustments to address known model limitations, either in model methodology or model inputs. PMAs are made based on analysis of model inputs and parameters to determine the required modifications in order to improve model accuracy.

Post model overlays

Post model overlays (PMOs) reflect management judgement that mainly rely on expert judgement and are applied directly to expected credit losses at an aggregated level.

Once implemented, Post Model overlays and adjustments are re-assessed at each reporting date to determine the validity of the adjustments. The appropriateness of PMAs and PMOs is subject to rigorous review and challenge. Post model overlays and adjustments review and approval process goes through same phases as made for ECL process governance that is described in note: 39 - under risk governance section.

As a result of Covid-19 pandemic, the Bank applied expert judgement to the measurement of the expected credit losses in the form of post model adjustments (PMAs). The adjustments made were all in model adjustments, which means that we made adjustments either to model inputs or its parameters and run the models based on the updated adjustments. No post model overlays has been processed during the year (2020 nil).

Below, are summarized in model PMAs applied as of YE 2020 and 2021. Total effect of all PMAs amounted to GEL 16,107 thousand and GEL 105,502 thousand for YE 2021 and YE 2020 respectively:

- **Default definition:** The Bank applied additional default criteria to exposures particularly impacted by the pandemic-related restrictions. This included exposures that were granted several phases of covid-19 related grace periods or restructurings. The criteria included lower days past due threshold and deterioration in debt coverage ratios for those exposures to facilitate the early identification of impaired exposures. PMA was applicable as of YE 2020 and is no longer valid as of YE 2021 as covid-19 related grace periods or restructuring are no longer in place.
- **Stage 2 definition:** As a result of Covid-19 pandemic, the Bank applied certain PMAs to SICR criteria (significant increase in credit risk) to facilitate the early identification of increased risk exposures. The criteria is based on the repayment history of the exposures after the second stage grace period and availability of the recent financial monitoring information for the vulnerable business borrowers. PMA was applicable as of YE 2020 and is no longer valid as of YE 2021 as Covid-19 pandemic related grace periods are no longer in place.
- **Loss given default (LGD) – Recovery rate:** For YE 2020, in the LGD modelling the Bank reduced the recovery rates for retail (mortgage, secured consumer & unsecured) and micro exposures in stage 3 to reflect the expected impact of the pandemic-related restrictions. In 2021, the Bank re-assessed the adjustment and based on the analysis of recoveries, made certain modifications to PMAs applied as of YE 2020. Mortgage portfolio – recovery rate downward adjustment was totally removed, as based on the analysis observed recoveries managed to reach pre-pandemic level. Unsecured consumer portfolio, recoveries were improved, however it was still lower compared to the pre-pandemic level, therefore, recovery rate downward adjustment was maintained, but it was decreased compared to YE 2020. Adjustments for other portfolios, namely, secured consumer and micro segments - remained unchanged compared to YE 2020, as material improvement in recoveries were not observed
- **Loss given default (LGD) – Collateral haircut/AWT²:** In order to capture an impact of expected real estate price drop on ECL, downward adjustment to the collateral values was applied for stage 3 SME and stage 3 non-significant corporate exposures, as of YE 2020. As of YE 2021 the adjustment is no longer incorporated in line with the updated macro assumptions for real estate price. However, for that particular portfolios (SME, non-significant cor-

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES CONTINUED

porate) the Bank extended AWT (average workout period) from 1 Year³ to 2 years in 2021, in order to reflect delayed recoveries, observed in 2021, mainly driven by covid-19 pandemic. An adjustment was applied across all stages.

- **Full prepayment ratio (FPR):** As of YE 2020, the Bank applied downward adjustment to FPR ratio which is used for exposure at default modeling (EAD). The adjustment was made based on the expectations that full prepayments will be lower compared to the pre-pandemic levels. In 2021 the Bank analyzed actual prepayments and based on the analytics either maintained the adjustment or decreased/totally removed it.
- **Credit Bureau scores:** In December 2020, the Bank has adjusted CB-Score/risk grade as available score did not reflect respective period creditworthiness of particular exposure due to the Covid-19 related grace periods. As of December 2021, CB-Score approximation was already removed and the Bank directly uses the CB-Scores provided by the external credit bureau.

Following Table presents effects of PMAs on ECL. Some of the effects are dependent on each other, therefore the sum of individual effects of PMAs do not equal to the total effect posted on ECL as a result of PMAs:

<i>In thousands of GEL</i>	2021	2020
Default definition	-	34,304
Stage 2 definition	-	2,906
Loss given default (LGD) – Recovery rate	12,835	45,578
Loss given default (LGD) – Collateral haircut/AWT ⁴	2,754	3,116
Full prepayment ratio (FPR):	512	2,166
Credit Bureau scores	-	17,708

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following amended standards became effective from during 2021:

Covid-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 31 March 2021 and effective for annual periods beginning on or after 1 April 2021).

In May 2020 an amendment to IFRS 16 was issued that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19, resulting in a reduction in lease payments due on or before 30 June 2021, was a lease modification. An amendment issued on 31 March 2021 extended the date of the practical expedient from 30 June 2021 to 30 June 2022.

The application of the amendment did not have any impact on the right-of-use asset and no material effect on lease liabilities and income statement.

Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021).

The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform: For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis.

¹ Total exposure of the bank toward the borrower or group of interconnected borrowers

² AWT- Average Workout Period

³ AWT is set to 1 year according to the ECL methodology. As of YE 2020, no changes to the methodology was applied in terms of AWT.

⁴ As described above, collateral haircuts were applied as of YE 2020. As for the AWT, it was only applicable as of YE 2021.

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS **CONTINUED**

Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.

- End date for Phase 1 relief for non-contractually specified risk components in hedging relationships: The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.
- Additional temporary exceptions from applying specific hedge accounting requirements: The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.
- Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

Libor is the most frequently used floating rate within the Group, as a result, below analysis is primarily concentrated on Libor change.

Libor Change

On 5 March 2021, the IBA confirmed its intention to cease the publication of GBP, CHF, EUR, and JPY LIBOR (all tenors) and USD LIBOR (one week and two-month tenors) at the end of 2021. The remaining USD LIBOR tenors will be published by IBA until the end of June 2023. The Bank has not yet re-negotiated existing contracts in LIBOR and will follow extended timeline. Most Libor benchmarks are expected to transition to respective near risk-free rate (RFR) benchmarks.

Under these amendments, the changes to the basis for determining the contractual cash flows are reflected by adjusting the effective interest rate, as allowed by practical expedient. No immediate gain or loss is recognised. These revisions of effective interest rate are only applicable when the change is necessary as a direct consequence of interest rate benchmark reform, and the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

The Group does not have any exposure to GBP, CHF, EUR or JPY LIBOR contracts and has no impact of the cessation. Generally for EUR floating assets and liabilities, EURIBOR is used as the default benchmark in the Group (no exposures presented as of 31 December 2021). For all new contracts, the rate fallback provisions are in place to avoid future complications in case there will be changes to EURIBOR benchmark.

In USD, the Group has exposure to Libor, predominantly in contracts with 6 Month USD Libor benchmark.

For the new customer contracts, the plan is to move fully from USD LIBOR to the RFRs in 2022.

In the table below is the breakdown by financial statement components yet to transition to the alternative benchmark:

<i>In thousands of GEL</i>			Non derivative financial assets	Non derivative financial liabilities	Contingencies and commitments		Derivatives	
Index	Currency	Cessation Date	Loans and advances to customers	Subordinated debt	Due to credit institutions	Letters of credit	Undrawn credit lines	Derivatives
6M Euribor	EUR	TBD	-	-	88,761	-	-	-
1M Libor	USD	TBD	24,831	-	-	-	1,032	-
3M Libor	USD	30-Jun-23	26,139	-	2,858	-	11	3,613
6M Libor	USD	30-Jun-23	5,432,142	281,604	361,360	4,771	909,315	-
12M Libor	USD	30-Jun-23	1,460	-	30,992	-	-	-
Total			5,484,572	281,604	483,971	4,771	910,358	3,613

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS CONTINUED

Financial risks resulting from the cessation of LIBOR and the development of market liquidity in new Benchmarks will also affect the Group throughout transition. The differences in Libor and the new benchmark rates will create a basis risk that we may need to actively manage through appropriate financial hedging. Basis risk may arise out of the asymmetric adoption of RFRs across assets and liabilities and across currencies and products. In addition, this may limit the ability to hedge effectively. Where appropriate, portfolio immunization or cash flow matching strategies will be used during the transition for risk minimization purposes. The hedging is expected to be done via available interest rate derivatives for respective RFRs.

The continued orderly transition from LIBOR has been the Group's key objective through 2021 and were grouped into two work streams:

1. The development of alternative rate and RFR product capabilities.
2. The transition of legacy Libor contracts.

The Groups initiatives in connection with LIBOR transition include:

- a. Implementing rate fall back provisions, where appropriate;
- b. The Group continues to engage with market participants and the regulator to address market-wide challenges associated with USD LIBOR transition, including the efforts to introduce forward-looking term rates linked to SOFR;
- c. To educate and inform clients on LIBOR transition and the necessity to prepare for the cessation of LIBOR;

5. NEW ACCOUNTING PRONOUNCEMENTS

The Group has not early adopted any of the amendments effective after 31 December 2021 and it expects they will have an insignificant effect, when adopted, or assessing the scale of impact on the consolidated financial statements of the Group and the separate financial statements of TBC Bank Group PLC.

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021, deferred to 1 January 2023 by the amendments to IFRS 17).

IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately.

Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).

The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:

- **Effective date:** The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.
- **Expected recovery of insurance acquisition cash flows:** An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5. NEW ACCOUNTING PRONOUNCEMENTS CONTINUED

- Contractual service margin attributable to investment services: Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.
- Reinsurance contracts held – recovery of losses: When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.
- Other amendments: Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows; and selected transition reliefs and other minor amendments.

Transition option to insurers applying IFRS 17 – Amendments to IFRS 17 (issued on 9 December 2021 and effective for annual periods beginning on or after 1 January 2023).

The amendment to the transition requirements in IFRS 17 provides insurers with an option aimed at improving the usefulness of information to investors on initial application of IFRS 17. The amendment relates to insurers' transition to IFRS 17 only and does not affect any other requirements in IFRS 17. The transition requirements in IFRS 17 and IFRS 9 apply at different dates and will result in the following one-time classification differences in the comparative information presented on initial application of IFRS 17: accounting mismatches between insurance contract liabilities measured at current value and any related financial assets measured at amortised cost; and if an entity chooses to restate comparative information for IFRS 9, classification differences between financial assets derecognised in the comparative period (to which IFRS 9 will not apply) and other financial assets (to which IFRS 9 will apply). The amendment will help insurers to avoid these temporary accounting mismatches and, therefore, will improve the usefulness of comparative information for investors. It does this by providing insurers with an option for the presentation of comparative information about financial assets. When initially applying IFRS 17, entities would, for the purpose of presenting comparative information, be permitted to apply a classification overlay to a financial asset for which the entity does not restate IFRS 9 comparative information. The transition option would be available, on an instrument-by-instrument basis; allow an entity to present comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset, but not require an entity to apply the impairment requirements of IFRS 9; and require an entity that applies the classification overlay to a financial asset to use reasonable and supportable information available at the transition date to determine how the entity expects that financial asset to be classified applying IFRS 9.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).

IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

5. NEW ACCOUNTING PRONOUNCEMENTS CONTINUED

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023).

The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).

The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is ‘testing whether the asset is functioning properly’ when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

The amendment to IAS 37 clarifies the meaning of ‘costs to fulfil a contract’. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract. IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent’s consolidated financial statements, based on the parent’s date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5. NEW ACCOUNTING PRONOUNCEMENTS CONTINUED

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022).

These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

Amendment to IFRS 4 – deferral of IFRS 9 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).

The amendments to IFRS 4 addressed the temporary accounting consequences of the different effective dates of IFRS 9 and the forthcoming IFRS 17. The amendments to IFRS 4 extended the expiry date of the temporary exemption from applying IFRS 9 until 2023 in order to align the effective date of IFRS 9 with the new IFRS 17. The fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has been deferred to annual reporting periods beginning on or after 1 January 2023.

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023).

The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance.

Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).

The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

6. CASH AND CASH EQUIVALENTS

<i>In thousands of GEL</i>	2021	2020	2019
Cash on hand	839,821	755,687	650,700
Cash balances with National Bank of Georgia and Uzbekistan (other than mandatory reserve deposits)	244,303	102,522	35,132
Correspondent accounts and overnight placements with other banks	632,376	588,409	191,420
Placements with and receivables from other banks with original maturities of less than three months	5,767	188,867	126,360
Total gross amount of cash and cash equivalents	1,722,267	1,635,485	1,003,612
Less: credit loss allowance by stages	(130)	(80)	(29)
Stage 1	(130)	(80)	(29)
Stage 2	-	-	-
Stage 3	-	-	-
Total cash and cash equivalents	1,722,137	1,635,405	1,003,583

94% of the correspondent accounts and overnight placements with other banks are placed with OECD (The Organization for Economic Co-operation and Development) banking institutions (31 December 2020: 89%; 31 December 2019: 85%).

As at 31 December 2021 GEL 5,767 thousand was placed on interbank term deposits with two non-OECD banks and none with OECD bank (2020: GEL 25,030 thousand with one non-OECD bank and GEL 163,838 thousand with one OECD bank; 2019: GEL 11,348 thousand with one non-OECD bank and GEL 115,012 thousand with two OECD banks). Interest rate analysis of cash and cash equivalents is disclosed in Note 39.

The credit-rating of correspondent accounts and overnight placements with other banks is as follows:

<i>In thousands of GEL</i>	2021	2020	2019
AA	69,943	-	-
AA-	2,117	1,891	-
A+	425,553	417,938	66,805
A	1,795	1,896	13,816
A-	23,766	35,753	-
BBB+	70,886	-	20,286
BBB	7	64,985	69,302
BBB-	12,569	897	-
BB+	367	-	733
BB	1,524	1,858	3,680
BB-	13,376	9,088	12,346
B+	8,343	53,688	4,452
B	2,130	15	-
Not rated	-	400	-
Total correspondent accounts and overnight placements with other banks	632,376	588,409	191,420

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6. CASH AND CASH EQUIVALENTS CONTINUED

The credit rating of placements with and receivables from other banks with original maturities of less than three months stands as follows:

<i>In thousands of GEL</i>	2021	2020	2019
A-	–	–	115,012
BBB+	–	163,838	–
BB	–	–	1,719
BB-	5,722	25,016	–
B+	–	–	9,629
Not rated	45	13	–
Total placements with and receivables from other banks with original maturities of less than three months	5,767	188,867	126,360

The table illustrates the ratings by international agencies Standard & Poor's and Fitch Ratings. When different credit ratings are designated by the agencies, the highest designated rating for this asset is used, for those financial institutions which are not assigned credit ratings country ratings are used. As at 31 December 2021 there were no investment securities held as collateral against placements with other banks under the reverse repo agreements (2020: nil; 2019: nil).

7. DUE FROM OTHER BANKS

Amounts due from other banks include placements with original maturities of more than three months that are not collateralised and represent neither past due nor impaired amounts at the end of 2021, 2020 and 2019. Credit ratings of placements with other banks with original maturities of more than three months were as follows:

<i>In thousands of GEL</i>	2021	2020	2019
AA-	–	31	–
A+	13,099	10,908	9,549
BBB+	21	98	–
BBB	–	–	2,493
BBB-	2,943	2,011	–
BB	5,652	10,972	9,045
BB-	19,828	12,041	5,323
B+	37,599	14,744	7,195
Total placements with other banks with original maturities of more than three months	79,142	50,805	33,605

As at 31 December 2021 the Group had five placements, with original maturities of more than three months and with aggregated amounts above GEL 5,000 thousand amounting GEL 54,526 thousand (2020: nil; 2019: nil). The total aggregated amount of placements with other banks with original maturities of more than three months was GEL 65,333 thousand (2020: GEL 39,069 thousand; 2019: GEL 21,778) or 82.6% of the total amount due from other banks. (2020: 76.9%; 2019: 64.8 %).

As at 31 December 2021 GEL 13,819 thousand, (2020: GEL 11,744 thousand; 2019: GEL 11,836 thousand) were kept on deposits as restricted cash under an arrangement with a credit card company or credit card related services with other banks. Refer to Note 44 for the estimated fair value of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 39.

For the purpose of ECL measurement due from other banks balances are included in Stage 1. The ECL for these balances as at 31 December 2021 is GEL 9.9 thousand (2020: GEL 8 thousand; 2019: GEL 9 thousand).

8. MANDATORY CASH BALANCES WITH NATIONAL BANK OF GEORGIA AND UZBEKISTAN

Mandatory cash balances with National Bank of Georgia (“NBG”) and National Bank of Uzbekistan (“NBU”) represent amounts deposited with the NBG and NBU. Out of total amount, GEL 2,086,113 thousand is deposited with NBG and GEL 1,028 thousand is deposited with NBU. Resident financial institutions are required to maintain an interest-earning obligatory reserve with the NBG, the amount of which depends on the level of funds attracted by the financial institutions. The Group earned up to 10.5%, (0.25%) and (0.7%) annual interest in GEL, USD and EUR respectively on mandatory reserves with NBG in 2021 (2020: 8.0%, (0.25%) and (0.7%) in GEL, USD and EUR respectively; 2019: 9.0%, 1.25% and (0.7%) in GEL, USD and EUR respectively).

In August 2021, Fitch Ratings has affirmed Georgia's Long-Term Foreign and Local Currency Issuer Default Rating (IDRs) at ‘BB’. The Outlook was revised to stable from negative; The issue ratings on long-term senior unsecured bonds were affirmed at ‘BB’. The Country Ceiling Rating was affirmed at ‘BBB-’, short-term foreign and local-currency IDRs at ‘B’.

9. LOANS AND ADVANCES TO CUSTOMERS

<i>In thousands of GEL</i>	2021	2020	2019
Corporate loans	6,547,741	5,690,749	4,660,473
Consumer loans	2,245,904	2,011,585	1,884,006
Mortgage loans	4,112,441	3,942,102	3,169,197
Loans to micro, small and medium enterprises	4,141,305	3,556,084	2,948,279
Total gross loans and advances to customers at AC	17,047,391	15,200,520	12,661,955
Less: credit loss allowance	(410,246)	(606,246)	(312,556)
Stage 1	(104,058)	(130,228)	(95,689)
Stage 2	(120,832)	(142,915)	(82,687)
Stage 3	(185,356)	(333,103)	(134,180)
Total loans and advances to customers at AC	16,637,145	14,594,274	12,349,399

As at 31 December 2021 loans and advances to customers carried at GEL 843,006 thousand have been pledged to local banks or other financial institutions as collateral with respect to other borrowed funds (2020: GEL 889,353 thousand; 2019: GEL 474,480 thousand).

Total credit loss allowance includes PMAs amounted to GEL 16,107 thousand and GEL 105,502 thousand for YE 2021 and YE 2020, respectively.

The following tables disclose the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting period. Below main movements in the table are described:

- Transfers occur between Stage 1, 2 and 3, due to significant increases (or decreases) of credit risk or exposures becoming defaulted in the period, and the consequent “step up” (or “step down”) between 12-month and Lifetime ECL. It should be noted, that:
 - For loans, which existed at the beginning of the period, opening exposures are disclosed as transfer amounts;
 - For newly issued loans, exposures upon issuance are disclosed as transfer amounts;
- New originated or purchased gives us information regarding gross loans issued and corresponding credit loss allowance created during the period (however, exposures which were issued and repaid during the period and issued to refinance existing loans are excluded);
- Derecognised during the period refers to the balance of loans and credit loss allowance at the beginning of the period, which were repaid during the period. Exposures which were issued and repaid during the period, written off or refinanced by other loans, are excluded;
- Net repayments refers to the net changes in gross carrying amounts, which is loan disbursements less repayments;
- Write-offs refer to write off of loans during the period;
- Foreign exchange movements refers to the translation of assets denominated in foreign currencies and effect to translation in presentational currency for foreign subsidiary;
- Net re-measurement due to stage transfers and risk parameters changes refers to the movements in ECL as a result of transfer of exposure between stages or changes in risk parameters and forward looking expectations;

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

9. LOANS AND ADVANCES TO CUSTOMERS **CONTINUED**

- Re-segmentation refers to the transfer of loans from one reporting segment to another. For presentation purposes, amounts are rounded to the nearest thousands of GEL, which in certain cases is disclosed as nil.

In 2021, the Group has reassessed its definition of segments as disclosed in Note 29. Wealth Management business with high net worth individuals has been transferred from retail to corporate segment and space segment has been fully transferred from MSME to retail segment due to changes in segment definitions. Other transfers between segments were primarily due to changes in client size and specifications compared to prior period.

All tables with comparatives below are prepared by the segmentation that was relevant during each prior year.

<i>Total loans</i> <i>in thousands of GEL</i>	Gross carrying amount				Credit loss allowance			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
At 1 January 2021	11,860,559	2,448,126	891,835	15,200,520	130,228	142,915	333,103	606,246
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– to lifetime (from Stage 1 and Stage 3 to Stage 2)	(1,737,251)	2,102,702	(365,451)	-	(66,517)	163,161	(96,644)	-
– to defaulted (from Stage 1 and Stage 2 to Stage 3)	(367,693)	(262,234)	629,927	-	(84,339)	(39,902)	124,241	-
– to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	1,950,513	(1,780,706)	(169,807)	-	143,565	(93,518)	(50,047)	-
New originated or purchased	7,471,638	-	-	7,471,638	118,272	-	-	118,272
Derecognised during the period	(2,161,851)	(162,437)	(192,679)	(2,516,967)	22,759	(16,651)	(50,522)	(44,414)
Net repayments	(1,818,506)	(268,428)	(66,236)	(2,153,170)	-	-	-	-
Net re-measurement due to stage transfers, changes in risk parameters and repayments ¹	-	-	-	-	(158,517)	(33,483)	122,661	(69,339)
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(193,678)	(193,678)	-	-	(193,678)	(193,678)
Changes in accrued interest	11,271	(3,229)	1,870	9,912	-	-	-	-
Modification	5,346	1,930	2,466	9,742	-	-	-	-
Foreign exchange movements	(611,624)	(140,354)	(28,628)	(780,606)	(1,393)	(1,690)	(3,758)	(6,841)
At 31 December 2021	14,602,402	1,935,370	509,619	17,047,391	104,058	120,832	185,356	410,246

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

<i>Total loans</i> <i>in thousands of GEL</i>	Gross carrying amount				Credit loss allowance			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
At 1 January 2020	11,551,934	757,094	352,927	12,661,955	95,689	82,687	134,180	312,556
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– to lifetime (from Stage 1 and Stage 3 to Stage 2)	(1,834,720)	1,871,883	(37,163)	–	(10,824)	23,099	(12,275)	–
– to defaulted (from Stage 1 and Stage 2 to Stage 3)	(456,349)	(195,488)	651,837	–	(53,436)	(27,314)	80,750	–
– to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	116,479	(115,394)	(1,085)	–	15,269	(14,677)	(592)	–
New originated or purchased	3,361,543	–	–	3,361,543	110,226	–	–	110,226
Derecognised during the period	(922,671)	(83,851)	(23,487)	(1,030,009)	12,225	789	(13,151)	(137)
Net repayments	(982,755)	(60,770)	(42,984)	(1,086,509)	–	–	–	–
Net re-measurement due to stage transfers, changes in risk parameters and repayments	–	–	–	–	(45,959)	70,894	186,167	211,102
Movements without impact on credit loss allowance charge for the period:								
Write-offs	–	–	(66,028)	(66,028)	–	–	(66,028)	(66,028)
Foreign exchange movements	1,042,872	280,445	59,792	1,383,109	7,038	7,437	24,052	38,527
Modifications	(15,774)	(5,793)	(1,974)	(23,541)	–	–	–	–
At 31 December 2020	11,860,559	2,448,126	891,835	15,200,520	130,228	142,915	333,103	606,246

1 Movements with impact on credit loss allowance charge for the period differs from statement of profit or loss with amount of recoveries GEL 44,642 thousands in 2021 (2020: GEL 21,136 thousands, 2019: GEL 33,801 thousands) The amount of recoveries include recoveries from sale of written off portfolio in the amount of GEL 11.6 million sold In August 2021.

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

9. LOANS AND ADVANCES TO CUSTOMERS **CONTINUED**

<i>Total loans</i> <i>in thousands of GEL</i>	Gross carrying amount				Credit loss allowance			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
At 1 January 2019	9,226,512	791,969	354,101	10,372,582	96,812	95,784	141,534	334,130
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– to lifetime (from Stage 1 and Stage 3 to Stage 2)	(646,985)	682,879	(35,894)	–	(22,811)	34,649	(11,838)	–
– to defaulted (from Stage 1 and Stage 2 to Stage 3)	(151,728)	(138,204)	289,932	–	(11,259)	(24,668)	35,927	–
– to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	269,543	(264,141)	(5,402)	–	28,411	(26,682)	(1,729)	–
New originated or purchased	4,403,046	–	–	4,403,046	72,517	–	–	72,517
Derecognised during the period	(535,371)	(165,034)	(183,020)	(883,425)	(1,331)	(16,526)	(23,859)	(41,716)
Net repayments	(1,293,956)	(177,292)	56,480	(1,414,768)	–	–	–	–
Net re-measurement due to stage transfers, changes in risk parameters and repayments	–	–	–	–	(67,845)	19,033	128,776	79,964
Movements without impact on credit loss allowance charge for the period:								
Write-offs	–	–	(140,161)	(140,161)	–	–	(140,161)	(140,161)
Foreign exchange movements	280,873	26,917	16,891	324,681	1,195	1,097	5,530	7,822
At 31 December 2019	11,551,934	757,094	352,927	12,661,955	95,689	82,687	134,180	312,556

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

<i>Corporate loans</i> <i>in thousands of GEL</i>	Gross carrying amount				Credit loss allowance			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
At 1 January 2021	4,574,134	955,187	161,428	5,690,749	53,995	8,194	45,452	107,641
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(260,069)	331,488	(71,419)	-	(6,701)	12,127	(5,426)	-
- to defaulted (from Stage 1 and Stage 2 to Stage 3)	(93,919)	(25,017)	118,936	-	(30,508)	(391)	30,899	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	461,963	(405,275)	(56,688)	-	27,590	(8,265)	(19,325)	-
New originated or purchased	2,604,204	-	-	2,604,204	39,357	-	-	39,357
Derecognised during the period	(1,034,926)	(10,074)	(35,273)	(1,080,273)	(3,172)	102	(16,258)	(19,328)
Net repayments	(414,977)	(82,387)	(32,038)	(529,402)	-	-	-	-
Net re-measurement due to stage transfers, changes in risk parameters and repayments	-	-	-	-	(55,960)	(10,378)	(12,081)	(78,419)
Movements without impact on credit loss allowance charge for the period:								
Re-segmentation	213,296	29,590	6,401	249,287	476	314	2,897	3,687
Write-offs	-	-	(340)	(340)	-	-	(340)	(340)
Changes in accrued interest	1,988	(3,035)	3,917	2,870	-	-	-	-
Modification	719	608	996	2,323	-	-	-	-
Foreign Exchange movements	(308,969)	(78,537)	(4,171)	(391,677)	(673)	(393)	(801)	(1,867)
At 31 December 2021	5,743,444	712,548	91,749	6,547,741	24,404	1,310	25,017	50,731

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

9. LOANS AND ADVANCES TO CUSTOMERS **CONTINUED**

<i>Corporate loans</i> <i>in thousands of GEL</i>	Gross carrying amount				Credit loss allowance			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
At 1 January 2020	4,434,685	104,409	121,379	4,660,473	39,153	1,969	39,628	80,750
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– to lifetime (from Stage 1 and Stage 3 to Stage 2)	(750,779)	750,779	–	–	(7,395)	7,395	–	–
– to defaulted (from Stage 1 and Stage 2 to Stage 3)	(57,281)	(14,021)	71,302	–	(1,394)	(1,307)	2,701	–
– to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	20,142	(20,142)	–	–	227	(227)	–	–
New originated or purchased	854,821	–	–	854,821	14,830	–	–	14,830
Derecognised during the period	(285,949)	(20,839)	(7,919)	(314,707)	(3,328)	(1,915)	(3,800)	(9,043)
Net repayments	(145,390)	16,644	(32,056)	(160,802)	–	–	–	–
Net re-measurement due to stage transfers, changes in risk parameters and repayments	–	–	–	–	6,388	1,006	1,974	9,368
Movements without impact on credit loss allowance charge for the period:								
Re-segmentation	21,785	–	–	21,785	76	–	–	76
Write-offs	–	–	(5,380)	(5,380)	–	–	(5,380)	(5,380)
Modifications	(2,541)	(1,758)	(864)	(5,163)	–	–	–	–
Foreign exchange movements	484,641	140,115	14,966	639,722	5,438	1,273	10,329	17,040
At 31 December 2020	4,574,134	955,187	161,428	5,690,749	53,995	8,194	45,452	107,641

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

<i>Corporate loans</i> <i>in thousands of GEL</i>	Gross carrying amount				Credit loss allowance			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
At 1 January 2019	2,903,313	138,715	135,261	3,177,289	32,940	4,994	43,571	81,505
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– to lifetime (from Stage 1 and Stage 3 to Stage 2)	(126,154)	137,126	(10,972)	–	(2,876)	5,184	(2,308)	–
– to defaulted (from Stage 1 and Stage 2 to Stage 3)	(27,531)	(5,261)	32,792	–	(2,914)	(192)	3,106	–
– to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	72,484	(71,151)	(1,333)	–	2,806	(2,806)	–	–
New originated or purchased	1,638,709	–	–	1,638,709	25,355	–	–	25,355
Derecognised during the period	1,988	(31,192)	(13,862)	(43,066)	(2,544)	(1,064)	(9,094)	(12,702)
Net repayments	(186,958)	(70,285)	(27,812)	(285,055)	–	–	–	–
Net re-measurement due to stage transfers, changes in risk parameters and repayments	–	–	–	–	(14,698)	(4,398)	1,621	(17,475)
Movements without impact on credit loss allowance charge for the period:								
Re-segmentation	55,356	711	–	56,067	176	76	–	252
Write-offs	–	–	–	–	–	–	–	–
Foreign exchange movements	103,478	5,746	7,305	116,529	908	175	2,732	3,815
At 31 December 2019	4,434,685	104,409	121,379	4,660,473	39,153	1,969	39,628	80,750

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

9. LOANS AND ADVANCES TO CUSTOMERS **CONTINUED**

<i>Loans to micro, small and medium enterprises</i> <i>in thousands of GEL</i>	Gross carrying amount				Credit loss allowance			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
At 1 January 2021	2,661,786	631,347	262,951	3,556,084	24,490	46,853	88,567	159,910
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– to lifetime (from Stage 1 and Stage 3 to Stage 2)	(466,965)	534,711	(67,746)	-	(10,917)	29,516	(18,599)	-
– to defaulted (from Stage 1 and Stage 2 to Stage 3)	(71,234)	(94,868)	166,102	-	(14,450)	(10,455)	24,905	-
– to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	570,554	(537,576)	(32,978)	-	36,444	(28,030)	(8,414)	-
New originated or purchased	2,023,430	-	-	2,023,430	16,667	-	-	16,667
Derecognised during the period	(522,685)	(44,334)	(33,607)	(600,626)	(688)	(1,613)	(11,988)	(14,289)
Net repayments	(475,809)	(61,832)	(30,299)	(567,940)	-	-	-	-
Net re-measurement due to stage transfers, changes in risk parameters and repayments	-	-	-	-	(26,678)	(3,534)	32,293	2,081
Movements without impact on credit loss allowance charge for the period:								
Re-segmentation	(80,868)	6,542	(4,803)	(79,129)	(3,824)	78	(4,898)	(8,644)
Write-offs	-	-	(40,086)	(40,086)	-	-	(40,086)	(40,086)
Changes in accrued interest	14,130	1,126	1,449	16,705	-	-	-	-
Modifications	1,208	369	424	2,001	-	-	-	-
Foreign exchange movements	(133,705)	(22,146)	(13,283)	(169,134)	(557)	(581)	(1,400)	(2,538)
At 31 December 2021	3,519,842	413,339	208,124	4,141,305	20,487	32,234	60,380	113,101

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

<i>Loans to micro, small and medium enterprises</i> <i>in thousands of GEL</i>	Gross carrying amount				Credit loss allowance			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
At 1 January 2020	2,650,261	204,699	93,319	2,948,279	18,341	18,593	29,211	66,145
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– to lifetime (from Stage 1 and Stage 3 to Stage 2)	(539,299)	546,322	(7,023)	–	(6,860)	8,580	(1,720)	–
– to defaulted (from Stage 1 and Stage 2 to Stage 3)	(103,564)	(83,981)	187,545	–	(8,258)	(9,097)	17,355	–
– to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	31,201	(30,770)	(431)	–	3,130	(2,954)	(176)	–
New originated or purchased	1,033,189	–	–	1,033,189	23,407	–	–	23,407
Derecognised during the period	(303,253)	(33,879)	(5,525)	(342,657)	(1,314)	(157)	(1,759)	(3,230)
Net repayments	(290,204)	(26,683)	(11,097)	(327,984)	–	–	–	–
Net re-measurement due to stage transfers, changes in risk parameters and repayments	–	–	–	–	(5,102)	29,155	55,752	79,805
Movements without impact on credit loss allowance charge for the period:								
Re-segmentation	(22,888)	–	–	(22,888)	(76)	–	–	(76)
Write-offs	–	–	(15,696)	(15,696)	–	–	(15,696)	(15,696)
Foreign exchange movements	209,565	57,071	22,183	288,819	1,222	2,733	5,600	9,555
Modifications	(3,222)	(1,432)	(324)	(4,978)	–	–	–	–
At 31 December 2020	2,661,786	631,347	262,951	3,556,084	24,490	46,853	88,567	159,910

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

9. LOANS AND ADVANCES TO CUSTOMERS **CONTINUED**

<i>Loans to micro, small and medium enterprises</i> <i>in thousands of GEL</i>	Gross carrying amount				Credit loss allowance			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
At 1 January 2019	2,210,617	193,157	92,820	2,496,594	19,273	22,379	29,362	71,014
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– to lifetime (from Stage 1 and Stage 3 to Stage 2)	(181,576)	186,581	(5,005)	–	(3,097)	5,142	(2,045)	–
– to defaulted (from Stage 1 and Stage 2 to Stage 3)	(51,354)	(42,338)	93,692	–	(2,568)	(6,711)	9,279	–
– to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	49,093	(48,292)	(801)	–	6,191	(5,872)	(319)	–
New originated or purchased	1,312,100	–	–	1,312,100	11,981	–	–	11,981
Derecognised during the period	(354,274)	(47,777)	(48,874)	(450,925)	(2,356)	(2,582)	(6,102)	(11,040)
Net repayments	(333,112)	(42,333)	(14,348)	(389,793)	–	–	–	–
Net re-measurement due to stage transfers, changes in risk parameters and repayments	–	–	–	–	(11,134)	6,047	26,965	21,878
Movements without impact on credit loss allowance charge for the period:								
Re-segmentation	(55,356)	(786)	–	(56,142)	(176)	(78)	–	(254)
Write-offs	–	–	(28,963)	(28,963)	–	–	(28,963)	(28,963)
Foreign exchange movements	54,123	6,487	4,798	65,408	227	268	1,034	1,529
At 31 December 2019	2,650,261	204,699	93,319	2,948,279	18,341	18,593	29,211	66,145

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

<i>Consumer loans</i> <i>in thousands of GEL</i>	Gross carrying amount				Credit loss allowance			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
At 1 January 2021	1,556,559	267,296	187,730	2,011,585	48,372	66,352	127,101	241,825
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(407,063)	471,869	(64,806)	-	(46,449)	83,450	(37,001)	-
- to defaulted (from Stage 1 and Stage 2 to Stage 3)	(108,020)	(99,591)	207,611	-	(22,882)	(25,955)	48,837	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	319,163	(287,805)	(31,358)	-	57,187	(45,306)	(11,881)	-
New originated or purchased	1,513,078	-	-	1,513,078	60,443	-	-	60,443
Derecognised during the period	(408,992)	(55,937)	(87,562)	(552,491)	23,943	(14,452)	(11,487)	(1,996)
Net repayments	(500,500)	(54,128)	29,507	(525,121)	-	-	-	-
Net re-measurement due to stage transfers, changes in risk parameters and repayments	-	-	-	-	(67,672)	541	94,612	27,481
Movements without impact on credit loss allowance charge for the period:								
Re-segmentation	(30,782)	491	2,390	(27,901)	3,400	348	2,861	6,609
Write-offs	-	-	(151,635)	(151,635)	-	-	(151,635)	(151,635)
Changes in accrued interest	(1,447)	(1,248)	(4,446)	(7,141)	-	-	-	-
Modification	2,098	437	828	3,363	-	-	-	-
Foreign exchange movements	(13,949)	(2,144)	(1,740)	(17,833)	23	230	(52)	201
At 31 December 2021	1,920,145	239,240	86,519	2,245,904	56,365	65,208	61,355	182,928

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

9. LOANS AND ADVANCES TO CUSTOMERS **CONTINUED**

<i>Consumer loans</i> <i>in thousands of GEL</i>	Gross carrying amount				Credit loss allowance			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
At 1 January 2020	1,593,262	216,817	73,927	1,884,006	36,724	52,439	44,793	133,956
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– to lifetime (from Stage 1 and Stage 3 to Stage 2)	(165,248)	178,014	(12,766)	–	(3,846)	9,861	(6,015)	–
– to defaulted (from Stage 1 and Stage 2 to Stage 3)	(114,928)	(58,650)	173,578	–	(24,678)	(14,790)	39,468	–
– to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	40,086	(39,544)	(542)	–	11,333	(10,945)	(388)	–
New originated or purchased	669,973	–	–	669,973	62,912	–	–	62,912
Derecognised during the period	(219,243)	(14,197)	(9,175)	(242,615)	11,426	220	(4,949)	6,697
Net repayments	(287,650)	(19,815)	3,789	(303,676)	–	–	–	–
Net re-measurement due to stage transfers, changes in risk parameters and repayments	–	–	–	–	(45,618)	29,130	96,489	80,001
Movements without impact on credit loss allowance charge for the period:								
Re-segmentation	831	–	–	831	–	–	–	–
Write-offs	–	–	(44,356)	(44,356)	–	–	(44,356)	(44,356)
Foreign exchange movements	45,457	6,440	4,033	55,930	119	437	2,059	2,615
Modifications	(5,981)	(1,769)	(758)	(8,508)	–	–	–	–
At 31 December 2020	1,556,559	267,296	187,730	2,011,585	48,372	66,352	127,101	241,825

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

<i>Consumer loans</i> <i>in thousands of GEL</i>	Gross carrying amount				Credit loss allowance			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
At 1 January 2019	1,641,978	265,687	81,851	1,989,516	42,903	59,245	54,575	156,723
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(166,459)	176,428	(9,969)	-	(16,454)	21,029	(4,575)	-
- to defaulted (from Stage 1 and Stage 2 to Stage 3)	(60,362)	(67,012)	127,374	-	(5,682)	(16,168)	21,850	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	81,453	(80,023)	(1,430)	-	16,851	(16,013)	(838)	-
New originated or purchased	641,207	-	-	641,207	34,363	-	-	34,363
Derecognised during the period	(101,437)	(39,416)	(125,004)	(265,857)	3,706	(11,085)	(7,972)	(15,351)
Net repayments	(460,554)	(42,061)	109,208	(393,407)	-	-	-	-
Net re-measurement due to stage transfers, changes in risk parameters and repayments	-	-	-	-	(38,995)	15,212	91,149	67,366
Movements without impact on credit loss allowance charge for the period:								
Re-segmentation	2,583	1,092	572	4,247	15	97	184	296
Write-offs	-	-	(110,243)	(110,243)	-	-	(110,243)	(110,243)
Foreign exchange movements	14,853	2,122	1,568	18,543	17	122	663	802
At 31 December 2019	1,593,262	216,817	73,927	1,884,006	36,724	52,439	44,793	133,956

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

9. LOANS AND ADVANCES TO CUSTOMERS **CONTINUED**

<i>Mortgage loans</i> <i>in thousands of GEL</i>	Gross carrying amount				Credit loss allowance			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
At 1 January 2021	3,068,080	594,296	279,726	3,942,102	3,371	21,516	71,983	96,870
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– to lifetime (from Stage 1 and Stage 3 to Stage 2)	(603,154)	764,634	(161,480)	-	(2,450)	38,068	(35,618)	-
– to defaulted (from Stage 1 and Stage 2 to Stage 3)	(94,520)	(42,758)	137,278	-	(16,499)	(3,101)	19,600	-
– to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	598,833	(550,050)	(48,783)	-	22,344	(11,917)	(10,427)	-
New originated or purchased	1,330,926	-	-	1,330,926	1,805	-	-	1,805
Derecognised during the period	(195,248)	(52,092)	(36,237)	(283,577)	2,676	(688)	(10,789)	(8,801)
Net repayments	(427,220)	(70,081)	(33,406)	(530,707)	-	-	-	-
Net re-measurement due to stage transfers, changes in risk parameters and repayments	-	-	-	-	(8,207)	(20,112)	7,837	(20,482)
Movements without impact on credit loss allowance charge for the period:								
Re-segmentation	(101,646)	(36,623)	(3,988)	(142,257)	(52)	(740)	(860)	(1,652)
Write-offs	-	-	(1,617)	(1,617)	-	-	(1,617)	(1,617)
Changes in accrued interest	(3,400)	(72)	950	(2,522)	-	-	-	-
Modification	1,321	516	218	2,055	-	-	-	-
Foreign exchange movements	(155,001)	(37,527)	(9,434)	(201,962)	(186)	(946)	(1,505)	(2,637)
At 31 December 2021	3,418,971	570,243	123,227	4,112,441	2,802	22,080	38,604	63,486

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

<i>Mortgage loans</i> <i>in thousands of GEL</i>	Gross carrying amount				Credit loss allowance			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
At 1 January 2020	2,873,726	231,169	64,302	3,169,197	1,471	9,686	20,548	31,705
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(379,394)	396,768	(17,374)	-	7,277	(2,737)	(4,540)	-
- to defaulted (from Stage 1 and Stage 2 to Stage 3)	(180,576)	(38,836)	219,412	-	(19,106)	(2,120)	21,226	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	25,050	(24,938)	(112)	-	579	(551)	(28)	-
New originated or purchased	803,560	-	-	803,560	9,077	-	-	9,077
Derecognised during the period	(114,226)	(14,936)	(868)	(130,030)	5,441	2,641	(2,643)	5,439
Net repayments	(259,511)	(30,916)	(3,620)	(294,047)	-	-	-	-
Net re-measurement due to stage transfers, changes in risk parameters and repayments	-	-	-	-	(1,627)	11,603	31,952	41,928
Movements without impact on credit loss allowance charge for the period:								
Re-segmentation	272	-	-	272	-	-	-	-
Write-offs	-	-	(596)	(596)	-	-	(596)	(596)
Foreign exchange movements	303,209	76,819	18,610	398,638	259	2,994	6,064	9,317
Modifications	(4,030)	(834)	(28)	(4,892)	-	-	-	-
At 31 December 2020	3,068,080	594,296	279,726	3,942,102	3,371	21,516	71,983	96,870

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

9. LOANS AND ADVANCES TO CUSTOMERS **CONTINUED**

	Gross carrying amount				Credit loss allowance			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
Mortgage loans <i>in thousands of GEL</i>								
At 1 January 2019	2,470,604	194,410	44,169	2,709,183	1,696	9,166	14,026	24,888
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
– to lifetime (from Stage 1 and Stage 3 to Stage 2)	(172,796)	182,744	(9,948)	–	(384)	3,294	(2,910)	–
– to defaulted (from Stage 1 and Stage 2 to Stage 3)	(12,481)	(23,593)	36,074	–	(95)	(1,597)	1,692	–
– to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	66,513	(64,675)	(1,838)	–	2,563	(1,991)	(572)	–
New originated or purchased	811,030	–	–	811,030	818	–	–	818
Derecognised during the period	(81,648)	(46,649)	4,720	(123,577)	(137)	(1,795)	(691)	(2,623)
Net repayments	(313,332)	(22,613)	(10,568)	(346,513)	–	–	–	–
Net re-measurement due to stage transfers, changes in risk parameters and repayments	–	–	–	–	(3,018)	2,172	9,041	8,195
Movements without impact on credit loss allowance charge for the period:								
Re-segmentation	(2,583)	(1,017)	(572)	(4,172)	(15)	(95)	(184)	(294)
Write-offs	–	–	(955)	(955)	–	–	(955)	(955)
Foreign exchange movements	108,419	12,562	3,220	124,201	43	532	1,101	1,676
At 31 December 2019	2,873,726	231,169	64,302	3,169,197	1,471	9,686	20,548	31,705

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

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

31 December 2021				
<i>in thousands of GEL</i>	Stage 1 (12months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
Corporate loans risk category				
– Very low	5,491,018	4,275	–	5,495,293
– Low	246,591	598,209	–	844,800
– Moderate	5,835	110,064	–	115,899
– Default	–	–	91,749	91,749
Gross carrying amount	5,743,444	712,548	91,749	6,547,741
Credit loss allowance	(24,404)	(1,310)	(25,017)	(50,731)
Carrying amount	5,719,040	711,238	66,732	6,497,010
Consumer loans risk category				
– Very low	1,270,400	16,310	–	1,286,710
– Low	542,853	57,392	–	600,245
– Moderate	106,892	138,339	–	245,231
– High	–	27,199	–	27,199
– Default	–	–	86,519	86,519
Gross carrying amount	1,920,145	239,240	86,519	2,245,904
Credit loss allowance	(56,365)	(65,208)	(61,355)	(182,928)
Carrying amount	1,863,780	174,032	25,164	2,062,976
Mortgage loans risk category				
– Very low	3,069,543	78,659	–	3,148,202
– Low	328,538	353,765	–	682,303
– Moderate	20,890	122,855	–	143,745
– High	–	14,964	–	14,964
– Default	–	–	123,227	123,227
Gross carrying amount	3,418,971	570,243	123,227	4,112,441
Credit loss allowance	(2,802)	(22,080)	(38,604)	(63,486)
Carrying amount	3,416,169	548,163	84,623	4,048,955
Loans to MSME risk category				
– Very low	2,836,336	41,741	–	2,878,077
– Low	673,872	250,173	–	924,045
– Moderate	9,634	86,859	–	96,493
– High	–	34,566	–	34,566
– Default	–	–	208,124	208,124
Gross carrying amount	3,519,842	413,339	208,124	4,141,305
Credit loss allowance	(20,487)	(32,234)	(60,380)	(113,101)
Carrying amount	3,499,355	381,105	147,744	4,028,204

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

9. LOANS AND ADVANCES TO CUSTOMERS **CONTINUED**

The credit quality of loans to customers carried at amortised cost is as follows at 31 December 2020:

31 December 2020				
<i>in thousands of GEL</i>	Stage 1 (12months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
Corporate loans risk category				
– Very low	4,324,191	6,178	–	4,330,369
– Low	248,246	913,832	–	1,162,078
– Moderate	1,697	35,177	–	36,874
– Default	–	–	161,428	161,428
Gross carrying amount	4,574,134	955,187	161,428	5,690,749
Credit loss allowance	(53,995)	(8,194)	(45,452)	(107,641)
Carrying amount	4,520,139	946,993	115,976	5,583,108
Consumer loans risk category				
– Very low	1,010,723	20,041	–	1,030,764
– Low	453,899	64,950	–	518,849
– Moderate	91,937	159,726	–	251,663
– High	–	22,579	–	22,579
– Default	–	–	187,730	187,730
Gross carrying amount	1,556,559	267,296	187,730	2,011,585
Credit loss allowance	(48,372)	(66,352)	(127,101)	(241,825)
Carrying amount	1,508,187	200,944	60,629	1,769,760
Mortgage loans risk category				
– Very low	2,852,661	97,936	–	2,950,597
– Low	186,597	334,579	–	521,176
– Moderate	28,822	154,372	–	183,194
– High	–	7,409	–	7,409
– Default	–	–	279,726	279,726
Gross carrying amount	3,068,080	594,296	279,726	3,942,102
Credit loss allowance	(3,371)	(21,516)	(71,983)	(96,870)
Carrying amount	3,064,709	572,780	207,743	3,845,232
Loans to MSME risk category				
– Very low	2,252,448	145,445	–	2,397,893
– Low	395,733	348,147	–	743,880
– Moderate	13,605	121,925	–	135,530
– High	–	15,830	–	15,830
– Default	–	–	262,951	262,951
Gross carrying amount	2,661,786	631,347	262,951	3,556,084
Credit loss allowance	(24,490)	(46,853)	(88,567)	(159,910)
Carrying amount	2,637,296	584,494	174,384	3,396,174

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

The credit quality of loans to customers carried at amortised cost is as follows at 31 December 2019:

31 December 2019				
<i>in thousands of GEL</i>	Stage 1 (12months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
Corporate loans risk category				
– Very low	4,094,403	7,882	–	4,102,285
– Low	339,960	75,872	–	415,832
– Moderate	322	19,827	–	20,149
– High	–	828	–	828
– Default	–	–	121,379	121,379
Gross carrying amount	4,434,685	104,409	121,379	4,660,473
Credit loss allowance	(39,153)	(1,969)	(39,628)	(80,750)
Carrying amount	4,395,532	102,440	81,751	4,579,723
Consumer loans risk category				
– Very low	1,107,490	5,436	–	1,112,926
– Low	330,361	17,620	–	347,981
– Moderate	155,411	176,815	–	332,226
– High	–	16,946	–	16,946
– Default	–	–	73,927	73,927
Gross carrying amount	1,593,262	216,817	73,927	1,884,006
Credit loss allowance	(36,724)	(52,439)	(44,793)	(133,956)
Carrying amount	1,556,538	164,378	29,134	1,750,050
Mortgage loans risk category				
– Very low	2,668,691	17,970	–	2,686,661
– Low	182,049	80,289	–	262,338
– Moderate	22,986	121,743	–	144,729
– High	–	11,167	–	11,167
– Default	–	–	64,302	64,302
Gross carrying amount	2,873,726	231,169	64,302	3,169,197
Credit loss allowance	(1,471)	(9,686)	(20,548)	(31,705)
Carrying amount	2,872,255	221,483	43,754	3,137,492
Loans to MSME risk category				
– Very low	2,223,262	23,114	–	2,246,376
– Low	407,106	87,244	–	494,350
– Moderate	19,893	80,947	–	100,840
– High	–	13,394	–	13,394
– Default	–	–	93,319	93,319
Gross carrying amount	2,650,261	204,699	93,319	2,948,279
Credit loss allowance	(18,341)	(18,593)	(29,211)	(66,145)
Carrying amount	2,631,920	186,106	64,108	2,882,134

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

The contractual amounts outstanding on loans to customers that have been written off partially or fully, but are still subject to enforcement activity was principal amount GEL 19,238 thousand (31 December 2020: GEL 47,933 thousand; 31 December 2019: 109,719 Thousand GEL), accrued interest GEL 4,963 thousand (31 December 2020: GEL 10,584 thousand; 31 December 2019: GEL 27,998 thousand) and accrued off balance sheet penalty GEL 115,371 thousand (31 December 2020: GEL 135,418 thousand; 31 December 2019: GEL 113,855 thousand).

Economic sector risk concentrations within the customer loan portfolio are as follows:

	2021		2020		2019	
<i>in thousands of GEL</i>	Amount	%	Amount	%	Amount	%
Individual	6,500,009	38%	5,948,346	39%	5,046,804	40%
Real Estate	1,591,277	9%	1,460,821	10%	1,076,102	8%
Hospitality, Restaurants & Leisure	1,350,184	8%	1,368,887	9%	988,467	8%
Energy & Utilities	1,095,387	7%	1,078,504	7%	1,089,643	9%
Construction	1,041,416	6%	667,904	4%	576,923	5%
Food Industry	994,780	6%	898,597	6%	785,539	6%
Trade	860,286	5%	708,559	5%	616,475	5%
Agriculture	838,719	5%	642,024	4%	498,783	4%
Healthcare	406,608	2%	369,645	2%	305,152	2%
Services	348,738	2%	268,982	2%	212,661	2%
Automotive	309,043	2%	263,276	2%	183,912	1%
Transportation	224,066	1%	159,857	1%	134,223	1%
Pawn Shops	159,851	1%	168,571	1%	203,633	2%
Financial Services	112,937	1%	78,923	1%	96,430	1%
Metals and Mining	43,132	0%	229,368	2%	99,321	1%
Communication	41,191	0%	46,406	0%	43,329	0%
Other	1,129,767	7%	841,850	5%	704,558	5%
Total gross loans and advances to customers	17,047,391	100%	15,200,520	100%	12,661,955	100%

As of 31 December 2021 the Group had 188 borrowers (2020: 157 borrowers; 2019: 125 borrowers) with aggregated gross loan amounts above GEL 10,000 thousand. The total aggregated amount of these loans was GEL 5,017,758 thousand (2020: GEL 4,562,506 thousand; 2019: GEL 3,669,817 thousand) or 29.4% of the gross loan portfolio (2020: 30.0%; 2019: 29.0%).

The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. There are three key types of collateral:

- Real estate;
- Movable property including fixed assets, inventory and precious metals;
- Financial assets including deposits, shares, and third party guarantees.

The financial effect of collateral is presented by disclosing the collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed the assets' carrying value ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the assets' carrying value ("under-collateralised assets").

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

The effect of collateral as at 31 December 2021:

31 December 2021				
<i>in thousands of GEL</i>	Over-collateralised Assets		Under-collateralised Assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	3,929,725	8,578,057	2,618,016	878,667
Consumer loans	648,355	3,117,799	1,597,549	23,910
Mortgage loans	3,672,323	9,877,124	440,118	156,248
Loans to micro, small and medium enterprises	3,098,087	7,035,782	1,043,218	419,978
Total	11,348,490	28,608,762	5,698,901	1,478,803

The effect of collateral as at 31 December 2020:

31 December 2020				
<i>in thousands of GEL</i>	Over-collateralised Assets		Under-collateralised Assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	4,603,143	9,630,768	1,087,606	477,701
Consumer loans	869,317	2,231,778	1,142,268	20,474
Mortgage loans	3,703,164	7,915,172	238,938	158,292
Loans to micro, small and medium enterprises	3,114,829	7,102,534	441,255	157,047
Total	12,290,453	26,880,252	2,910,067	813,514

The effect of collateral as at 31 December 2019:

31 December 2019				
<i>in thousands of GEL</i>	Over-collateralised Assets		Under-collateralised Assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	3,682,456	8,481,849	978,017	310,419
Consumer loans	950,847	2,232,728	933,159	37,658
Mortgage loans	2,949,426	6,171,802	219,771	107,183
Loans to micro, small and medium enterprises	2,579,002	5,983,285	369,277	164,979
Total	10,161,731	22,869,664	2,500,224	620,239

As at 31 December 2021 loans and advances to customers which were 1. over-collateralised and 2. credit loss allowance was 0, amounted to GEL 1,576,220 thousand (2020: GEL 1,694,328 thousand, 2019: GEL 965,978 thousand).

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

9. LOANS AND ADVANCES TO CUSTOMERS **CONTINUED**

The effect of collateral by classes as at 31 December 2021¹:

31 December 2021				
<i>in thousands of GEL</i>	Over-collateralised Assets		Under-collateralised Assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Cash Cover	271,396	310,681	207,788	147,871
Gold	91,525	115,404	15,917	15,657
Inventory	331,047	1,313,628	253,934	138,523
Real Estate	10,654,522	26,869,049	1,861,299	1,176,752
Unsecured and secured solely by third party guarantees	-	-	3,359,963	-
Total	11,348,490	28,608,762	5,698,901	1,478,803

The effect of collateral by classes as at 31 December 2020:

31 December 2020				
<i>in thousands of GEL</i>	Over-collateralised Assets		Under-collateralised Assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Cash Cover	332,438	358,847	12,937	39,109
Gold	115,139	158,008	37,856	37,946
Inventory	753,658	2,149,849	24,536	24,498
Other	137,749	849,249	7,960	20,313
Real Estate	10,697,040	23,217,956	428,092	395,398
Unsecured and secured solely by third party guarantees	254,429	146,343	2,398,686	296,250
Total	12,290,453	26,880,252	2,910,067	813,514

The effect of collateral by classes as at 31 December 2019:

31 December 2019				
<i>in thousands of GEL</i>	Over-collateralised Assets		Under-collateralised Assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Cash Cover	309,228	333,329	25,299	35,507
Gold	140,627	174,531	49,118	66,943
Inventory	794,209	2,221,293	33,916	33,740
Other	146,762	1,256,843	8,558	11,361
Real Estate	8,435,227	18,547,991	225,511	212,902
Unsecured and secured solely by third party guarantees	335,678	335,677	2,157,822	259,786
Total	10,161,731	22,869,664	2,500,224	620,239

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

The financial effect of collateral is determined by comparing the fair value of collateral to outstanding gross loans and advances in the reporting date.

Stage 3 loans presented by segments and collateral classes as at 31 December 2021 are the following:

31 December 2021				
<i>in thousands of GEL</i>	Corporate	Consumer	Mortgage	Loans to micro, small and medium enterprises
Cash Cover	19	6	13	267
Gold	-	-	-	294
Inventory	8,359	-	-	527
Real Estate	62,463	32,281	117,443	189,533
Unsecured and secured solely by third party guarantees	20,908	54,232	5,771	17,503
Total	91,749	86,519	123,227	208,124

Stage 3 loans presented by segments and collateral classes as at 31 December 2020 are the following:

31 December 2020				
<i>in thousands of GEL</i>	Corporate	Consumer	Mortgage	Loans to micro, small and medium enterprises
Cash Cover	21	36	38	47
Gold	-	1,717	-	430
Inventory	15,991	8,909	185	4,250
Other	-	-	-	54
Real Estate	97,824	65,645	273,577	231,925
Unsecured and secured solely by third party guarantees	47,592	111,423	5,926	26,245
Total	161,428	187,730	279,726	262,951

Stage 3 loans presented by segments and collateral classes as at 31 December 2019 are the following:

31 December 2019				
<i>in thousands of GEL</i>	Corporate	Consumer	Mortgage	Loans to micro, small and medium enterprises
Cash Cover	18	89	78	724
Gold	-	1,289	-	400
Inventory	9,675	4,819	13	1,702
Other	1,245	-	-	50
Real Estate	92,652	29,084	61,918	82,511
Unsecured and secured solely by third party guarantees	17,789	38,646	2,293	7,932
Total	121,379	73,927	64,302	93,319

1 In 2020 and 2019 annual financial statements third party guarantees and unsecured loans were separately presented.

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

9. LOANS AND ADVANCES TO CUSTOMERS **CONTINUED**

The gross carrying amount of loans by stages that have been modified since initial recognition at a time when the loss allowance was measured at an amount equal to lifetime expected credit losses and for which the loss allowance has changed during the reporting period to an amount equal to 12-month expected credit losses loans are the following:

<i>in thousands of GEL</i>	2021	2020	2019
Stage 1	487,742	737,197	119,637
Stage 2	431,160	1,602,759	82,754
Stage 3	50,792	293,205	25,513
Total	969,694	2,633,161	227,904

At the central level a specific unit manages collateral to ensure that they serve as an adequate mitigation for credit risk management purposes. In line with the Group's internal policies, collateral provided to loans are evaluated by the Internal Appraisal Group (external reviewers are used in case of loans to related parties or specific cases when complex objects are appraised). The Internal Appraisal Group is part of the collateral management unit and, in order to ensure adequate and objective appraisal procedures, it is independent from the loan granting process. Real estate collateral of significant value is re-evaluated annually by internal appraisers. Statistical methods are used to monitor the value of real estate collateral that are of non-significant value and other types of collateral such as movable assets and precious metals.

In some instances, where the discounted recovery from the liquidation of collateral (adjusted for the liquidity haircut and discounted for the period of expected workout time) is larger than the estimated exposure at default, no credit loss allowance is recognised. Collateral values include the contractual price of third-party guarantees, which, due to their nature, are capped at the loan's carrying value. The values of third-party guarantees in the tables above amounted to GEL 857,891 thousand, GEL 564,701 thousand and GEL 595,464 thousand as of 31 December 2021, 2020 and 2019, respectively. These third-party guarantees are not taken into consideration when assessing the impairment allowance. Refer to Note 44 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 39. Information on related party balances is disclosed in Note 46.

For the year ended 31 December 2021 amortised cost of loans with lifetime ECL immediately before contractual modification that was not a derecognition event was GEL 2,110,117 thousand (31 December 2020: GEL 2,805,274 thousand; 31 December 2019: GEL 520,916 thousand). During 2021, gains less losses recognised in profit or loss on modifications of loans with lifetime ECL that did not lead to derecognition was GEL 205 thousand (2020: GEL 10,411 thousand, 2019: GEL 978 thousand).

For the year ended 31 December 2021 gross carrying amount of loans that were contractually modified (without derecognition) in the past when measured at lifetime ECL and which were reclassified to Stage 1 (12 months ECL) during the current year was GEL 994,526 thousand (31 December 2020: GEL 2,219,539 thousand; 31 December 2019: GEL 384,174 thousand).

10. INVESTMENT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

<i>in thousands of GEL</i>	2021	2020	2019
Corporate bonds	707,253	666,133	611,694
Ministry of Finance of Georgia treasury bills	1,231,024	839,839	330,096
Ministry of Finance of Uzbekistan treasury bills	1,683	1,951	1,596
Certificates of deposit of the National Bank of Georgia	-	21,687	40,346
Less: credit loss allowance by stages	(2,818)	(3,258)	(1,438)
Stage 1	(2,818)	(3,258)	(1,438)
Stage 2	-	-	-
Stage 3	-	-	-
Total investment securities measured at fair value through other comprehensive income before corporate shares	1,937,142	1,526,352	982,294
Corporate shares – unquoted	1,054	916	2,999
Total investment securities measured at fair value through other comprehensive income	1,938,196	1,527,268	985,293

All debt securities in 2021, 2020 and 2019 except for corporate bonds and Uzbekistan treasury bills are issued by the Government of Georgia and National Bank of Georgia. Country rating for Georgia stands at BB with stable outlook (as assigned by Fitch rating agency in August 2021). Latest country rating for Uzbekistan stands at BB-.

70.2% of corporate bonds are issued by triple A rated international financial institutions, 0.4% of corporate bonds are issued by BB- rated international financial institutions, 13.2% of corporate bond are issued at B+ rating, 15.0% of corporate bonds are issued by B and 1.2% by B- rated corporations. The investees have not published recent financial information about their operations, their shares are not quoted and recent trade prices are not publicly accessible. The Group designated investments in corporate shares disclosed in the above table as equity securities at FVOCI. The FVOCI designation was made because the investments are expected to be held for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term.

As at 31 December 2021 investment securities measured at fair value through other comprehensive income carried at GEL 383,790 thousand have been pledged with local banks or financial institutions as a collateral with respect to other borrowed funds (2020: GEL 699,483 thousand; 2019: GEL 696,961 thousand). Refer to Note 19.

As at 31 December 2021 the principal equity investment securities measured at fair value through other comprehensive income are as follows:

<i>in thousands of GEL</i>	Nature of business	Country of registration	2021	2020	2019
GRDC	Property development	Netherlands Antilles	365	365	365
Georgian Stock Exchange	Stock exchange	Georgia	-	-	2,111
Other	Various	Various	689	551	523
Total corporate shares			1,054	916	2,999

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10. INVESTMENT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME CONTINUED

The movements in investment securities measured at fair value through other comprehensive income are as follows:

<i>in thousands of GEL</i>	2021	2020	2019
Carrying amount as of 31 December 2020	1,527,268	-	-
Transfer from investment securities measured at amortised cost due to changes in business model ¹	1,059,946	-	-
Revaluation at transfer date	26,062	-	-
Carrying amount as of 1 January	2,613,276	985,293	1,005,239
Purchases	797,285	763,530	1,781,817
Disposals	(1,025,775)	(92,103)	(213,362)
Redemption at maturity	(412,204)	(165,632)	(1,598,534)
Revaluation	(45,696)	17,633	(15,156)
Interest income accrued	185,424	103,516	74,043
Interest income received	(169,068)	(93,493)	(58,539)
Effect of translation to presentation currency	(5,486)	11,825	10,087
Transfer to investment in associate	-	(1,481)	-
Changes in credit loss allowance	440	(1,820)	(302)
Carrying amount as of 31 December	1,938,196	1,527,268	985,293

11. BONDS CARRIED AT AMORTISED COST

<i>in thousands of GEL</i>	2021	2020	2019
Ministry of Finance of Georgia treasury bills	-	1,062,110	1,023,459
Uzbekistan Government notes	-	19,335	-
Certificates of deposit of National Bank of Uzbekistan	48,045	9,405	-
Corporate bonds	1,537	1,118	1,131
Total gross amount of bonds carried at amortised cost	49,582	1,091,968	1,024,590
Less: credit loss allowance by stages	-	(2,167)	(1,906)
Stage 1	-	(2,167)	(1,906)
Stage 2	-	-	-
Stage 3	-	-	-
Total bonds carried at amortised cost	49,582	1,089,801	1,022,684

All debt securities except for corporate bonds are issued National Bank of Uzbekistan as at 31 December 2021. Latest country rating for Uzbekistan stands at BB-.

11. BONDS CARRIED AT AMORTISED COST CONTINUED

The movements in bonds carried at amortised cost are as follows:

<i>in thousands of GEL</i>	2021	2020	2019
Carrying amount as of 31 December 2020	1,089,801	-	-
Transfer from investment securities measured at amortised cost due to changes in business model	(1,062,113)	-	-
Movement in credit loss allowance due to changes in business model ¹	2,167	-	-
Carrying amount at 1 January	29,855	1,022,684	654,203
Transfers to investment securities at FVOCI	-	(195,815)	(27,241)
Purchases	54,124	667,805	614,000
Redemption at maturity	(32,906)	(413,038)	(216,667)
Interest income accrual	2,224	97,122	58,682
Interest income received	(2,073)	(89,368)	(59,316)
Effect of translation to presentation currency	(1,642)	672	14
Changes in credit loss allowance	-	(261)	(991)
Carrying amount as of 31 December	49,582	1,089,801	1,022,684

For the disclosure of bonds' fair value carried at amortised cost refer to Note 44. An analysis on interest rate for bonds carried at amortised cost is disclosed in Note 39.

As at 31 December 2021 none of the bonds carried at amortised cost have been pledged to local banks or financial institutions as collateral with respect to other borrowed funds (2020: GEL 843,303 thousand; 2019: GEL 579,142 thousand). Refer to Note 19.

None of the bonds carried at amortised cost as at 31 December 2021, 2020 and 2019 were either overdue or defaulted.

12. OTHER FINANCIAL ASSETS

<i>in thousands of GEL</i>	2021	2020	2019
Derivative financial assets	185,710	28,915	5,849
Receivables from sales of non-financial assets	72,650	19,962	32,844
Receivables on credit card services and money transfers	62,881	25,227	21,895
Receivable on terminated leases	46,346	23,207	21,837
Insurance and reinsurance receivables	32,474	21,831	26,177
Advance to promotional service provider	17,681	15,766	14,055
Receivables from plastic card service providers	14,472	-	-
Investment held at fair value through profit or loss	11,125	17,239	-
Receivables on guarantees / letters of credit	9,766	1,943	1,695
Trade receivable	7,715	4,203	4,921
Leasing assets receivables	2,073	2,266	3,866
Rental income receivables	1,349	3,243	2,833
Other	40,680	48,528	28,633
Total gross amount of other financial assets	504,922	212,330	164,605
Less: credit loss allowance	(51,807)	(41,028)	(30,869)
Total other financial assets	453,115	171,302	133,736

¹ Refer to note 2 for detailed explanation of changes in business model

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

12. OTHER FINANCIAL ASSETS **CONTINUED**

As at 31 December 2021, 2020 and 2019, presentation of other financial assets gross carrying amount, except insurance and reinsurance receivables and credit loss allowance by IFRS 9 stages is as follows:

<i>Other financial assets</i> <i>in thousands of GEL</i>	Gross carrying amount				Credit loss allowance			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
At 1 January 2021	172,709	635	17,155	190,499	28,860	-	12,168	41,028
Transfers:								
– to lifetime (from Stage 1 and Stage 3 to Stage 2)	(2,913)	3,125	(212)	-	(1,609)	1,609	-	-
– to defaulted (from Stage 1 and Stage 2 to Stage 3)	(56,547)	-	56,547	-	(32,325)	-	32,325	-
– to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	118	(10)	(108)	-	-	-	-	-
New originated or purchased	278,550	-	-	278,550	13,197	-	-	13,197
Derecognised during the period	(27,988)	(196)	(2,148)	(30,332)	(305)	-	(2,867)	(3,172)
Net repayments	31,838	306	3,135	35,279	-	-	-	-
Foreign exchange movements	(646)	(130)	(772)	(1,548)	(31)	(37)	(3,470)	(3,538)
Changes to ECL measurement model assumptions	-	-	-	-	(3,832)	134	7,990	4,292
At 31 December 2021	395,121	3,730	73,597	472,448	3,955	1,706	46,146	51,807

12. OTHER FINANCIAL ASSETS CONTINUED

<i>Other financial assets</i> <i>in thousands of GEL</i>	Gross carrying amount				Credit loss allowance			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
At 1 January 2020	121,889	25	16,514	138,428	18,207	6	12,656	30,869
Transfers:								
– to lifetime (from Stage 1 and Stage 3 to Stage 2)	(751)	751	–	–	(1)	1	–	–
– to defaulted (from Stage 1 and Stage 2 to Stage 3)	(484)	–	484	–	(4)	–	4	–
– to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	60	(10)	(50)	–	5	(4)	(1)	–
New originated or purchased	141,297	–	–	141,297	10,106	–	–	10,106
Derecognised during the period	(97,574)	(6)	(1,988)	(99,568)	(401)	(1)	(1,848)	(2,250)
Net repayments*	7,747	(110)	1,936	9,573	–	–	–	–
Foreign exchange movements*	525	(15)	259	769	103	–	153	256
Changes to ECL measurement model assumptions*	–	–	–	–	845	(2)	1,204	2,047
At 31 December 2020	172,709	635	17,155	190,499	28,860	–	12,168	41,028

*Management has re-visited the logic for disclosing the movement between stages for 2020 and corrected any discrepancies identified. As a result, amounts disclosed in net repayments, foreign exchange movements and changes to ECL measurement model assumptions were amended to reflect more accurate results.

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

12. OTHER FINANCIAL ASSETS **CONTINUED**

<i>Other financial assets</i> <i>in thousands of GEL</i>	Gross carrying amount				Credit loss allowance			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
At 1 January 2019	126,785	74	47,302	174,161	13,144	14	14,936	28,094
Transfers:								
– to lifetime (from Stage 1 and Stage 3 to Stage 2)	(21)	23	(2)	–	(4)	4	–	–
– to defaulted (from Stage 1 and Stage 2 to Stage 3)	(55)	(15)	70	–	(1)	(15)	16	–
– to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	47	(47)	–	–	4	(4)	–	–
New originated or purchased	106,839	–	–	106,839	21,675	–	–	21,675
Derecognised during the period	(115,851)	(11)	(30,852)	(146,714)	(16,642)	13	(2,255)	(18,884)
Net repayments	4,022	–	355	4,377	–	–	–	–
Net Write-offs	–	–	(1,489)	(1,489)	–	–	(1,489)	(1,489)
Foreign exchange movements	123	1	1,130	1,254	–	–	–	–
Changes to ECL measurement model assumptions	–	–	–	–	31	(6)	1,448	1,473
At 31 December 2019	121,889	25	16,514	138,428	18,207	6	12,656	30,869

The credit quality of Other Financial Assets is as follows at 31 December 2021:

31 December 2021				
<i>in thousands of GEL</i>	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
Other Financial Assets risk category				
– Very low	394,744	–	–	394,744
– Low	280	3,583	–	3,863
– Moderate	97	147	–	244
– Default	–	–	73,597	73,597
Gross carrying amount	395,121	3,730	73,597	472,448
Credit loss allowance	(3,955)	(1,706)	(46,146)	(51,807)
Carrying amount	391,166	2,024	27,451	420,641

12. OTHER FINANCIAL ASSETS CONTINUED

The credit quality of Other Financial Assets is as follows at 31 December 2020:

31 December 2020				
<i>in thousands of GEL</i>	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
Other Financial Assets risk category				
– Very low	172,362	–	–	172,362
– Low	261	11	–	272
– Moderate	86	624	–	710
– Default	–	–	17,155	17,155
Gross carrying amount	172,709	635	17,155	190,499
Credit loss allowance	(28,860)	–	(12,168)	(41,028)
Carrying amount	143,849	635	4,987	149,471

The credit quality of Other Financial Assets is as follows at 31 December 2019:

31 December 2019				
<i>in thousands of GEL</i>	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
Other Financial Assets risk category				
– Very low	121,589	1	–	121,590
– Low	219	1	–	220
– Moderate	81	23	–	104
– Default	–	–	16,514	16,514
Gross carrying amount	121,889	25	16,514	138,428
Credit loss allowance	(18,207)	(6)	(12,656)	(30,869)
Carrying amount	103,682	19	3,858	107,559

Impaired receivables include receivables on terminated leases and other receivables for which credit loss allowance was assessed individually. Receivable's overdue status is a primary factor for the Group to consider a receivable as impaired.

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

13. FINANCE LEASE RECEIVABLES

As at 31 December 2021 finance lease receivables of GEL 262,046 thousand (2020: GEL 271,660 thousand; 2019: GEL 256,660 thousand) are represented by leases of fixed assets excluding land and buildings.

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

<i>in thousands of GEL</i>	Due in 1 year	Due between 1 and 2 year	Due between 2 and 3 year	Due between 3 and 4 year	Due between 4 and 5 year	Due in 5 year or more	Total
Lease payments receivable at the end of 2021	141,346	101,270	55,545	28,065	11,848	6,868	344,942
Unearned finance income	(34,834)	(20,518)	(9,778)	(4,332)	(1,460)	(1,078)	(72,000)
Credit loss allowance	(4,731)	(3,224)	(1,769)	(699)	(304)	(169)	(10,896)
Present value of lease payments receivable as at 31 December 2021	101,781	77,528	43,998	23,034	10,084	5,621	262,046
Lease payments receivable at the end of 2020	134,310	102,136	65,085	31,307	13,922	7,662	354,422
Unearned finance income	(32,917)	(20,745)	(10,904)	(4,656)	(1,712)	(986)	(71,920)
Credit loss allowance	(5,439)	(1,829)	(1,886)	(928)	(425)	(335)	(10,842)
Present value of lease payments receivable as at 31 December 2020	95,954	79,562	52,295	25,723	11,785	6,341	271,660
Lease payments receivable at the end of 2019	147,959	97,959	55,978	25,236	9,333	4,637	341,102
Unearned finance income	(41,969)	(23,467)	(10,470)	(3,914)	(1,089)	(748)	(81,657)
Credit loss allowance	(1,430)	(492)	(475)	(222)	(86)	(80)	(2,785)
Present value of lease payments receivable as at 31 December 2019	104,560	74,000	45,033	21,100	8,158	3,809	256,660

For fair values refer to Note 44.

The table below illustrates the movements in the credit loss allowance of finance lease receivables:

<i>in thousands of GEL</i>	2021	2020	2019
Credit loss allowance at the beginning of the year	10,842	2,785	3,602
Amounts written off during the year as uncollectible	(267)	(341)	(235)
Credit loss allowance/(reversal of loss allowance) during the year	321	8,398	(582)
Credit loss allowance at the end of the year	10,896	10,842	2,785

13. FINANCE LEASE RECEIVABLES CONTINUED

The following table discloses the changes in the credit loss allowance and gross carrying amount for finance lease receivables between the beginning and the end of the reporting period:

<i>in thousands of GEL</i>	Gross carrying amount				Credit loss allowance			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
At 1 January 2021	171,649	60,841	50,012	282,502	3,013	3,457	4,372	10,842
Transfers:								
– to lifetime (from Stage 1 and Stage 3 to Stage 2)	(29,446)	31,607	(2,161)	-	(406)	419	(13)	-
– to defaulted (from Stage 1 and Stage 2 to Stage 3)	(9,135)	(2,629)	11,764	-	(83)	(320)	403	-
– to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	47,278	(38,439)	(8,839)	-	1,318	(1,042)	(276)	-
New originated or purchased	121,657	9,178	2,456	133,291	2,156	2,374	559	5,089
Derecognised during the period	(58,767)	(11,429)	(21,386)	(91,582)	(1,054)	(597)	(3,398)	(5,049)
Net repayments	(37,623)	(4,853)	(5,540)	(48,016)	-	(42)	(61)	(103)
Foreign exchange movements	(3,110)	(1,353)	(1,096)	(5,559)	-	-	-	-
Other movements	(1,832)	977	3,161	2,306	-	(42)	(54)	(96)
Changes due to change in credit quality	-	-	-	-	(1,843)	(738)	2,794	213
At 31 December 2021	200,671	43,900	28,371	272,942	3,101	3,469	4,326	10,896

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

13. FINANCE LEASE RECEIVABLES **CONTINUED**

<i>As restated</i>	Gross carrying amount				Credit loss allowance			
<i>in thousands of GEL</i>	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
At 1 January 2020	205,615	23,799	30,031	259,445	1,999	96	690	2,785
Transfers:								
– to lifetime (from Stage 1 and Stage 3 to Stage 2)*	(44,598)	46,890	(2,292)	-	(934)	1,020	(86)	-
– to defaulted (from Stage 1 and Stage 2 to Stage 3)*	(26,393)	(3,740)	30,133	-	(625)	(585)	1,210	-
– to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	5,615	(4,946)	(669)	-	14	(14)	-	-
New originated or purchased	89,402	18,654	10,101	118,157	1,967	509	433	2,909
Derecognised during the period	(40,360)	(13,560)	(11,171)	(65,091)	(331)	(63)	(323)	(717)
Net repayments	(23,588)	(9,704)	(9,816)	(43,108)	(4)	(4)	(56)	(64)
Foreign exchange movements	7,392	3,405	3,559	14,356	3	22	348	373
Other movements	(1,436)	43	136	(1,257)	(83)	59	(4)	(28)
Changes due to change in credit quality	-	-	-	-	1,007	2,417	2,160	5,584
At 31 December 2020	171,649	60,841	50,012	282,502	3,013	3,457	4,372	10,842

*Management has re-visited the logic for disclosing the movement between stages for 2020 and corrected any discrepancies identified. As a result, amounts disclosed in transfers between stages were amended to reflect more accurate results.

<i>As previously reported</i>	Gross carrying amount				Credit loss allowance			
<i>in thousands of GEL</i>	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
At 1 January 2020	205,615	23,799	30,031	259,445	1,999	96	690	2,785
Transfers:								
– to lifetime (from Stage 1 and Stage 3 to Stage 2)	3,315	(2,645)	(670)	-	(592)	592	-	-
– to defaulted (from Stage 1 and Stage 2 to Stage 3)	(41,908)	42,491	(193)	390	(121)	(148)	477	208
– to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(26,117)	(1,642)	28,035	276	(472)	(23)	647	152
New originated or purchased	89,402	18,654	10,101	118,157	1,967	509	433	2,909
Derecognised during the period	(40,360)	(13,560)	(11,171)	(65,091)	(331)	(63)	(323)	(717)
Net repayments	-	-	-	-	(4)	(4)	(56)	(64)
Foreign exchange movements	6,726	3,405	3,559	13,690	(357)	22	348	13
Other movements	(1,436)	43	136	(1,257)	(83)	59	(4)	(28)
Changes due to change in credit quality	-	-	-	-	1,007	2,417	2,160	5,584
Partial repayment	(23,588)	(9,704)	(9,816)	(43,108)	-	-	-	-
At 31 December 2020	171,649	60,841	50,012	282,502	3,013	3,457	4,372	10,842

13. FINANCE LEASE RECEIVABLES CONTINUED

<i>in thousands of GEL</i>	Gross carrying amount				Credit loss allowance			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
At 1 January 2019	178,171	10,861	18,372	207,404	2,045	205	1,352	3,602
Transfers:								
– to lifetime (from Stage 1 and Stage 3 to Stage 2)	(5,951)	6,598	(647)	–	(14)	14	–	–
– to defaulted (from Stage 1 and Stage 2 to Stage 3)	(22,099)	(2,941)	25,040	–	(27)	(65)	92	–
– to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	4,968	(2,972)	(1,996)	–	1	(1)	–	–
New originated or purchased	138,634	18,663	5,836	163,133	1,319	89	81	1,489
Derecognised during the period	(55,562)	(4,849)	(10,407)	(70,818)	(858)	(154)	(1,536)	(2,548)
Net repayments	(38,828)	(2,253)	(9,448)	(50,529)	(467)	8	701	242
Foreign exchange movements	2,622	170	1,022	3,814	–	–	–	–
Other movements	3,660	522	2,259	6,441	–	–	–	–
At 31 December 2019	205,615	23,799	30,031	259,445	1,999	96	690	2,785

All clients from Covid-19 affected sectors, which is in turn determined by TBC Leasing's credit risk department, using sector forecasts derived by Group's macro economists' team, where these sectors show significant declines, are moved to stage 2 unless obviously they fall in stage 3. Also restructurings that were categorized as good before grace period, are not removed from stage 2 pool because of application of grace period. Compared to 2020 year end, the need for overlays decreased. The group has more clarity related to the repayment capacity of its borrowers as and majority of the borrowers resumed payments after graces.

As at 31 December 2021, credit quality of finance lease receivables is analysed below:

31 December 2021				
<i>in thousands of GEL</i>	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
Finance lease receivables risk category				
– Very low	170,782	4,397	–	175,179
– Low	29,889	8,993	–	38,882
– Moderate	–	15,900	–	15,900
– High	–	14,610	–	14,610
– Default	–	–	28,371	28,371
Gross carrying amount	200,671	43,900	28,371	272,942
Credit loss allowance	(3,101)	(3,469)	(4,326)	(10,896)
Carrying amount	197,570	40,431	24,045	262,046

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

13. FINANCE LEASE RECEIVABLES **CONTINUED**

As at 31 December 2020, credit quality of finance lease receivables is analysed below:

31 December 2020				
<i>in thousands of GEL</i>	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
Finance lease receivables risk category				
– Very low	153,156	423	–	153,579
– Low	18,493	55,259	–	73,752
– Moderate	–	4,810	–	4,810
– High	–	349	–	349
– Default	–	–	50,012	50,012
Gross carrying amount	171,649	60,841	50,012	282,502
Credit loss allowance	(3,013)	(3,457)	(4,372)	(10,842)
Carrying amount	168,636	57,384	45,640	271,660

As at 31 December 2019, credit quality of finance lease receivables is analysed below:

31 December 2019				
<i>in thousands of GEL</i>	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	Total
Finance lease receivables risk category				
– Very low	175,468	–	–	175,468
– Low	30,147	13,688	–	43,835
– Moderate	–	6,361	–	6,361
– High	–	3,750	–	3,750
– Default	–	–	30,031	30,031
Gross carrying amount	205,615	23,799	30,031	259,445
Credit loss allowance	(1,999)	(96)	(690)	(2,785)
Carrying amount	203,616	23,703	29,341	256,660

The effect of collateral as at 31 December 2021:

31 December 2021				
Over-collateralised Assets			Under-collateralised Assets	
<i>in thousands of GEL</i>	Gross carrying value of the assets	Fair value of collateral	Gross carrying value of the assets	Fair value of collateral
Finance lease receivables	221,676	366,792	51,266	42,661
Total	221,676	366,792	51,266	42,661

The effect of collateral as at 31 December 2020:

31 December 2020				
Over-collateralised Assets			Under-collateralised Assets	
<i>in thousands of GEL</i>	Gross carrying value of the assets	Fair value of collateral	Gross carrying value of the assets	Fair value of collateral
Finance lease receivables	219,599	363,753	62,903	51,783
Total	219,599	363,753	62,903	51,783

13. FINANCE LEASE RECEIVABLES CONTINUED

The effect of collateral as at 31 December 2019:

31 December 2019				
	Over-collateralised Assets		Under-collateralised Assets	
<i>in thousands of GEL</i>	Gross carrying value of the assets	Fair value of collateral	Gross carrying value of the assets	Fair value of collateral
Finance lease receivables	228,651	365,934	30,794	22,292
Total	228,651	365,934	30,794	22,292

14. OTHER ASSETS

<i>in thousands of GEL</i>	2021	2020	2019
Current other assets			
Reposessed collateral	255,766	174,197	152,109
Prepayments for other assets	62,724	41,917	33,664
Prepayments for purchase of leasing assets	28,829	11,450	31,426
Other inventories	10,849	8,725	6,965
Prepaid taxes other than income tax	6,634	2,412	2,890
Total current other assets	364,802	238,701	227,054
Non-current other assets			
Assets reposessed from terminated leases	10,224	8,619	6,321
Prepayments for construction in progress	5,757	7,625	10,401
Reinsurance share in insurance reserves	8,834	7,559	6,968
Prepaid insurance of leasing assets	2,038	2,805	2,876
Other	5,424	1,651	2,092
Total non-current other assets	32,277	28,259	28,658
Total other assets	397,079	266,960	255,712

Reposessed collateral represents real estate assets acquired by the Group in settlement of overdue loans. The Group expects to dispose of the assets in the foreseeable future. The assets do not meet the definition of non-current assets held for sale and are classified as inventories in accordance with IAS 2 "Inventories". The assets were initially recognised at fair value when acquired. In 2021, collateral reposessed for settlement of impaired loans amounted to GEL 131,917 thousand (2020: GEL 51,043 thousand; 2019: GEL 78,945 thousand).

With regards to certain reposessed collateral, the Group has granted previous owners a right to repurchase the reposessed collateral at prices equal to or higher than the carrying value of the loan at the date of repossession. This right is usually effective for a period of 6 to 24 months from the repossession date, during this time the reposessed collateral may not be disposed to third parties. In some cases prolongation of repurchase right is offered to the owners of the property. As at 31 December 2021, the carrying value of the reposessed collateral subjected to the repurchase agreement was GEL 124,687 thousand (2020: GEL 26,309 thousand; 2019: GEL 62,578 thousand).

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

15. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS

<i>in thousands of GEL</i>	Land, premises and leasehold improvements	Office and other equipment*	Construction in progress	Total premises and equipment	Intangible assets	Total
Carrying amount as of 1 January 2019	163,003	88,781	63,718	315,502	109,220	424,722
Cost as at 1 January 2019	202,542	215,741	63,718	482,001	165,766	647,767
Accumulated depreciation/amortisation including accumulated impairment loss	(39,539)	(126,960)	-	(166,499)	(56,546)	(223,045)
Additions	4,359	27,862	24,946	57,167	70,319	127,486
Business combination	1,027	857	-	1,884	4,782	6,666
Transfers within premises and equipment	3,597	36	(3,633)	-	-	-
Transfers from investment property	-	-	1,817	1,817	-	1,817
Transfer to financial leases or repossessed assets	-	(1,439)	-	(1,439)	-	(1,439)
Disposals	(5,571)	(11,805)	(4,641)	(22,017)	(753)	(22,770)
Effect of translation to presentation currency - cost	48	75	-	123	23	146
Effect of translation to presentation currency - accumulated depreciation	(48)	(45)	-	(93)	(25)	(118)
Impairment reversal/(charge)	-	44	(6)	38	-	38
Depreciation/amortisation charge	(5,761)	(22,869)	-	(28,630)	(16,604)	(45,234)
Elimination of accumulated depreciation/ amortisation on disposals	1,983	8,393	-	10,376	635	11,011
Carrying amount as of 31 December 2019	162,637	89,890	82,201	334,728	167,597	502,325
Cost as at 31 December 2019	206,125	232,072	82,201	520,398	240,452	760,850
Accumulated depreciation/amortisation including accumulated impairment loss	(43,488)	(142,182)	-	(185,670)	(72,855)	(258,525)
Additions	9,649	38,756	27,020	75,425	97,243	172,668
Transfers within premises and equipment	5,365	-	(5,365)	-	-	-
Transfer to right of use assets	(2,842)	(310)	-	(3,152)	-	(3,152)
Disposals	(3,658)	(5,455)	(100)	(9,213)	(263)	(9,476)
Effect of translation to presentation currency - cost	170	169	-	339	48	387
Effect of translation to presentation currency - accumulated depreciation	(155)	(97)	-	(252)	(314)	(566)
Impairment charge	(2,016)	(1,204)	-	(3,220)	(676)	(3,896)
Depreciation/amortisation charge	(5,466)	(22,026)	-	(27,492)	(24,149)	(51,641)
Elimination of accumulated depreciation/ amortisation on disposals	458	5,769	-	6,227	37	6,264
Transfer to Inventory	(395)	(39)	-	(434)	-	(434)
Carrying amount as of 31 December 2020	163,747	105,453	103,756	372,956	239,523	612,479
Cost as at 31 December 2020	212,398	263,989	103,756	580,143	336,804	916,947
Accumulated depreciation/amortisation including accumulated impairment loss	(48,651)	(158,536)	-	(207,187)	(97,281)	(304,468)
Additions	10,837	43,374	11,806	66,017	144,492	210,509
Transfers within premises and equipment	2,888	-	(2,888)	-	-	-
Disposals	(12,371)	(12,646)	(1,694)	(26,711)	(30,124)	(56,835)
Effect of translation to presentation currency - cost	(73)	(503)	-	(576)	(291)	(867)
Effect of translation to presentation currency - accumulated depreciation	52	112	-	164	64	228

15. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS CONTINUED

<i>in thousands of GEL</i>	Land, premises and leasehold improvements	Office and other equipment*	Construction in progress	Total premises and equipment	Intangible assets	Total
Impairment (charge)/reversal	(7,787)	354	(491)	(7,924)	(399)	(8,323)
Depreciation/amortisation charge	(5,725)	(22,390)	-	(28,115)	(34,874)	(62,989)
Elimination of accumulated depreciation/amortisation on disposals	8,180	8,515	-	16,695	1,572	18,267
Carrying amount as of 31 December 2021	159,748	122,269	110,489	392,506	319,963	712,469
Cost as at 31 December 2021	205,892	294,568	110,489	610,949	450,482	1,061,431
Accumulated depreciation/amortisation including accumulated impairment loss	(46,144)	(172,299)	-	(218,443)	(130,519)	(348,962)

*Office and other equipment include furniture and fixtures, computer and office equipment, motor vehicles as well as other equipment.

On 18 June 2021, the Group sold land and buildings, where some of its back office functions is currently located, for cash consideration of USD 25 million. USD 5 million (GEL 16.5 million) has already been received, while the remaining USD 20 million (GEL 63.2 million) will be received until 30 April 2022. Selling of those assets was part of the Group's plan to gradually prepare for relocation to new headquarter, which is in the process of construction. Under the existing plan the Group will gradually discharge the occupied part of the buildings up until 30 April 2022 and staff will be distributed to existing offices before the new headquarter will be completed. During this period the property is being leased back using IFRS 16 exemption for short term leases. Net carrying amount of disposed properties was GEL 37,416 thousand, out of which net balance disposed from premises and equipment were GEL 5,442 thousand, while the remaining part was disposed from investment property (Note 17). Net gain on disposal from the sale was recognised as part of other operating income in the audited consolidated annual financial statements of profit or loss in the amount of GEL 26,294 thousand.

The depreciation and amortisation charge presented on the face of the statement of profit or loss and other comprehensive income include depreciation and amortisation charge of premises and equipment, investment properties and intangible assets.

Construction in progress consists of construction and refurbishment of branch premises and the Bank's new headquarters. Upon completion, assets are to be transferred to premises.

16. RIGHT OF USE ASSETS

The Group leases offices, branches and service centres. Rental contracts are typically made for fixed periods of 1 to 15 years.

Leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Group.

The right of use assets by class of underlying items is analysed as follows:

<i>in thousands of GEL</i>	2021 Premises	2020 Premises	2019 Premises
Carrying amount at 1 January	53,927	59,693	61,043
Additions of new contracts	16,424	-	20,437
Increases in value from substantial changes in contractual terms	17,549	11,011	-
Disposals	(1,234)	(955)	(8,476)
Depreciation charge	(16,153)	(15,822)	(13,311)
Carrying amount at 31 December	70,513	53,927	59,693

The lease agreements do not impose any covenants, other than the security interests in the leased assets that are held by the lessor. Leased assets cannot be used as collateral for borrowings.

Extension and termination options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of ex-

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

16. RIGHT OF USE ASSETS **CONTINUED**

tension and termination options held are exercisable only by the Group and not by the respective lessor.

Expenses relating to short-term leases and to leases of low-value assets that are not classified as short-term leases are included in administrative and other operating expenses:

<i>in thousands of GEL</i>	2021	2020	2019
Expense relating to short-term leases	6,757	6,830	7,388
Expense relating to leases of low-value assets	7,125	7,023	6,154

17. INVESTMENT PROPERTIES

<i>in thousands of GEL</i>	Note	2021	2020	2019
Cost as of 1 January		73,876	76,521	86,884
Accumulated depreciation and impairment as of 1 January		(5,187)	(3,854)	(2,588)
Carrying amount as of 1 January		68,689	72,667	84,296
Transfer to premises and equipment	15	-	-	(1,817)
Transfer from repossessed collateral		1,874	10,367	4,914
Addition from foreclosure		-	-	47
Disposals		(42,524)	(13,012)	(13,507)
Depreciation charge		(749)	(929)	(933)
Elimination of depreciation on disposal		1,022	159	717
Impairment charge		(5,420)	(563)	(1,050)
Cost as of 31 December		33,226	73,876	76,521
Accumulated depreciation and impairment as of 31 December		(10,334)	(5,187)	(3,854)
Carrying amount of investment properties as of 31 December		22,892	68,689	72,667

In 2021, the Group disposed its certain investment properties, out of which most part accounted to the single sale described in Note 15.

As of 31 December 2021, investment properties comprised of 44 lots (2020: 58 lots; 2019: 63 lots) of land and 102 buildings (2020: 111 buildings; 2019: 111 buildings) located in Tbilisi and other regions of Georgia with the fair value amounting to GEL 29,493 thousand (2020: GEL 120,959 thousand; 2019: GEL 123,325 thousand).

For disclosure purposes a latest fair valuation exercise was carried out for investment properties as of 31 December 2021. The valuation was carried out by external valuers who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. In the process of comparison, they have used three comparative analogues (registered sale and/or offer for sale), in which prices were applied adjustments based on the difference between subject assets and analogues. The fair value of assets have been estimated by using the market and cost approaches due to the market situation, particularly based on a sufficient number of registered sales and proposals by the date of valuation.

<i>In thousands of GEL (except for range of inputs)</i>	Fair value as of 31 December 2021 (valuation date)	Valuation technique	Unobservable inputs	Range of unobservable inputs (weighted average)
Land	6,214	Sales comparison approach	Price per square meter	0.23 – 1,736 (93)
Buildings	23,279	Sales comparison approach	Price per square meter	1.1 – 7,738 (971)

Sensitivity of the input to fair value – increase/(decrease) in the price per square metre by 20% would result in increase/(decrease) in fair value by GEL 2,448 thousand/ (GEL 2,705 thousand).

17. INVESTMENT PROPERTIES CONTINUED

Where the Group is the lessor, the future minimum lease payments receivable under non-cancellable operating leases, were as follows:

<i>in thousands of GEL</i>	2021	2020	2019
Not later than 1 year	29	82	207
Later than 1 year and not later than 2 years	–	–	230
Later than 2 years and not later than 3 years	–	–	–
Later than 3 years and not later than 4 years	–	–	–
Later than 4 years and not later than 5 years	–	–	–
Later than 5 years	–	–	–
Total operating lease payments receivable	29	82	437

18. GOODWILL

Movements in goodwill arising on the acquisition of subsidiaries are:

<i>in thousands of GEL</i>	2021	2020	2019
Carrying amount as of 1 January	59,964	61,558	31,286
Acquisition of subsidiaries	–	–	30,272
Impairment loss	–	(1,594)	–
Carrying amount as of 31 December	59,964	59,964	61,558

Goodwill Impairment Test

Goodwill is allocated to cash-generating units (CGUs, which represent the lowest level within the Group at which the goodwill is monitored by Management and which are not larger than a segment) as follows:

<i>in thousands of GEL</i>	2021	2020	2019
JSC Bank Republic	24,166	24,166	24,166
<i>Bank Republic Retail</i>	11,088	11,088	11,088
<i>Bank Republic Corporate</i>	7,491	7,491	7,491
<i>Bank Republic MSME</i>	4,791	4,791	4,791
<i>Bank Republic Other</i>	796	796	796
LLC My.ge	15,812	15,812	15,812
LLC Inspired	14,015	14,015	14,015
LLC Bonaco	2,567	2,567	2,567
JSC TBC Insurance	1,766	1,766	1,766
CGU Micro / JSC Bank Constanta	769	769	769
JSC United Financial Corporation	695	695	695
LLC TKT.ge	174	174	175
JSC Swoop	–	–	61
LLC TBC Kredit	–	–	1,262
LLC F Solution	–	–	270
Total carrying amount of goodwill	59,964	59,964	61,558

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

18. GOODWILL **CONTINUED**

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

While assessing the Goodwill for potential impairment in 2020 the Group has identified goodwill generated from JSC Swoop, LLC TBC Kredit and LLC F Solution to be impaired.

Assumptions used for value-in-use calculations is following:

<i>in thousands of GEL</i>	2021	2020	2019
JSC Bank Republic**			
Growth rate beyond five years of free cash flow to equity	5.2% p.a*	5.2% p.a.	4.6% p.a.
Pre-tax discount rate	17.1% p.a.	24.6% p.a.	16.5% p.a.
CGU Micro / JSC Bank Constanta			
Growth rate beyond five years of free cash flow to equity	5.2% p.a.	5.2% p.a.	4.6% p.a.
Pre-tax discount rate	12.3% p.a.	19.7% p.a.	10.4% p.a.
JSC United Financial Corporation			
Growth rate beyond five years of free cash flow to equity	5.2% p.a.	5.2% p.a.	4.6% p.a.
Pre-tax discount rate	12.1% p.a.	15.1% p.a.	15.5% p.a.
JSC TBC Insurance			
Growth rate beyond five years of free cash flow to equity	5.2% p.a.	5.2% p.a.	4.6% p.a.
Pre-tax discount rate	24.8% p.a.	26.8% p.a.	17.5% p.a.
LLC Bonaco			
Growth rate beyond five years of free cash flow to equity	5.2% p.a.	5.2% p.a.	4.6% p.a.
Pre-tax discount rate	12.4% p.a.	11.4% p.a.	10.2% p.a.
LLC My.ge			
Growth rate beyond five years of free cash flow to equity	5.2% p.a.	5.2% p.a.	4.6% p.a.
Pre-tax discount rate	19.2% p.a.	17.9% p.a.	17.5% p.a.
LLC Inspired			
Growth rate beyond five years of free cash flow to equity	5.5% p.a.	5.5% p.a.	5.5% p.a.
Pre-tax discount rate	17.3% p.a.	15.5% p.a.	21.1% p.a.
LLC TBC Kredit			
Growth rate beyond five years of free cash flow to equity	-	-	2.7% p.a.
Pre-tax discount rate	-	-	16.4% p.a.

*p.a. means per annum.

**Assumptions related to JSC Bank Republic are similar for all related CGU's.

Pre-tax discount rate used for value-in-use calculations is the assumption to which the recoverable amount is most sensitive. The management determined the budgeted gross margin based on past performance and its market expectations. The weighted average long term growth rates used are consistent with the forecasts included in the industry reports. The discount rates reflect specific risks related to the relevant CGUs.

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Bank Republic Retail had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of goodwill or carrying value of net assets of the CGU. Recoverable amount of Bank Republic Retail CGU exceeds its carrying amount by GEL 2,269,542 thousand (2020: GEL 619,250 thousand; 2019: GEL 3,068,466 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 41.86% p.a. (2020: 35.49% p.a.; 2019: 39.87% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Bank Republic Corporate had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the

18. GOODWILL CONTINUED

carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of Bank Republic Corporate CGU exceeds its carrying amount by GEL 1,744,639 thousand (2020: GEL 410,824 thousand; 2019: GEL 2,316,056 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 29.47% p.a. (2020: 30.87% p.a.; 2019: 36.34% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Bank Republic MSME had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of Bank Republic MSME CGU exceeds its carrying amount by GEL 611,733 thousand (2020: GEL 389,641 thousand; 2019: GEL 1,210,045 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 28.41% p.a. (2020: 35.87% p.a.; 2019: 36.52% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Micro / JSC Bank Constanta had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of CGU Micro / JSC Bank Constanta exceeds its carrying amount by GEL 510,490 thousand (2020: GEL 370,815 thousand; 2019: GEL 732,567 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 29.62% p.a. (2020: 45.25% p.a.; 2019: 29.74% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of JSC United Financial Corporation had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of goodwill or carrying value of net assets of the CGU. Recoverable amount of JSC United Financial Corporation CGU exceeds its carrying amount by GEL 151,060 thousand (2020: GEL 23,116 thousand; 2019: GEL 8,222 thousand). The CGUs' carrying amount would equal its value in use at a discount rate of 53.79% p.a. (2020: 24.23% p.a.; 2019: 19.53% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of JSC TBC Insurance had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of JSC TBC Insurance CGU exceeds its carrying amount by GEL 139,390 thousand (2020: GEL 31,179 thousand; 2019: 142,799). The CGU's carrying amount would equal its value in use at a discount rate of 69.87% p.a. (2020: 53.08% p.a. 2019: 62.29% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of LLC Bonaco had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of LLC Bonaco CGU exceeds its carrying amount by GEL 17,447 thousand (2020: GEL 116,174 thousand; 2019: GEL 500,031 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 37.49% p.a. (2020: 25.75% p.a. 2019: 49.45% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of LLC My.ge had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of LLC My.ge CGU exceeds its carrying amount by GEL 25,105 thousand (2020: GEL 46,079 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 30.44% p.a. (2020: 37.86% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of LLC Inspired had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of LLC Inspired CGU exceeds its carrying amount by GEL 379,264 thousand (2020: GEL 100,925 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 114.38% p.a. (2020: 55.26% p.a.).

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

19. DUE TO CREDIT INSTITUTIONS

<i>in thousands of GEL</i>	2021	2020	2019
Due to other banks			
Correspondent accounts and overnight placements	181,905	43,298	27,747
Deposits from banks	142,752	97,496	139,267
Total due to other banks	324,657	140,794	167,014
Other borrowed funds			
Borrowings from foreign banks and international financial institutions	1,653,245	2,370,656	2,005,900
Borrowing from Ministry of Finance of Georgia	-	-	536
Borrowings from other financial institutions	-	58,949	41,456
Borrowings from other local banks and financial institutions	24,855	32,684	62,916
Borrowings from National Bank of Georgia	981,419	1,883,290	1,316,079
Total other borrowed funds	2,659,519	4,345,579	3,426,887
Total amounts due to credit institutions	2,984,176	4,486,373	3,593,901

As of 31 December 2021 for the purposes of maturity analysis of financial liabilities (Note 39) the above-mentioned due to other banks are included within the amounts for which repayment is expected within 3 months.

20. CUSTOMER ACCOUNTS

<i>in thousands of GEL</i>	2021	2020	2019
State and public organisations			
Current/settlement accounts	577,020	504,019	616,397
Term deposits	364,121	590,426	298,177
Other legal entities			
Current/settlement accounts	4,830,093	3,490,836	3,151,507
Term deposits	914,824	722,710	310,558
Individuals			
Current/settlement accounts	4,574,537	3,487,017	2,712,910
Term deposits	3,777,577	3,777,720	2,959,775
Total customer accounts	15,038,172	12,572,728	10,049,324

20. CUSTOMER ACCOUNTS CONTINUED

State and public organisations include government owned profit orientated businesses. Economic sector concentrations within customer accounts are as follows:

	31 December 2021		31 December 2020		31 December 2019	
<i>in thousands of GEL</i>	Amount	%	Amount	%	Amount	%
Individuals	8,352,114	55%	7,264,737	58%	5,672,685	56%
Trade	1,237,656	8%	873,995	7%	741,385	7%
Financial services	1,178,046	8%	709,943	6%	288,860	3%
Services	713,164	5%	526,227	4%	446,876	5%
Construction	598,856	4%	610,321	5%	596,703	6%
Energy & utilities	542,425	4%	384,660	3%	322,331	3%
Government sector	480,046	3%	647,856	5%	505,494	5%
Real estate	418,062	3%	323,547	3%	322,416	3%
Transportation	403,248	3%	332,850	2%	308,268	3%
Healthcare	194,648	1%	131,936	1%	98,294	1%
Hospitality & leisure	155,778	1%	99,770	1%	110,816	1%
Agriculture	78,810	1%	58,005	0%	50,915	1%
Metals and mining	32,675	0%	18,458	0%	12,264	0%
Other	652,644	4%	590,423	5%	572,017	6%
Total gross loans and advances to customers	15,038,172	100%	12,572,728	100%	10,049,324	100%

As of 31 December 2021 the Group had 141 customers (2020: 117 customers; 2019: 93 customers) with balances above GEL 10,000 thousand. Their aggregate balance was GEL 4,754,533 thousand (2020: GEL 3,898,678 thousand; 2019: GEL 2,872,119 thousand) or 32% of total customer accounts (2020: 31%; 2019: 29%). In 2020 and 2019 annual financial statements the above disclosure was measured using GEL 3,000 thousand threshold and number of customers using respective threshold were 452 (GEL 5,569,608 thousand) and 359 (GEL 4,327,035 thousand).

As of 31 December 2021 included in customer accounts are deposits of GEL 28,379 thousand and GEL 109,404 thousand (2020: GEL 4,903 thousand and GEL 94,348 thousand; 2019: GEL 9,555 thousand and GEL 101,615 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees issued, respectively. The latter is discussed in Note 40. As of 31 December 2021, deposits held as collateral for loans to customers amounted to GEL 576,261 thousand (2020: GEL 512,637 thousand; 2019: 469,205 thousand).

Refer to Note 44 for the disclosure of the fair value of each class of customer accounts. Information on related party balances is disclosed in Note 46.

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

21. DEBT SECURITIES IN ISSUE

<i>in thousands of GEL</i>	Currency	Carrying amount as of 31 December 2021	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Irish Stock Exchange	USD	918,504	6/19/2024	5.80%	6.40%
Bonds issued on Irish Stock Exchange	USD	391,484	10/3/2024	10.80%	11.40%
Bonds issued on Irish Stock Exchange	USD	228,174	2/4/2027	8.90%	9.90%
Private placement	USD	96,723	8/18/2024	5.00%	5.40%
Bonds issued on Georgian Stock Exchange	GEL	38,532	3/20/2023	TIBR 3M+3.25%	12.50%
Private placement	USD	31,222	3/19/2023	6.50%	7.10%
Baku Stock Exchange CJSC	AZN	5,649	9/23/2023	12.00%	12.40%
Total debt securities in issue		1,710,288			

<i>in thousands of GEL</i>	Currency	Carrying amount as of 31 December 2020	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Irish Stock Exchange	USD	966,793	6/19/2024	5.80%	6.40%
Bonds issued on Irish Stock Exchange	USD	414,216	10/3/2024	10.80%	11.40%
Private placement	USD	44,467	5/27/2023	8.20%	8.99%
Bonds issued on Georgian Stock Exchange	GEL	38,504	3/20/2023	TIBR 3M+3.25%	12.50%
Private placement	USD	32,517	3/19/2023	6.50%	7.10%
Total debt securities in issue		1,496,497			

<i>in thousands of GEL</i>	Currency	Carrying amount as of 31 December 2019	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Irish Stock Exchange	USD	842,471	6/19/2024	5.80%	6.40%
Bonds issued on Irish Stock Exchange	USD	371,127	10/3/2024	10.80%	11.40%
Total debt securities in issue		1,213,598			

On 28 October 2021, the Bank completed the transaction of USD 75 million 8.894% yield Additional Tier 1 Capital Perpetual Subordinated Notes issue ("AT1 Notes") and successfully returned to the international capital markets. The AT1 Notes are listed on the regulated market of Euronext Dublin and are rated B- by Fitch.

On 23 September 2021 the TBC Kredit completed the transaction of AZN 3 million 2-year 12% named, interest-bearing, paperless, unsecured bonds issue (the "Notes").

On 18 August 2021 the TBC Bank Group PLC completed the transaction of USD 31 million 3-year 5% senior unsecured bonds issue (the "Notes"). The private placement is direct, unsecured and unsubordinated obligations of the Group.

On 20 March 2020, TBC Leasing with the help of TBC Capital placed senior secured bonds of amount GEL 58.4 million on the Georgian Stock Exchange. The percentage of securities is variable, 3.25% added to the 3-month Tbilisi Interbank Interest rate. Fitch rates the bonds 'BB-'.

On 19 March 2020 the TBC Bank Group PLC completed the transaction of a USD 10 million 3-year 6.45% senior unsecured bonds issue. The private placement is direct, unsecured and unsubordinated obligations of the Group.

On 3 July 2019 the Bank completed the transaction of a debut inaugural USD 125 million 10.75% yield Additional Tier 1 Capital Perpetual Subordinated Notes issue ("AT1 Notes"). The AT1 Notes are listed on the regulated market of Euronext Dublin and are rated B- by Fitch. The AT1 Notes have been simultaneously listed on JSC Georgian Stock Exchange, making it the first dual-listed international offering of additional Tier 1 Capital Notes from Georgia.

On 19 June 2019 the Bank completed the transaction of a debut USD 300 million 5-year 5.75% (6% yield) senior unsecured bonds issue. The Notes are listed on the regulated market of Euronext Dublin and are rated Ba2 by Moody's and BB- by Fitch. The Notes have been simultaneously listed on JSC Georgian Stock Exchange, making it the first dual-listed international offering of senior unsecured Notes from Georgia.

22. PROVISION FOR PERFORMANCE GUARANTEES, CREDIT RELATED COMMITMENTS AND LIABILITIES AND CHARGES

Movements in credit loss allowance for performance guarantees, credit related commitment and liabilities and charges are as follows:

<i>in thousands of GEL</i>	Performance guarantees	Credit related commitments	Provision for other liabilities and charges	Provision related to insurance activities	Total
Carrying amount as of 1 January 2019	4,393	5,424	5,113	3,837	18,767
Charges/(releases) recorded in profit or loss	3,069	(913)	1,264	2,041	5,461
Utilization of provision	–	–	(1,104)	–	(1,104)
Effect of translation to presentation currency	4	–	–	–	4
Carrying amount as of 31 December 2019	7,466	4,511	5,273	5,878	23,128
(Releases)/charges recorded in profit or loss	(3,568)	330	2,706	1,627	1,095
Effect of translation to presentation currency	529	583	–	–	1,112
Carrying amount as of 31 December 2020	4,427	5,424	7,979	7,505	25,335
Charges/(releases) recorded in profit or loss	384	(1,588)	(27)	1,526	295
Effect of translation to presentation currency	(191)	(212)	–	131	(272)
Carrying amount as of 31 December 2021	4,620	3,624	7,952	9,162	25,358

Credit related commitments and performance guarantees: Impairment allowance estimation methods differ for (i) letter of credits and guarantees and (ii) undrawn credit lines. For letter of credits and guarantees allowance estimation purposes the Group applies the staged approach and classifies them in stage 1, stage 2 or stage 3. Significant stage 3 guarantees are assessed individually. Non-significant stage 3 as well as all stage 1 and stage 2 guarantees and letter of credits are assessed collectively using exposure, marginal probability of conversion, loss given default and discount factor. Amount of the expected allowance differs based on the classification of the facility in the respective stage.

For impairment allowance assessment purposes for undrawn exposures the Group distinguishes between revocable and irrevocable loan commitments. For revocable commitments the Group does not create impairment allowance. As for the irrevocable undisbursed exposures the Group estimates utilization parameter (which represents expected limit utilization percentage conditional on the default event) in order to convert off-balance part of the exposure to on-balance.

Once the respective on balance exposure is estimated, the Group applies the same impairment framework approach as the one used for the respective type of on balance exposures.

Charges less releases recorded in profit or loss for provision for impairment of credit related commitments include recovery of /charges to provision for insurance payables in the amount of GEL (27) thousand (2020: GEL 106 thousand; 2019: GEL (841) thousand), that are included in charges less releases recorded in profit or loss for “Other” provision.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

23. OTHER FINANCIAL LIABILITIES

Other financial liabilities comprise the following:

<i>in thousands of GEL</i>	Note	2021	2020	2019
Trade payables		29,988	34,957	23,687
Debit or credit card payables		28,963	6,408	13,259
Liabilities to asset and service providers of finance leases		18,295	10,851	25,924
Transfers in transit		15,136	2,156	-
Derivative financial liabilities	43	9,727	121,934*	20,266
Insurance contract liabilities		7,825	8,548	7,613
Liabilities related to co-financing of hotels and restaurants sectors		1,638	13,771	315
Payable to deposit insurance agency		1,033	930	549
Security deposits for finance lease receivables		906	91	1,171
Prepayments related to guarantees		516	1,152	879
Other accrued liabilities		25,784	26,634*	19,945
Total other financial liabilities		139,811	227,432	113,608

* Management has revisited the classification of margin call deposits balance from one of forward exchange contracts, as far as, it does not represent the derivative instrument. To improve clarity and understandability of financial statements such deposit has been transferred from derivative financial liabilities in the amount of GEL 5,270 thousand to other accrued liabilities sub categories within other financial liability note.

Refer to Note 44 for disclosure of the fair value of other financial liabilities.

24. OTHER LIABILITIES

Other liabilities comprise the following:

<i>in thousands of GEL</i>	2021	2020	2019
Accrued employee benefit costs	51,075	31,148	42,197
Taxes payable other than on income	17,938	13,162	10,730
Advances received	13,595	10,487	11,260
Unearned insurance premium	37,323	25,852	24,156
Other	11,041	7,193	6,819
Total other liabilities	130,972	87,842	95,162

All of the above liabilities are expected to be settled within twelve months after the year-end.

25. SUBORDINATED DEBT

As of 31 December 2021, subordinated debt comprised of:

<i>in thousands of GEL</i>	Grant Date	Maturity Date	Currency	Outstanding amount in original currency	Outstanding amount in GEL
Asian Development Bank	10/18/2016	12/31/2026	USD	50,486	156,386
Private lenders	6/8/2017	12/19/2024	USD	35,304	109,427
Global Climate Partnership Fund	11/20/2018	11/20/2028	USD	25,097	77,739
European Fund for Southeast Europe	12/21/2018	12/21/2028	USD	20,079	62,195
Green for Growth Fund	12/18/2015	12/16/2030	USD	15,189	47,048
BlueOrchard Microfinance Fund	12/14/2018	12/15/2025	USD	14,966	46,360
BlueOrchard Microfinance Fund	12/14/2018	12/14/2028	USD	14,954	46,321
European Fund for Southeast Europe	12/18/2015	12/16/2030	USD	7,594	23,523
European Fund for Southeast Europe	3/15/2016	3/17/2031	USD	7,592	23,517
ResponsAbility SICAV (Lux) Micro and SME Finance Fund	11/30/2018	11/30/2028	USD	5,930	18,369
ResponsAbility SICAV (Lux) - Financial Inclusion Fund	11/30/2018	11/30/2028	USD	3,115	9,649
ResponsAbility SICAV (Lux) - Microfinance Leaders	11/30/2018	11/30/2028	USD	1,005	3,113
Total subordinated debt					623,647

25. SUBORDINATED DEBT CONTINUED

As of 31 December 2020, subordinated debt comprised of:

<i>in thousands of GEL</i>	Grant Date	Maturity Date	Currency	Outstanding amount in orig- inal currency	Outstanding amount in GEL
Asian Development Bank	10/18/2016	12/31/2026	USD	50,438	165,266
Private Lenders	6/8/2017	12/19/2024	USD	25,217	82,628
Global Climate Partnership Fund	11/20/2018	11/20/2028	USD	25,096	82,230
European Fund for Southeast Europe	12/21/2018	12/21/2028	USD	20,079	65,789
Green for Growth Fund	12/18/2015	12/18/2025	USD	15,244	49,950
BlueOrchard Microfinance Fund	12/14/2018	12/14/2025	USD	14,949	48,983
BlueOrchard Microfinance Fund	12/14/2018	12/14/2028	USD	14,941	48,956
Subordinated Bond (Private lender)	8/31/2018	1/25/2023	USD	10,102	33,098
European Fund for Southeast Europe	12/18/2015	12/18/2025	USD	7,633	25,010
European Fund for Southeast Europe	3/15/2016	3/15/2026	USD	7,631	25,004
ResponsAbility SICAV (Lux) Micro and SME Finance Fund	11/30/2018	11/30/2028	USD	5,930	19,430
ResponsAbility SICAV (Lux) - Financial Inclusion Fund	11/30/2018	11/30/2028	USD	3,115	10,206
KfW	5/4/2015	5/8/2021	GEL	6,737	6,737
KfW	6/10/2014	5/8/2021	GEL	6,161	6,161
Micro and SME Finance Leaders	11/30/2018	11/30/2028	USD	1,005	3,292
Total subordinated debt					672,740

As of 31 December 2019, subordinated debt comprised of:

<i>in thousands of GEL</i>	Grant Date	Maturity Date	Currency	Outstand- ing amount in original currency	Outstanding amount in GEL
Asian Development Bank	10/18/2016	12/31/2026	USD	50,585	145,064
Private Lenders	6/8/2017	12/19/2024	USD	25,218	72,317
Global Climate Partnership Fund	11/20/2018	11/20/2028	USD	25,089	71,948
European Fund for Southeast Europe	12/21/2018	12/21/2028	USD	20,074	57,565
Green for Growth Fund	12/18/2015	12/18/2025	USD	15,305	43,890
BlueOrchard Microfinance Fund	12/14/2018	12/14/2025	USD	14,924	42,798
BlueOrchard Microfinance Fund	12/14/2018	12/14/2028	USD	14,920	42,786
Subordinated Bond (Private lender)	8/31/2018	1/25/2023	USD	10,101	28,976
European Fund for Southeast Europe	12/18/2015	12/18/2025	USD	7,663	21,975
European Fund for Southeast Europe	3/15/2016	3/15/2026	USD	7,662	21,971
ResponsAbility Micro and SME Finance Fund	11/30/2018	11/30/2028	USD	5,935	17,020
ResponsAbility SICAV (Lux) - Financial Inclusion Fund	11/30/2018	11/30/2028	USD	3,117	8,940
KfW	5/4/2015	5/8/2021	GEL	6,739	6,739
KfW	6/10/2014	5/8/2021	GEL	6,162	6,162
Micro and SME Finance Leaders	11/30/2018	11/30/2028	USD	1,006	2,884
Total subordinated debt					591,035

The debt ranks after all other creditors in case of liquidation.

Refer to Note 44 for the disclosure of the fair value of subordinated debt. Information on related party balances is disclosed in Note 46.

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

26. SHARE CAPITAL

<i>in thousands of GEL</i>	Number of ordinary shares	Share Capital
As of 1 January 2019	54,244,329	1,650
Scrip dividend issued	296,392	10
Shares issued	615,175	22
As of 31 December 2019	55,155,896	1,682
As of 31 December 2020	55,155,896	1,682
As of 31 December 2021	55,155,896	1,682

As of 31 December 2021 the total authorised number of ordinary shares was 55,155,896 shares (31 December 2020: 55,155,896 shares; 2019: 55,155,896 shares). Each share has a nominal value of one British Penny. All issued ordinary shares are fully paid and entitled to dividends.

On 21 March 2019, 615,175 new ordinary shares of TBC Bank Group PLC were admitted to the premium segment of the London Stock Exchange. The Offer Shares were issued pursuant to the terms of the TBC PLC group long term incentive plan and rank pari passu in all respects with TBC PLC's existing ordinary shares.

	2021	2020	2019
<i>in thousands of GEL</i>	Interim		Ordinary
Dividends payable at 1 January	-	-	-
Dividends declared during the year	81,772	-	108,622
Dividends paid during the year:	(81,772)	-	(108,622)
Scrip dividends	-	-	(16,696)
Dividends paid in cash	(81,772)	-	(91,926)
Dividends payable at 31 December	-	-	-
Dividends per share declared during the year	GEL 1.5	-	GEL 1.98

All dividends declared in GEL and paid in GBP.

On 12 August 2021, TBC Bank Group PLC's Board of directors declared an interim dividend of GEL 1.5 per share. The dividend was recorded on 20 August 2021 and was paid on 17 September 2021.

On 24 June 2019, at the Annual General Meeting, TBC Bank Group PLC's shareholders agreed on a dividend of GEL 1.98 per share, based on the 2018 audited financial statements. The dividend was recorded respectively and on 12 July 2019 shareholders received the payment of the total GEL 91,926 thousands. Scrip dividend shares amounted to 296,392 shares and were issued on 12th of July.

Part of the shares are held by employee benefit trust (EBT) for the purpose of future employee share based payments plan. The number of shares held by trust as at 31 December 2021 comprised 641,391 shares (31 December 2020: 778,183 and 31 December 2019: 595,380 shares). The EBT has waived its rights to receive dividends on such shares. Information related to the repurchased shares are below:

<i>in thousands of GEL</i>	Number of shares held by trust	Shares held by trust
As of 1 January 2019	-	-
Purchase of shares by employee benefit trust	595,380	27,516
As of 31 December 2019	595,380	27,516
Delivery of bonus shares to employees via trust shares	(419,197)	(19,596)
Purchase of shares by employee benefit trust	602,000	25,493
As of 31 December 2020	778,183	33,413
Delivery of bonus shares to employees via trust shares	(136,792)	(7,924)
As of 31 December 2021	641,391	25,489

27. SHARE BASED PAYMENTS

June 2015 arrangement:

In June 2015, the Bank's Supervisory Board approved management compensation scheme for the top and middle management which was enforced from 2015 through 2018. According to the scheme, each year, subject to pre-defined performance conditions, a certain number of shares were awarded to the Group's top managers and most of the middle ones. The performance features key performance indicators (KPIs) divided into (i) corporate and (ii) individual. The corporate KPIs are mainly related to achieving profitability, efficiency, and portfolio quality metrics set by the Board as well as non-financial indicators with regards to customers' experience and employees' engagement. The individual performance indicators are set on an individual basis and are used to calculate the number of shares to be awarded to each employee. According to the scheme, members of top management also received the fixed number of shares. Once awarded, all shares carry service conditions and, before those conditions are met, are eligible to dividends; however they cannot be sold or transferred to third parties.

Service conditions foresee continuous employment until the gradual transfer of the full title to the scheme participants is complete. Shares for each of the 2015, 2016, 2017 and 2018 tranche gradually ran over on the second, third and fourth year following the performance appraisal. Eighty percent of the shares are vested in 3 years after being awarded. Under this compensation system the total vesting period extended to March 2022.

In 2015 the Group considered 17 June as the grant date. Based on the management's estimate of reached targets, as of 31 December 2015 1,908,960 shares were granted under the entire scheme 2015-2018. The shares were gradually awarded to the members as per the described scheme. At the grant date the fair value amounted to GEL 24.64 per share, as quoted on the London Stock Exchange.

Following the listing on the Premium segment of the London Stock Exchange, the share-based payment scheme remained conceptually the same and was only updated to reflect the Group's new structure, whereby TBC Bank Group PLC distributed its shares to the scheme's participants, instead of JSC TBC Bank. The respective shares' value was recharged to JSC TBC Bank. As a result, the accounting of the scheme did not change in the consolidated financial statements.

The share based payment scheme for middle management and other eligible employees continued under existing terms after 2018, except for vesting conditions that changed from 10%, 10%, 80% to 33%, 33%, 34% for the 3 year period, starting from 2019.

December 2018 arrangements:

A new compensation system was approved by shareholders at the AGM on 21 May 2018 and came into effect on 1 January 2019 and it covered the period 2019-2021 inclusive. On 28 December 2018, the Board of Directors approved the following details for this new compensation schemes for the top management and the Group considered that as a grant date. All the share based schemes are equity settled and accounted respectively.

Deferred share salary plan

Part of the top management salary is paid with shares with the objective of closely promoting the long-term success of the Group and aligning senior executive directors' and shareholders' interests. Shares are usually delivered during the first quarter of the second year (i.e. the year after the performance year) and the exact date is determined by the Board. 50% of the shares have 1 year deferral period and the remaining 50% is deferred for 2 years from the delivery date. The shares are registered in the trustees name as nominee for the participants and the participants are entitled to receive dividends. Starting from 2021, deferred share salary is no longer subject to the deferral and will be vested immediately upon delivery.

Where applicable, deferred share salary is paid in part under the JSC TBC Bank's management board members service contract with TBC JSC, with TBC PLC or other Group subsidiaries (as relevant and as applicable). Initial salaries are set and approved by the Supervisory Board and Board of Directors. The Remuneration Committee assists both Boards in compensation related matters and makes respective recommendations. Deferred compensation is subject to the Group's malus and clawback policies until the shares are vested. If at any time after making the deferred compensation there is a material misstatement in the financial results for the year in respect of which the compensation was formally granted, the Remuneration Committee has the right to cause some or all of the deferred compensation for that year or any subsequent financial year that is unvested (or unpaid) to lapse (or not be paid).

The number of shares is calculated based on the average share price of the last 10 days preceding the committee decision date.

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

27. SHARE BASED PAYMENTS CONTINUED

Deferred Bonus plan

The annual bonus for the top management is determined as to the extent that the annual KPIs have been met. Shares are usually delivered during the first quarter of the second year (i.e. the year after the performance year); and the exact date is determined by the Board. 50% of the shares have 1 year deferral period and the remaining 50% is deferred for 2 years from the delivery date. The shares are registered in the trustees name as nominee for the participants and the participants are entitled to receive dividends.

Annual KPIs are set by the Remuneration Committee at the beginning of each year in relation to that year and approved by the Board. To the extent that the KPIs are achieved, the Remuneration Committee may recommend to the Board whether an award may be made and the amount of such award. The Group does not pay guaranteed bonuses to executive directors. The nature of the KPIs with their specific weightings and targets is disclosed in the published annual report. Awards are subject to the Group's malus and clawback policies until the shares are vested. If at any time after making the award there is a material misstatement in the financial results for the year in respect of which the award was formally granted, the Remuneration Committee can recommend to the Board that some or all of the award for that year or any subsequent financial year that is unvested (or unpaid) to lapse (or not be paid). Where applicable, deferred share bonus is paid in part under the JSC TBC Bank's management board members service contract with TBC JSC, with TBC PLC or other Group subsidiaries, (as relevant and as applicable).

The number of shares is calculated based on the average share price of the last 10 days preceding the committee decision date.

Long Term Incentive Plan (LTIP)

Long term incentive plan is used to provide a strong motivational tool to achieve long term performance conditions and to provide rewards to the extent those performance conditions are achieved. Performance conditions are chosen to align the Group's and the Bank's executive directors' interests with strategic objectives of the Group over multi-year periods and encourage a long-term view. In order for the shares to be delivered, the executive directors need to meet rolling performance conditions over the 3 year performance period.

More details about the LTIP and share based payments are given in Remuneration Committee report.

During 2020 the Executive Directors of TBC Bank Group PLC and Management of JSC TBC Bank has forfeited their rights to deferred share bonuses and long-term incentive plan grants attributable to 2020. The above mentioned decision had no effect on the incentive schemes for 2019 and 2021 years. Decision has been agreed with remuneration committee details of which are given in remuneration report.

27. SHARE BASED PAYMENTS CONTINUED

Tabular information on the schemes is given below:

	31 December 2021	31 December 2020	31 December 2019
Number of unvested shares at the beginning of the period	3,028,818	3,141,541	2,121,129
Number of shares granted			
Number of shares granted - Deferred salary	–	–	285,047
Number of shares granted - Deferred bonus	–	–	471,778
Number of shares granted - LTIP	–	–	459,751
Number of shares granted - Middle management, subsidiaries' management and other eligible employees	321,453	528,325	396,525
Number of shares granted	321,453	528,325	1,613,101
Change in estimates of number of shares expected to be granted			
Change in estimates for 2019-2021 awards	(361,739)	–	(57,058)
Change in estimates for 2020 award for Deferred salary, 2021 awards for Deferred bonus and LTIP	–	479,580	–
Management forfeiture of rights for 2020 bonus	–	(428,451)	–
Change in estimates of number of shares expected to be granted*	(361,739)	51,129	(57,058)
Change in estimate of number of shares expected to vest based on changes in share price and exchange rate - 2020 performance	(169,753)	–	–
Change in estimate of number of shares expected to vest based on performance conditions, share price and exchange rate - 2019 performance	–	(71,847)	–
Change in estimate of number of shares expected to vest based on performance conditions - 2018 performance	–	–	(16,501)
Number of shares vested			
2015 year award – 80% vesting	–	–	(405,573)
2016 year award – 10% vesting	–	–	(51,693)
2016 year award – 80% vesting	–	(413,544)	–
2017 year award – 10% vesting	–	(105,527)	(61,864)
2017 year award – 80% vesting	(451,251)	–	–
2018 year award – 10% vesting	(57,102)	(101,259)	–
2019 year award – MM 33% vesting	(47,401)	–	–
2019 year award – TM 50% vesting	(137,779)	–	–
Number of shares vested	(693,533)	(620,330)	(519,130)
Number of unvested shares at the end of the period	2,125,246	3,028,818	3,141,541
Expense recognised as staff cost during the period (GEL thousand)	22,115	18,498	33,857

* The maximum amount is fixed for deferred share compensations for top management, the exact number will be calculated as per policy.

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

27. SHARE BASED PAYMENTS **CONTINUED**

Tax part of the existing bonus system is accounted under equity settled basis.

Staff costs related to equity settled part of the share based payment schemes are recognised in the income statement on a straight line basis over the vesting period of each relevant tranche and corresponding entry is credited to share based payment reserve in equity.

On 31 December 2021 based on level of achievement of key performance indicators the management has reassessed the number of shares that will have to be issued to the participants of the share based payment system by decreasing estimated number of shares to vest by 169,753 (31 December 2020: decreased estimated number of shares to vest by 71,847; 31 December 2019: decreased estimated number of shares to vest by 16,501).

In 2019 the Group established employee benefit trust (EBT) Executive Equity Compensation Trustee – Sanne Fiduciary Services Limited (the “Trustee”) which acts as the trustee of the Group’s share based payments plan. It purchases Group’s shares from the open market and holds them before they are awarded to participants and vesting date is due. The number of shares to be purchased and held are instructed by the Remuneration committee of the TBC Bank Group PLC. The shares are presented as treasury shares under shares held by trust category in the Statement of Financial Position until they are awarded to participants. When award takes place, treasury shares amount are credited with corresponding debit recognized in share based payment reserve. As at 31 December 2021 the share number held by Trustee was 641,391 (31 December 2020: 778,183; 31 December 2019: 595,380), which represents 1.2% of total outstanding shares (31 December 2020: 1.4%; 31 December 2019: 1.1%).

28. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit or loss attributable to the owners of the Group by the weighted average number of ordinary shares in issue during the year.

<i>in thousands of GEL</i>	2021	2020	2019
Profit for the period attributable to the owners of the Bank	800,782	317,752	537,895
Weighted average number of ordinary shares in issue	54,483,399	54,399,669	54,684,038
Basic earnings per ordinary share attributable to the owners of the Group (expressed in GEL per share)	14.7	5.8	9.8

Diluted earnings per share are calculated by dividing the profit or loss attributable to owners of the Group by the weighted average number of ordinary shares adjusted for the effects of all dilutive potential ordinary shares during the year. Ordinary shares with dilutive potential represent those shares that were granted to the participants of the share based payments scheme and are not yet distributed.

<i>in thousands of GEL</i>	2021	2020	2019
Profit for the period attributable to the owners of the Bank	800,782	317,752	537,895
Weighted average number of ordinary shares in issue adjusted for the effects of all dilutive potential ordinary shares during the period	55,865,829	55,206,050	55,129,444
Diluted earnings per ordinary share attributable to the owners of the Group (expressed in GEL per share)	14.3	5.8	9.8

29. SEGMENT ANALYSIS

The Management Board (the “Board”) is the chief operating decision maker and it reviews the Group’s internal reporting in order to assess the performance and to allocate resources. In 2021 the Group made following re-segmentations:

- Standard annual re-segmentation after which some of the clients were reallocated to different segments – GEL 93,916 thousand of loans and GEL 75,268 thousand of customer accounts were transferred from MSME to Corporate segment.
- Wealth Management business with high net worth individuals has been transferred from retail to corporate segment in the amount of GEL 141,122 thousand of loans and GEL 2,289,076 thousand of customer accounts due to changes in segment definitions.
- Space segment has been fully transferred from MSME to retail segment in the amount of GEL 33,709 thousand of loans and GEL 9,717 thousand of customer accounts due to changes in segment definitions. The underlying rationale was the composition of product base, offered by Space to its customers. The majority of such products are consumer, fast consumer and installment loans, which by their nature represent the retail segment.

In the tables below is disclosed the information as of 31 December 2020 and 2019 both with and without re-segmentation effect.

Other transfers between segments were primarily due to changes in client size and specifications compared to prior period.

The operating segments are determined as follows:

- Corporate – a legal entity/group of affiliated entities with an annual revenue exceeding GEL 12.0 million or which has been granted facilities of more than GEL 5.0 million. Some other business customers may also be assigned to the CIB segment or transferred to the MSME segment on a discretionary basis. In addition, CIB includes Wealth Management private banking services to high-net-worth individuals with a threshold of US\$ 250,000 on assets under management (AUM), as well as on discretionary basis;
- Retail – non-business individual customers; or individual customers of the fully digital bank, Space, TBC Bank Uzbekistan;
- MSME – business customers who are not included in the CIB segment;
- Corporate centre and other operations - comprises of the treasury, other support and back office functions, and non-banking subsidiaries of the Group.

The Board of Directors assesses the performance of the operating segments based on a measure of profit before income tax.

The reportable segments are the same as the operating segments.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group’s total revenue in 2021, 2020 or 2019.

The vast majority of the Group’s revenues are attributable to Georgia. A geographic analysis of origination of the Group’s assets and liabilities is given in Note 39.

Allocation of indirect expenses is performed based on drivers identified for each type of cost if possible. If there is no identifiable driver for any type of expense/overhead cost, those expenses are allocated between segments based on the same logic as applied for the expenses with similar nature (e.g. other operating expenses would follow the pattern of closest category of operating expenses).

Intersegment transfer pricing methodology is internally created tool, which is based on matched maturity logics. It is used to manage liquidity and interest rate risks. Corporate centre borrows monetary amounts (deposits) from business segments, therefore, each of segment is compensated on each deposit based on its currency, duration, type and liquidity requirements. Business segments then borrow money from corporate centre, to fund loans, on which each segment pays agreed price to corporate centre, based on each loans currency, type (fixed or floating), duration, capital requirement.

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

29. SEGMENT ANALYSIS **CONTINUED**

A summary of the Group's reportable segments for the years ended 31 December 2021, 2020 and 2019 is provided below:

Segment disclosure below is prepared with the effect of 2021 re-segmentations as described above.

<i>in thousands of GEL</i>	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
2021					
– Interest income	562,055	691,257	384,337	248,207	1,885,856
– Interest expense	(274,093)	(131,233)	(11,343)	(494,598)	(911,267)
– Net interest gains on currency swaps	-	-	-	28,143	28,143
– Inter-segment interest income/(expense)	71,408	(169,947)	(154,827)	253,366	-
Net interest income	359,370	390,077	218,167	35,118	1,002,732
– Fee and commission income	111,777	212,867	52,806	34,582	412,032
– Fee and commission expense	(80,717)	(38,191)	(33,858)	(11,266)	(164,032)
Net fee and commission income	31,060	174,676	18,948	23,316	248,000
– Insurance profit	-	-	-	23,546	23,546
– Net gains/(losses) from derivatives, foreign currency operations and translation	57,102	35,946	27,496	(3,274)	117,270
– Net gains from disposal of investment securities measured at fair value through other comprehensive income	1,412	-	-	9,744	11,156
– Other operating income	2,677	8,001	877	36,924	48,479
– Share of profit of associate	-	-	-	837	837
Other operating non-interest income and insurance profit	61,191	43,947	28,373	67,777	201,288
– Credit loss recovery/(allowance) for loans to customers	59,743	(26,795)	7,175	-	40,123
– Credit loss recovery for performance guarantees and credit related commitments	636	369	199	-	1,204
– Credit loss allowance for finance lease receivables	-	-	-	(321)	(321)
– Credit loss allowance for other financial assets	(513)	(3,307)	-	(10,906)	(14,726)
– Credit loss recovery for financial assets measured at fair value through other comprehensive income	1,104	-	-	1,498	2,602
– Net impairment of non-financial assets	(7,954)	(59)	(1,373)	(2,596)	(11,982)
Operating income after expected credit and non-financial asset impairment losses	504,637	578,908	271,489	113,886	1,468,920
– Staff costs	(50,727)	(135,918)	(53,828)	(68,829)	(309,302)
– Depreciation and amortization	(5,339)	(51,558)	(11,663)	(11,331)	(79,891)
– Recovery of provision for liabilities and charges	-	-	-	27	27
– Administrative and other operating expenses	(18,459)	(75,295)	(20,221)	(42,693)	(156,668)
Operating expenses	(74,525)	(262,771)	(85,712)	(122,826)	(545,834)
Losses from modifications of financial instruments	(945)	(688)	(93)	-	(1,726)
Profit/(loss) before tax	429,167	315,449	185,684	(8,940)	921,360
– Income tax expense	(48,857)	(32,200)	(21,135)	(10,169)	(112,361)
Profit/(loss) for the year	380,310	283,249	164,549	(19,109)	808,999
Total gross loans and advances to customers reported	6,547,741	6,358,345	4,141,305	-	17,047,391
Total customer accounts reported	7,330,543	5,837,333	1,558,676	311,620	15,038,172
Total credit related commitments and performance guarantees	3,201,078	178,556	381,201	-	3,760,835

29. SEGMENT ANALYSIS CONTINUED

For comparison purposes segment disclosure below is prepared with the effect of 2021 re-segmentations as described above.

<i>in thousands of GEL</i>	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
2020					
– Interest income	476,829	616,535	321,304	253,331	1,667,999
– Interest expense	(224,895)	(116,759)	(11,137)	(500,725)	(853,516)
– Net interest gains on currency swaps	-	-	-	20,950	20,950
– Inter-segment interest income/(expense)	59,132	(135,612)	(121,732)	198,212	-
Net interest income/(expense)	311,066	364,164	188,435	(28,232)	835,433
– Fee and commission income	83,919	168,320	37,740	16,198	306,177*
– Fee and commission expense	(55,333)	(43,068)	(22,892)	(2,117)	(123,410)*
Net fee and commission income	28,586	125,252	14,848	14,081	182,767
– Insurance profit	-	-	-	19,485	19,485
– Net gains/(losses) from derivatives, foreign currency operations and translation	55,911	28,581	25,699	(12,173)	98,018
– Net losses from disposal of investment securities measured at fair value through other comprehensive income	-	-	-	(624)	(624)
– Other operating income	1,856	6,939	391	11,326	20,512
Other operating non-interest income and insurance profit	57,767	35,520	26,090	18,014	137,391
– Credit loss allowance for loans to customers	(30,434)	(205,180)	(95,197)	-	(330,811)
– Credit loss recovery/(allowance) for performance guarantees and credit related commitments	3,546	(241)	(67)	-	3,238
– Credit loss allowance for finance lease receivables	-	-	-	(8,398)	(8,398)
– Credit loss allowance for other financial assets	(5,600)	(1,476)	-	(6,991)	(14,067)
– Credit loss allowance for financial assets measured at fair value through other comprehensive income	(875)	-	-	(934)	(1,809)
– Net impairment of non-financial assets	(5)	(3,672)	(796)	(1,688)	(6,161)*
Operating income/(expense) after expected credit and non-financial asset impairment losses	364,051	314,367	133,313	(14,148)	797,583*
– Staff costs	(39,735)	(109,907)	(45,557)	(48,844)	(244,043)
– Depreciation and amortization	(4,460)	(45,939)	(10,340)	(7,653)	(68,392)
– Provision for liabilities and charges	(400)	(2,200)	-	(106)	(2,706)
– Administrative and other operating expenses	(15,360)	(67,434)	(15,555)	(23,972)	(122,321)*
Operating expenses	(59,955)	(225,480)	(71,452)	(80,575)	(437,462)*
Losses from modifications of financial instruments	(6,345)	(23,633)	(7,153)	(3,884)	(41,015)
Profit/(loss) before tax	297,751	65,254	54,708	(98,607)	319,106
– Income tax (expense)/credit	(19,863)	23,759	2,337	(2,850)	3,383
Profit/(loss) for the year	277,888	89,013	57,045	(101,457)	322,489
Total gross loans and advances to customers	5,925,787	5,846,274	3,428,459	-	15,200,520
Total customer accounts	5,792,615	4,975,661	1,293,222	511,230	12,572,728
Total credit related commitments and performance guarantees	3,146,940	176,937	308,480	-	3,632,357

* Certain amounts do not correspond to the 2020 consolidated financial statements as they reflect the certain restatements as described in Note 2.

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

29. SEGMENT ANALYSIS **CONTINUED**

Segment disclosure below is prepared without the effect of 2021 re-segmentations as described above.

<i>in thousands of GEL</i>	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
2020					
– Interest income	462,383	617,124	335,161	253,331	1,667,999
– Interest expense	(203,390)	(184,990)	(12,100)	(453,036)	(853,516)
– Net interest gains on currency swaps	–	–	–	20,950	20,950
– Inter-segment interest income/(expense)	34,455	(59,379)	(125,599)	150,523	–
Net interest income/(expense)	293,448	372,755	197,462	(28,232)	835,433
– Fee and commission income	57,197	206,377	26,405	16,198	306,177*
– Fee and commission expense	(8,575)	(101,822)	(10,896)	(2,117)	(123,410)*
Net fee and commission income	48,622	104,555	15,509	14,081	182,767
– Insurance profit	–	–	–	19,485	19,485
– Net gains/(losses) from derivatives, foreign currency operations and translation	51,443	31,561	27,187	(12,173)	98,018
– Net losses from disposal of investment securities measured at fair value through other comprehensive income	–	–	–	(624)	(624)
– Other operating income	1,856	6,901	429	11,326	20,512
Other operating non-interest income and insurance profit	53,299	38,462	27,616	18,014	137,391
– Credit loss allowance for loans to customers	(29,089)	(201,652)	(100,070)	–	(330,811)
– Credit loss recovery/ (allowance) for performance guarantees and credit related commitments	3,546	(241)	(67)	–	3,238
– Credit loss allowance for finance lease receivables	–	–	–	(8,398)	(8,398)
– Credit loss allowance for other financial assets	(5,600)	(1,476)	–	(6,991)	(14,067)
– Credit loss allowance for financial assets measured at fair value through other comprehensive income	(875)	–	–	(934)	(1,809)
– Net impairment of non-financial assets	(5)	(3,590)	(878)	(1,688)	(6,161)*
Operating income/(expense) after expected credit and non-financial asset impairment losses	363,346	308,813	139,572	(14,148)	797,583*
– Staff costs	(35,580)	(110,988)	(48,631)	(48,844)	(244,043)
– Depreciation and amortization	(4,296)	(45,256)	(11,187)	(7,653)	(68,392)
– Provision for liabilities and charges	(400)	(2,200)	–	(106)	(2,706)
– Administrative and other operating expenses	(13,644)	(63,397)	(21,308)	(23,972)	(122,321)*
Operating expenses	(53,920)	(221,841)	(81,126)	(80,575)	(437,462)*
Losses from modifications of financial instruments	(6,345)	(23,633)	(7,153)	(3,884)	(41,015)
Profit/(loss) before tax	303,081	63,339	51,293	(98,607)	319,106
– Income tax (expense)/credit	(18,695)	21,360	3,568	(2,850)	3,383
Profit/(loss) for the year	284,386	84,699	54,861	(101,457)	322,489
Total gross loans and advances to customers	5,690,749	5,953,687	3,556,084	–	15,200,520
Total customer accounts	3,939,501	7,255,020	1,378,207	–	12,572,728
Total credit related commitments and performance guarantees	3,125,279	189,288	317,790	–	3,632,357

* Certain amounts do not correspond to the 2020 consolidated financial statements as they reflect the certain restatements as described in Note 2.

29. SEGMENT ANALYSIS CONTINUED

For comparison purposes segment disclosure below is prepared with the effect of 2021 re-segmentations as described above.

<i>in thousands of GEL</i>	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
2019					
– Interest income	360,686	587,154	291,051	197,952	1,436,843
– Interest expense	(141,671)	(147,284)	(10,015)	(364,890)	(663,860)
– Net interest gains on currency swaps	-	-	-	28,556	28,556
– Inter-segment interest income/(expense)	11,143	(73,190)	(99,023)	161,070	-
Net interest income	230,158	366,680	182,013	22,688	801,539
– Fee and commission income	49,879	203,391	25,787	10,564	289,621*
– Fee and commission expense	(7,101)	(84,837)	(9,081)	(1,312)	(102,331)*
Net fee and commission income	42,778	118,554	16,706	9,252	187,290
– Insurance profit	-	-	-	18,510	18,510
– Net gains/(losses) from derivatives, foreign currency operations and translation	51,060	30,650	23,087	(3,610)	101,187
– Net gains from disposal of investment securities measured at fair value through other comprehensive income	-	-	-	169	169
– Other operating income	4,323	8,204	1,082	5,307	18,916
– Share of profit of associates	-	-	-	632	632
Other operating non-interest income and insurance profit	55,383	38,854	24,169	21,008	139,414
– Credit loss recovery/(allowance) for loans to customers	3,270	(81,577)	(3,723)	-	(82,030)
– Credit loss (allowance)/recovery for performance guarantees and credit related commitments	(2,691)	411	124	-	(2,156)
– Credit loss recovery for finance lease receivables	-	-	-	582	582
– Credit loss recovery/(allowance) for other financial assets	2,199	(3,533)	(11)	(6,753)	(8,098)
– Credit loss allowance for financial assets measured at fair value through other comprehensive income	(141)	-	-	(149)	(290)
– Net impairment of non-financial assets	-	(2,743)	-	-	(2,743)*
Operating income after expected credit and non-financial asset impairment losses	330,956	436,646	219,278	46,628	1,033,508*
– Staff costs	(38,360)	(135,282)	(46,879)	(27,282)	(247,803)
– Depreciation and amortization	(2,571)	(45,522)	(7,210)	(4,175)	(59,478)
– Provision for liabilities and charges	-	-	-	(1,264)	(1,264)
– Administrative and other operating expenses	(17,127)	(78,921)	(16,993)	(26,397)	(139,438)*
Operating expenses	(58,058)	(259,725)	(71,082)	(59,118)	(447,983)*
Profit/(loss) before tax	272,898	176,921	148,196	(12,490)	585,525
– Income tax (expense)/credit	(29,048)	(17,557)	(15,369)	16,790	(45,184)
Profit for the year	243,850	159,364	132,827	4,300	540,341
Total gross loans and advances to customers	4,904,244	4,896,594	2,861,117	-	12,661,955
Total customer accounts	4,749,061	3,922,048	1,152,166	226,049	10,049,324
Total credit related commitments and performance guarantees	2,468,262	190,598	300,991	-	2,959,851

* Certain amounts do not correspond to the 2019 consolidated financial statements as they reflect the certain restatements as described in Note 2.

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

29. SEGMENT ANALYSIS **CONTINUED**

Segment disclosure below is prepared without the effect of 2021 re-segmentations as described above.

<i>in thousands of GEL</i>	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
2019					
– Interest income	356,652	582,788	299,451	197,952	1,436,843
– Interest expense	(160,064)	(152,751)	(10,202)	(340,843)	(663,860)
– Net interest gains on currency swaps	–	–	–	28,556	28,556
– Inter-segment interest income/(expense)	31,352	(66,951)	(101,424)	137,023	–
Net interest income	227,940	363,086	187,825	22,688	801,539
– Fee and commission income	49,338	203,448	26,271	10,564	289,621*
– Fee and commission expense	(7,069)	(84,869)	(9,081)	(1,312)	(102,331)*
Net fee and commission income	42,269	118,579	17,190	9,252	187,290
– Insurance profit	–	–	–	18,510	18,510
– Net gains/(losses) from derivatives, foreign currency operations and translation	49,851	30,726	24,220	(3,610)	101,187
– Net gains from disposal of investment securities measured at fair value through other comprehensive income	–	–	–	169	169
– Other operating income	2,953	9,563	1,093	5,307	18,916
– Share of profit of associates	–	–	–	632	632
Other operating non-interest income and insurance profit	52,804	40,289	25,313	21,008	139,414
– Credit loss recovery/(allowance) for loans to customers	3,261	(77,323)	(7,968)	–	(82,030)
– Credit loss (allowance)/recovery for performance guarantees and credit related commitments	(2,691)	411	124	–	(2,156)
– Credit loss recovery for finance lease receivables	–	–	–	582	582
– Credit loss recovery/(allowance) for other financial assets	2,211	(3,545)	(11)	(6,753)	(8,098)
– Credit loss allowance for financial assets measured at fair value through other comprehensive income	(141)	–	–	(149)	(290)
– Net impairment of non-financial assets	–	(2,743)	–	–	(2,743)*
Operating income after expected credit and non-financial asset impairment losses	325,653	438,754	222,473	46,628	1,033,508*
– Staff costs	(38,360)	(134,143)	(48,018)	(27,282)	(247,803)
– Depreciation and amortization	(2,571)	(45,522)	(7,210)	(4,175)	(59,478)
– Provision for liabilities and charges	–	–	–	(1,264)	(1,264)
– Administrative and other operating expenses	(17,127)	(74,820)	(21,094)	(26,397)	(139,438)*
Operating expenses	(58,058)	(254,485)	(76,322)	(59,118)	(447,983)*
Profit/(loss) before tax	267,595	184,269	146,151	(12,490)	585,525
– Income tax (expense)/credit	(29,048)	(18,101)	(14,825)	16,790	(45,184)
Profit for the year	238,547	166,168	131,326	4,300	540,341
Total gross loans and advances to customers	4,660,473	5,053,203	2,948,279	–	12,661,955
Total customer accounts	3,187,319	5,673,917	1,188,088	–	10,049,324
Total credit related commitments and performance guarantees	2,451,770	205,433	302,648	–	2,959,851

* Certain amounts do not correspond to the 2019 consolidated financial statements as they reflect the certain restatements as described in Note 2.

29. SEGMENT ANALYSIS CONTINUED

<i>in thousands of GEL</i>	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
2021					
– Fee and commission income	111,777	212,867	52,806	34,582	412,032
– Other operating income	2,677	8,001	877	36,924	48,479
Total	114,454	220,868	53,683	71,506	460,511
Timing of revenue recognition:					
– At point in time	114,435	219,365	53,683	71,506	458,989
– Over a period of time	19	1,503	–	–	1,522

<i>in thousands of GEL</i>	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
2020					
– Fee and commission income	57,197	206,377	26,405	16,198	306,177
– Other operating income	1,856	6,901	429	11,326	20,512
Total	59,053	213,278	26,834	27,524	326,689
Timing of revenue recognition:					
– At point in time	59,053	210,986	26,834	27,524	324,397
– Over a period of time	–	2,292	–	–	2,292

<i>in thousands of GEL</i>	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
2019					
– Fee and commission income	49,338	203,448	26,271	10,564	289,621
– Other operating income	2,953	9,563	1,093	5,307	18,916
Total	52,291	213,011	27,364	15,871	308,537
Timing of revenue recognition:					
– At point in time	52,263	211,531	27,359	15,871	307,024
– Over a period of time	28	1,480	5	–	1,513

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

29. SEGMENT ANALYSIS **CONTINUED**

Reportable segments' assets were reconciled to total assets as follows:

<i>in thousands of GEL</i>	31 December 2021	31 December 2020	31 December 2019
Total segment assets (gross loans and advances to customers)	17,047,391	15,200,520	12,661,955
Credit loss allowance on gross loans and advances to customers	(410,246)	(606,246)	(312,556)
Cash and cash equivalents	1,722,137	1,635,405	1,003,583
Mandatory cash balances with National Bank of Georgia and Uzbekistan	2,087,141	2,098,506	1,591,829
Due from other banks	79,142	50,805	33,605
Investment securities measured at fair value through other comprehensive income	1,938,196	1,527,268	985,293
Bonds carried at amortised cost	49,582	1,089,801	1,022,684
Current income tax prepayment	194	69,888	25,695
Deferred income tax asset	12,357	2,787	2,173
Other financial assets	453,115	171,302	133,736
Finance lease receivables	262,046	271,660	256,660
Other assets	397,079	266,960	255,712
Premises and equipment	392,506	372,956	334,728
Intangible assets	319,963	239,523	167,597
Investment properties	22,892	68,689	72,667
Goodwill	59,964	59,964	61,558
Right of use assets	70,513	53,927	59,693
Investments in associates	4,589	4,090	2,654
Total assets per statement of financial position	24,508,561	22,577,805	18,359,266

Reportable segments' liabilities are reconciled to total liabilities as follows:

<i>in thousands of GEL</i>	31 December 2021	31 December 2020	31 December 2019
Total segment liabilities (customer accounts)	15,038,172	12,572,728	10,049,324
Due to credit institutions	2,984,176	4,486,373	3,593,901
Debt securities in issue	1,710,288	1,496,497	1,213,598
Current income tax liability	86,762	853	1,634
Deferred income tax liability	10,979	13,088	18,888
Provisions for liabilities and charges	25,358	25,335	23,128
Other financial liabilities	139,811	227,432	113,608
Other liabilities	130,972	87,842	95,162
Subordinated debt	623,647	672,740	591,035
Lease Liabilities	66,167	58,983	59,898
Total liabilities per statement of financial position	20,816,332	19,641,871	15,760,176

30. INTEREST INCOME AND EXPENSE

<i>in thousands of GEL</i>	2021	2020	2019
Interest income calculated using effective interest method			
Loans and advances to customers	1,614,374	1,394,033	1,225,196
Bonds carried at amortised cost*	2,224	97,122	58,682
Investment securities measured at fair value through other comprehensive income*	185,424	103,516	74,043
Due from other banks	20,856	18,590	29,570
Other financial assets	4,540	1,655	1,418
Other interest income			
Finance lease receivables	58,438	53,083	47,934
Total interest income	1,885,856	1,667,999	1,436,843
Interest expense			
Customer accounts	(477,429)	(397,542)	(320,350)
Due to credit institutions	(256,912)	(289,369)	(226,899)
Subordinated debt	(53,338)	(55,716)	(63,693)
Debt securities in issue	(120,167)	(107,929)	(50,248)
Other interest expense			
Lease Liabilities	(3,421)	(2,960)	(2,670)
Total interest expense	(911,267)	(853,516)	(663,860)
Net interest gains on currency swaps	28,143	20,950	28,556
Net interest income	1,002,732	835,433	801,539

* 2021 reflects changes in business model of financial securities described in Note 2.

During 2021 interest accrued on defaulted loans amounted to GEL 36,105 thousand (2020: GEL 69,285 thousand; 2019: GEL 14,372 thousand).

During 2021 capitalized interest expense in the amount of GEL 1,756 thousand (2020: GEL 1,403 thousand, 2019: nil), was attributable to the development of the Group's headquarters. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is weighted average of interest bearing liabilities by currencies: 7.7% in GEL, 2.9% in USD and 1.3% in EUR. (2020: 7.7% in GEL, 3.6% in USD and 1.1% in EUR, 2019: nil)

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

31. FEE AND COMMISSION INCOME AND EXPENSE

<i>in thousands of GEL</i>	2021	2020 (restated)	2019 (restated)
Fee and commission income in respect of financial instruments not at fair value through profit or loss:			
– Card operations	188,413	138,796*	134,810*
– Settlement transactions	139,383	99,395	86,967
– Guarantees issued	42,124	35,761	28,701
– Cash transactions	8,195	8,305	13,211
– Issuance of letters of credit	2,896	6,200	5,215
– Foreign exchange operations	3,257	1,978	2,841
– Other	27,764	15,742	17,876
Total fee and commission income	412,032	306,177	289,621
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:			
– Card operations	118,050	93,649*	78,773*
– Settlement transactions	18,065	13,111	13,739
– Cash transactions	6,085	6,454	4,732
– Guarantees and letters of credit received	4,247	4,052	3,627
– Foreign exchange operations	407	228	59
– Other	17,178	5,916	1,401
Total fee and commission expense	164,032	123,410	102,331
Net fee and commission income	248,000	182,767	187,290

* Certain amounts do not correspond to the 2020 and 2019 consolidated financial statements as they reflect the reclassifications as described in Note 2.

32. OTHER OPERATING INCOME

<i>in thousands of GEL</i>	2021	2020	2019
Gain from sale of investment properties	22,934	1,003	938
Revenues from e-commerce	7,185	6,604	259
Gain on disposal of premises and equipment	5,356	594	2,440
Gain from sale of repossessed collateral	3,086	1,568	2,755
Revenues from operational leasing	2,048	3,172	3,046
Revenues from non-credit related fines	334	236	344
Revenues from sale of cash-in terminals	294	477	926
Other	7,242	6,858	8,208
Total other operating income	48,479	20,512	18,916

In 2021, the Group disposed its certain investment properties and premises, out of which most part accounted to the single sale described in Note 15.

Revenue from operational leasing is wholly attributable to investment properties. The carrying value of the repossessed collateral disposed in the year ended 31 December 2021 was GEL 48,029 thousand (2020: GEL 22,423 thousand; 2019: GEL 32,306 thousand).

33. NET GAINS FROM CURRENCY DERIVATIVES, FOREIGN CURRENCY OPERATIONS AND TRANSLATION

Net gains from currency derivatives, foreign currency operations and translation for the following years are as follows:

<i>in thousands of GEL</i>	2021	2020	2019
Net gains/(losses) from trading in foreign currencies	113,043	(92,110)	79,279
Net gains/(losses) from foreign exchange translation	3,938	190,120	22,188
Net gains/(losses) from derivative financial instruments	289	8	(280)
Total net gains from currency derivatives, foreign currency operations and translation	117,270	98,018	101,187

34. NET INSURANCE PROFIT

Net insurance profit for the following years are as follows:

<i>in thousands of GEL</i>	2021	2020	2019
Premium written on life insurance contracts	32,267	26,674	22,891
Premium written on general insurance contracts	60,297	41,807	40,583
Total premiums written	92,564	68,481	63,474
Change in gross reserves for life unearned premiums	(216)	(63)	(80)
Change in gross reserves for general unearned premiums	(11,636)	(2,729)	(5,484)
Total earned premiums	80,712	65,689	57,910
Reinsurers' earned premium on life insurance contracts	(5,944)	(5,263)	(4,897)
Reinsurers' earned premium on general insurance contracts	(8,778)	(7,067)	(14,814)
Total net earned premiums	65,990	53,359	38,199
Life insurance claims settled	(10,629)	(5,297)	(4,656)
General insurance claims settled	(39,365)	(31,757)	(26,081)
Reinsurer's share of life insurance claims settled	7,954	3,969	3,458
Reinsurer's share of general insurance claims settled	1,619	4,206	14,058
Total net claims settled	(40,421)	(28,879)	(13,221)
Gross change in reported but not settled claims	(3,723)	(461)	(2,052)
Incurred but not reported claims	27	(235)	340
Reinsurer's share of change in reported but not settled claims	1,728	(640)	339
Subrogation and recoveries	5,497	2,084	1,039
Expenses Associated with claims	-	(932)	(329)
Net claims incurred	(36,892)	(29,063)	(13,884)
Agent's commissions/acquisition costs	(5,552)	(4,811)	(5,805)
Net claims incurred and agents' commissions	(42,444)	(33,874)	(19,689)
Net Insurance Profit	23,546	19,485	18,510

35. STAFF COSTS

<i>in thousands of GEL</i>	2021	2020	2019
Salaries and bonuses	271,649	215,680	201,344
Share based compensation	22,115	18,498	33,857
Other compensation cost	15,538	9,865	12,602
Salaries and other employee benefits	309,302	244,043	247,803

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

35. STAFF COSTS **CONTINUED**

Share based compensation represents remuneration paid in shares and is excluded as non-cash in the consolidated statement of cash flows. On the other hand, acquisition of treasury shares for share based payment scheme is included as financing activity in the consolidated statement of cash flows.

Breakdown of monthly average number of employees by categories is as follows:

	2021	2020	2019
Headquarters*	3,917	3,228	2,924
Branches*	3,889	3,600	3,638
Other administrative staff **	1,259	1,123	700

*Under monthly average number of employees in headquarters and branches employees in JSC TBC Bank, JSC TBC Insurance, TBC bank Uzbekistan and LLC TBC Kredit's are considered.

**Employees from other subsidiaries are considered under other administrative staff.

In 2021 monthly average number of employees in TBC PLC, as a stand-alone entity, was 10 individuals (2020: 10; 2019: 10).

36. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

<i>in thousands of GEL</i>	2021	2020 (restated)	2019 (restated)
Advertising and marketing services	32,519	21,260	22,634
Professional services	23,228	19,649	25,865
Intangible asset maintenance	22,223	15,677	12,885
Rent**	13,883	13,853	13,541
Taxes other than on income	10,759	8,764	6,962
Utilities services	8,327	6,596	6,874
Premises and equipment maintenance	7,808	6,475	9,828
Communications and supply	7,398	6,059	5,960
Stationery and other office expenses	5,472	5,841	5,167
Security services	1,843	1,872	2,035
Transportation and vehicle maintenance	2,508	1,732	2,140
Insurance	2,092	1,706	1,660
Personnel training and recruitment	2,740	1,632	3,120
Charity	418	1,530	1,990
Business trip expenses	520	720	2,612
Loss on disposal of repossessed collateral	682	181	1,310
Loss on disposal of premises and equipment	1,239	148	938
Other*	13,009	8,626*	13,917*
Total administrative and other operating expenses*	156,668	122,321*	139,438*

*Certain amounts do not correspond to the 2020 and 2019 consolidated financial statements as they reflect the reclassification of net impairment of non-financial assets as described in Note 2.

**Includes short-term leases, low value leases, VAT and other relevant tax expense on lease contracts recognised under IFRS 16 scope

36. ADMINISTRATIVE AND OTHER OPERATING EXPENSES CONTINUED

Auditors' remuneration is included within professional services expenses above and comprises:

<i>in thousands of GEL</i>	Audit	Audit Related	Other Services	Total
31 December 2021				
Fees payable to the company's auditors and its associates for the audit of parent company and consolidated financial statements	2,179	–	–	2,179
Audit of the financial statements of the company's subsidiaries	608	–	–	608
Audit-related assurance services	–	613	–	613
Other assurance services	–	–	932	932
Total auditors' remuneration	2,787	613	932	4,332
31 December 2020				
Fees payable to the company's auditors and its associates for the audit of parent company and consolidated financial statements	2,175	–	–	2,175
Audit of the financial statements of the company's subsidiaries	429	–	–	429
Audit-related assurance services	–	334	–	334
Other assurance services	–	–	26	26
Total auditors' remuneration	2,604	334	26	2,964
31 December 2019				
Fees payable to the company's auditors and its associates for the audit of parent company and consolidated financial statements	1,427	–	–	1,427
Audit of the financial statements of the company's subsidiaries	248	–	–	248
Audit-related assurance services	–	561	–	561
Other assurance services	–	–	864	864
Total auditors' remuneration	1,675	561	864	3,100

Fees presented in the tables above are exclusive of taxes. For the year ended 31 December 2021, GEL 910 thousands (included in the table in other assurance services) is attributable to the services in relation to issuance of AT1 Notes in October 2021.

37. INCOME TAXES

Income tax credit/(expense) comprise of the following:

<i>in thousands of GEL</i>	2021	2020	2019
Current tax charge	124,040	3,022	46,166
Deferred tax credit	(11,679)	(6,405)	(982)
Total income tax expense/(credit) for the year	112,361	(3,383)	45,184

Current income tax liability to the regulatory authorities is generally paid on a quarterly basis. The amount is calculated by dividing previous year current income tax amount by 4 equal portion. In 2021, no prepayments for current income tax were made as the 2020 resulted in tax loss and there was no current income tax payable. Accordingly, at the end of 2021 Bank had income tax payable, whilst in 2020 and 2019, income tax asset.

The income tax rate applicable to the majority of the Group's income was 15% (2020: 15%; 2019: 15%). The income tax rate applicable to the majority of subsidiaries income ranged from 15% to 20% (2020: 15% - 20%; 2019: 15% - 20%).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

37. INCOME TAXES CONTINUED

Reconciliation between the expected and the actual taxation (credit)/expense is provided below.

<i>in thousands of GEL</i>	2021	2020	2019
Statutory rate	15% – 20%	15% – 20%	15% – 20%
Profit before tax	921,360	319,106	585,525
Theoretical tax charge at statutory rate (15%-20%)	137,852	46,327	87,829
Tax effect of items which are not deductible or assessable for taxation purposes:			
– Income which is exempt from taxation	(25,435)	(21,295)	(19,318)
– Non-deductible expenses	(314)	(2,322)	(2,083)
– Expected effects of change in tax legislation	343	(23,226)	(20,757)
– Other differences	(85)	(2,867)	(487)
Total income tax expense/(credit) for the year	112,361	(3,383)	45,184

Differences between financial reporting framework and statutory taxation regulations in Georgia, Azerbaijan and Uzbekistan give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 15% (2020: 15%; 2019: 15%) for Georgia, 20% (2020: 20%; 2019: 20%) for Azerbaijan, 20% (2020: 20%; 2019: 20%) for Uzbekistan and 20% (2020: 20%; 2019: 20%) for United Kingdom.

Income which is exempt from taxation includes interest income from placements in NBG, Georgian Government Treasury bills and IFI securities. Revaluation of investment securities held at FVOCI did not result in recognition of deferred tax assets/liabilities (since majority of securities were either tax exempt or were not supposed to be sold before Estonian model transition date discussed below) and its tax effect was not recognised in OCI. Non-deductible expenses include penalties paid and charity expenses towards beneficiary which are not registered charity organizations.

On 13 May 2016 the Government of Georgia enacted the changes in the Tax Code of Georgia effective from 1 January 2019, for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops and from 1 January 2017 for other entities. However, during 2018 Georgian Government changed transition date to 1 January 2023 for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops. The new code impacts the recognition and measurement principles of the Group's income tax and it also affects the Group's deferred income tax assets/liabilities. Companies do not have to pay income tax on their profit before tax (earned since 1 January 2017 or 1 January 2023 for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops) until that profit is distributed in a form of dividend or other forms of profit distributions. Once dividend is paid, 15% income tax is payable at the moment of the dividend payment, regardless of whether in monetary or non-monetary form, to the foreign non-resident legal entities and foreign and domestic individuals. The dividends paid out to the resident legal entities are tax exempted. Apart from dividends' distribution, the tax is still payable on expenses or other payments incurred not related to economic activities, free delivery of goods/services and/or transfer of funds and representation costs that exceed the maximum amount determined by the Income Tax Code of Georgia, in the same month they are incurred.

Deferred tax assets/liabilities are re-measured to the amounts that are estimated to be utilized in the period from 1 January 2021 to 31 December 2022.

37. INCOME TAXES CONTINUED

<i>in thousands of GEL</i>	1 January 2021	Credited/ (charged) to profit or loss	31 December 2021
Tax effect of (taxable)/deductible temporary differences and tax loss carry forwards			
Premises and equipment	(3,344)	3,259	(85)
Loans and advances to customers	(18,617)	5,059	(13,558)
Other financial assets	2,602	1,606	4,208
Other assets	15	(820)	(805)
Due to credit institutions	(1,684)	1,316	(368)
Other financial liabilities	(920)	584	(336)
Other liabilities	(2,613)	2,128	(485)
Share based payment	1,368	1,327	2,695
Finance lease receivables	-	853	853
Tax loss carried forward	12,892	(3,633)	9,259
Net deferred tax (liability)/asset	(10,301)	11,679	1,378
Recognised deferred tax asset	2,787	9,570	12,357
Recognised deferred tax liability	(13,088)	2,109	(10,979)
Net deferred tax (liability)/asset	(10,301)	11,679	1,378

<i>in thousands of GEL</i>	1 January 2020	Credited/ (charged) to profit or loss	31 December 2020
Tax effect of (taxable)/deductible temporary differences and tax loss carry forwards			
Premises and equipment	(11,372)	8,019	(3,344)
Loans and advances to customers	(8,822)	(9,795)	(18,617)
Other financial assets	4,721	(2,119)	2,602
Other assets	-	15	15
Due to credit institutions	(2,487)	803	(1,684)
Other financial liabilities	792	(1,712)	(920)
Other liabilities	(1,800)	(813)	(2,613)
Share based payment	2,253	(885)	1,368
Tax loss carried forward	-	12,892	12,892
Net deferred tax liability	(16,715)	6,405	(10,301)
Recognised deferred tax asset	2,173	614	2,787
Recognised deferred tax liability	(18,888)	5,791	(13,088)
Net deferred tax liability	(16,715)	6,405	(10,301)

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

37. INCOME TAXES **CONTINUED**

<i>in thousands of GEL</i>	1 January 2019	Credited/ (charged) to profit or loss	31 December 2019
Tax effect of (taxable)/deductible temporary differences and tax loss carry forwards			
Premises and equipment	(20,758)	9,386	(11,372)
Loans and advances to customers	2,866	(11,688)	(8,822)
Other financial assets	2,421	2,300	4,721
Due to credit institutions	(3,641)	1,154	(2,487)
Subordinated debt	(70)	70	–
Other financial liabilities	(41)	833	792
Other liabilities	864	(2,664)	(1,800)
Share based payment	663	1,590	2,253
Net deferred tax liability	(17,696)	981	(16,715)
Recognised deferred tax asset	2,097	76	2,173
Recognised deferred tax liability	(19,793)	905	(18,888)
Net deferred tax liability	(17,696)	981	(16,715)

In the context of the Group's current structure and Georgian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

38. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below sets out movements in the Group's liabilities from financing activities for each of the periods presented. The items of these liabilities are those that are reported as financing activities in the statement of cash flows.

<i>in thousands of GEL</i>	Other borrowed funds	Debt securities in issue	Subordinated debt	Lease liabilities	Total
Liabilities from financing activities at 1 January 2019	2,872,069	13,343	650,919	61,043	3,597,374
Proceeds from principal	1,819,899	1,176,049	–	–	2,995,948
Redemption of principal	(1,392,897)	(14,296)	(104,079)	(6,453)	(1,517,725)
Net interest movement**	5,225	1,140	(1,338)	625	5,652
Other non-cash movements*	–	–	–	2,575	2,575
Foreign exchange adjustments	122,591	37,362	45,533	2,108	207,594
Liabilities from financing activities at 31 December 2019	3,426,887	1,213,598	591,035	59,898	5,291,418
Proceeds from principal	4,036,810	104,838	–	–	4,141,648
Redemption of principal	(3,324,230)	–	–	(13,251)	(3,337,481)
Net interest movement**	7,155	(2,779)	(812)	10	3,574
Other non-cash movements*	–	–	–	5,671	5,671
Foreign exchange adjustments	198,957	180,840	82,517	6,655	468,969
Liabilities from financing activities at 31 December 2020	4,345,579	1,496,497	672,740	58,983	6,573,799
Proceeds from principal	1,750,443	295,457	–	–	2,045,900
Redemption of principal	(3,338,139)	–	(12,562)	(12,825)	(3,363,526)
Net interest movement**	(29,257)	3,918	(191)	201	(25,329)
Other non-cash movements*	–	–	–	24,246	24,246
Foreign exchange adjustments	(69,107)	(85,584)	(36,340)	(4,438)	(195,469)
Liabilities from financing activities at 31 December 2021	2,659,519	1,710,288	623,647	66,167	5,059,621

*Other non-cash movements represent additions less terminations for finance lease contracts.

**Net interest movement includes interest accrued and interest paid. Interest paid on other borrowed funds, debt securities in issue, subordinated debt and lease liabilities is included in operating cash flow interest paid caption.

39. FINANCIAL AND OTHER RISK MANAGEMENT

Credit Quality

Depending on the type of financial asset the Group may utilize different sources of asset credit quality information including credit ratings assigned by the international rating agencies (Standard & Poor's, Fitch), credit scoring information from credit bureau and internally developed credit ratings. Financial assets are classified in an internally developed credit quality grades by taking into account the internal and external credit quality information in combination with other indicators specific to the particular exposure (e.g. delinquency). The Group defines following credit quality grades:

- Very low risk – exposures demonstrate strong ability to meet financial obligations;
- Low risk – exposures demonstrate adequate ability to meet financial obligations;
- Moderate risk – exposures demonstrate satisfactory ability to meet financial obligations;
- High risk – exposures that require closer monitoring, and
- Default – exposures in default, with observed credit impairment.

Expected credit loss (ECL) measurement

ECL is a probability-weighted estimate of the present value of future cash shortfalls. An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Group: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate. The estimates consider forward looking information, that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk.

The Group uses a three-stage model for ECL measurement and classifies its borrowers across three stages: The Group classifies its exposures as Stage 1 if no significant deterioration in credit quality occurred since initial recognition and the instrument was not defaulted when initially recognized. The exposure is classified to Stage 2 if the significant deterioration in credit quality was identified since initial recognition but the financial instrument is not considered defaulted. The exposures for which the defaulted indicators have been identified are classified as Stage 3 instruments. The Expected Credit Loss (ECL) amount differs depending on exposure allocation to one of the Stages. In the case of Stage 1 instruments, the ECL represents that portion of the lifetime ECL that can be attributed to default events potentially occurring within the next 12 months from the reporting date. In case of Stage 2 instruments, the ECL represents the lifetime ECL, i.e. credit losses that can be attributed to possible default events during the whole lifetime of a financial instrument. Generally, lifetime is set equal to the remaining contractual maturity of the financial instrument. Factors such as existence of contractual repayment schedules, options for extension of repayment maturity and monitoring processes held by The Group affect the lifetime determination. In case of Stage 3 instruments, default event has already incurred and the lifetime ECL is estimated based on the expected recoveries.

Definition of default

Financial assets for which the Group observed occurrence of one or more loss events are classified in Stage 3.

The Group uses both quantitative and qualitative criteria for the definition of default. The borrower is classified as defaulted if at least one of the following occurred:

- Any amount of contractual repayments is past due more than 90 days;
- Factors indicating the borrower's unlikelihood-to-pay.

In case of individually significant borrowers The Group additionally applies criteria including but not limited to: bankruptcy proceedings, significant fraud in the borrower's business that significantly affected its financial condition, breach of the contract terms etc. For SME and corporate borrowers default is identified on the counterparty level, meaning that all the claims against the borrower are treated as defaulted. As for retail and micro exposures, facility level default definition is applied considering additional pulling effect criteria. If the amount of defaulted exposure exceeds predefined threshold, all the claims against the borrower are classified as defaulted. Once financial instrument is classified as defaulted, it remains as such until it no longer meets any of the default criteria for a consecutive period of six months, in which case exposure is considered to no longer be in default (i.e. to have cured). Probation period of six months has been determined on analysis of likelihood of a financial instrument returning to default status after curing. Exposures which are moved to stage 2 from default state are kept there for certain period before transferring to Stage 1 and classified as fully performing instruments again.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

39. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

Significant increase in credit risk ("SICR")

Financial assets for which the Group identifies significant increase in credit risk since its origination are classified in Stage 2. SICR indicators are recognized at financial instrument level even though some of them refer to the borrower's characteristics. The Group uses both quantitative and qualitative indicators of SICR.

Quantitative criteria

On a quantitative basis The Group assess change in probability of default parameter for each particular exposure since initial recognition and compares it to the predefined threshold. When absolute change in probability of default exceeds the applicable threshold, SICR is deemed to have occurred and exposure is transferred to Stage 2. Quantitative indicator of SICR is applied to retail and micro segments, where the Group has sufficient number of observations.

Qualitative criteria

Financial asset is transferred to Stage 2 and lifetime ECLs is measured if at least one of the following SICR qualitative criteria is observed:

- delinquency period of more than 30 days on contractual repayments;
- exposure is restructured, but is not defaulted;
- borrower is classified as "watch".

The Group has not rebutted the presumption that there has been significant increase in credit risk since origination when financial asset becomes more than 30 days past due. This qualitative indicator of SICR together with debt restructuring is applied to all segments. Particularly for corporate and SME segment the Group uses downgrade of risk category since origination of the financial instrument as a qualitative indicator of SICR. Based on the results of the monitoring borrowers are classified across different risk categories. In case there are certain weaknesses present, which if materialized may lead to loan repayment problems, borrowers are classified as "watch" category. Although watch borrowers' financial standing is sufficient to repay obligations, these borrowers are closely monitored and specific actions are undertaken to mitigate potential weaknesses. Once the borrower is classified as "watch" category it is transferred to Stage 2. If any of the SICR indicators described above occur financial instrument is transferred to Stage 2. Financial asset may be moved back to Stage 1, if SICR indicators are no longer observed.

ECL measurement

The Group utilizes two approaches for ECL measurement – individual assessment and collective assessment. Individual assessment is mainly used for stage 2 and stage 3 individually significant borrowers. Additionally, the Group may arbitrarily designate selected exposures to individual measurement of ECL based on the Group's credit risk management or underwriting departments' decision.

The Group uses the discounted cash flow (DCF) method for the determination of recovery amount under individual assessment. In order to ensure the accurate estimation of recoverable amount the Group utilizes scenario analysis approach. Scenarios may be defined considering the specifics and future outlook of individual borrower, sector the borrower operates in or changes in values of collateral. In case of scenario analysis The Group forecasts recoverable amount for each scenario and estimates respective losses. Ultimate ECL is calculated as the weighted average of losses expected in each scenario, weighted by the probability of scenario occurring.

As for the non-significant and non-impaired significant borrowers The Group estimates expected credit losses collectively. For the collective assessment and risk parameters estimation purposes the exposures are grouped into a homogenous risk pools based on similar credit risk characteristics. Common credit risk characteristics of the group include but are not limited to: Stage (Stage 1, Stage 2 or Stage 3), type of counterparty (individual vs business), type of product, rating (external or internal), overdue status, restructuring status, months in default category or any other characteristics that may differentiate certain sub-segments for risk parameter's estimation purposes. Number of pools differs for different products/ segments considering specifics of portfolio and availability of data within each pool. Collective ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained below, and discounted to present value using the instrument's effective interest rate.

The key principles of calculating the credit risk parameters:

39. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

Exposure at default (EAD)

The EAD represents estimation of exposure to credit risk at the time of default occurring during the life of financial instrument. The EAD parameter used for the purpose of the ECL calculation is time-dependent, i.e. the Group allows for various values of the parameter to be applied to subsequent time periods during the lifetime of an exposure. Such structure of the EAD is applied to all Stage 1 and Stage 2 financial instruments. In case of Stage 3 financial instruments and defaulted POCI assets, the EAD vector is one-element with current EAD as the only value. EAD is determined differently for amortising financial instruments with contractual repayment schedules and for revolving facilities. For amortising products EAD is calculated considering the contractual repayments of principal and interest over the 12-month period for facilities classified in Stage 1 and over lifetime period for remaining instruments. It is additionally adjusted to include effect of reduction in exposure due to prepayments - Namely full prepayment ratio. Full Prepayment Rate (FPR) parameter represents the probability that a financial instrument will be fully prepaid during the particular period to maturity. For the purpose of calculating Full Prepayment Ratio, the Group makes the analysis of the historical data of the contracts fully prepaid until the maturity.

Probability of default (PD)

Probability of default parameter describes the likelihood of a default of a facility over a particular time horizon. It provides an estimate of the likelihood that a borrower will be unable to meet its contractual debt obligations. The PD parameter is time-dependent (i.e. has a specific term structure) and is applied to all non-defaulted contracts. Taking into account specific nature of different segments of clients for which the PD is estimated as well as unique characteristics that drive their default propensity, the PD is modelled differently for Retail and Micro segments and Corporate and SME segments. PD assessment approach is also differentiated for different time horizons and is further adjusted due to expected influence of macroeconomic variables as forecasted for the period (see "Forward Looking Information" section for further details on incorporation of macroeconomic expectations in ECL calculation). FLI adjustment is applied on PD for the three-year period, given the uncertainty involved in the macroeconomic forecasts for the longer time horizon. Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months marginal PDs over the life of the instrument. The Group generally uses number based approach of PD model construction, however for the nonhomogeneous portfolios exposure-weighted approach is utilised. The Group uses different statistical approaches such as the extrapolation of 12-month PDs based on migration matrices, developing lifetime PD curves based on the historical default data and gradual convergence of long-term PD with the long-term default rate.

Loss given default (LGD)

The LGD parameter represents the share of an exposure that would be irretrievably lost if a borrower defaults. For Stage 1 and Stage 2 financial instruments, the LGD is estimated for each period in the instrument's lifetime and reflects the share of the expected EAD for that period that will not be recovered over the remaining lifetime of the instrument after the default date. For Stage 3 financial instruments, the LGD represents the share of the EAD as of reporting date that will not be recovered over the remaining life of that instrument. Assessment of LGD varies by the type of counterparty, segment, type of product, securitization level and availability of historical observations. The general LGD estimation process employed by the Group is based on the assumption that after the default of the exposure, two mutually exclusive scenarios are possible. The exposure either leaves the default state (cure scenario) or does not leave the default state and will be subject to recovery process (non-cure scenario). The probability that an exposure defaults again in the cure scenario is involved in the estimation process. Risk parameters applicable to both scenarios, i.e. cure rates and recovery rates, are estimated by means of migration matrices approach, where risk groups are defined by consecutive months-in-default. For each LGD portfolio the Group defines the recovery horizon, since the default date after which no material recoveries are assumed. Recovery horizon is defined by data analytics and expert judgment. For certain portfolios based on the limitations of observations alternative versions of the general approach may be applied. For significant corporate exposures, the Group uses the LGD modelling approach that is based on realized recoveries from historical defaults, adjusted with approximation of future recoveries from individually assessed defaulted exposures. In order to model LGD for SME and non-significant corporate borrowers, the Group is estimating recoverable amount directly from the collateral and assumes that no recoveries from cash is expected. In order to estimate recoverable amount from the collateral the Group is applying respective haircuts defined for different types of collateral and discounts them using effective interest rate over the realization period. In addition, at each reporting date, the Group makes the decision which historical data horizon should be used in order to model recoveries.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

39. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

Forward-looking information

The measurement of unbiased, probability weighted ECL requires inclusion of forward looking information obtainable without undue cost or effort. For forward-looking information purposes the Group defines three macro scenarios. The scenarios are defined as baseline (most likely), upside (better than most likely) and downside (worse than most likely) scenarios of the state of the Georgian economy. To derive the baseline macro-economic scenario, the Group takes into account forecasts from various external sources – the National Bank of Georgia, Ministry of Finance, International Monetary Fund (“IMF”) as well as other International Financial Institutions (“IFI”s) – in order to ensure the to the consensus market expectations. Upside and downside scenarios are defined based on the framework developed by the Group’s macroeconomic unit.

The Group uses statistical models and historical relationship between the various macroeconomic factors and default observations to derive forward-looking adjustments. In case these models do not provide reasonable results either from statistical or business perspective, the Group may apply expert judgment or use alternative approach. As at 31 December 2021, The Group uses same approaches as in 31 December 2020. The Group employs statistical models to derive forward looking adjustment in all segments except for corporate. In corporate segment, due to the availability of comprehensive borrower-level financial information and insignificance of the statistical models, the Group uses stress test approach instead. The baseline, upside and downside scenarios were assigned probability weighing of 50%, 25% and 25%, respectively.

The forward looking information is incorporated in both individual and collective assessment of expected credit losses

Model maintenance and validation

The Group regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual credit loss. Such back-testing is performed at least once a year. As part of the back-testing process, the Group evaluates actual realization of the risk parameters and their consistency with the model estimates. Additionally staging criteria are also analysed within the back-testing process. The results of back-testing the ECL measurement methodology are communicated to the Group Management and further actions for tuning the models and assumptions are defined after discussions between authorised persons.

Risk governance

ECL impairment models were developed by internal credit risk governance division with the involvement of external consultants. The division runs the models to calculate ECL each month. They are also responsible for model back-testing, analytics and governance.

Economic scenarios and probability weights are prepared by macro-financial analysis unit. All the assumptions, including PMAs and PMOs used in the ECL measurement go through of review and approval process:

- Chief Economist reviews and approves the forward-looking scenarios and respective weights;
- Internal allowance committee reviews and approves appropriateness of the estimates and judgements as well as PMAs and PMOs used in ECL measurement on a regular basis; internal committee includes Head of ERM, Heads of Portfolio Credit Risk Management divisions and CRO, who ultimately approves ECL results as of each reporting date.

Climate risk. The Group’s largest operations are located in Georgia hence the climate risk overview is done by the management from Georgian perspective. The Georgia’s 2030 Climate Change Strategy and Climate Action Plan lays out different policy measures on which TBC Bank based its identification of the potential impact of the policy measures on different economic sectors. As a summary of the potential impact of the various transition risks and physical risks identified, the transitional risks in Georgia are low, considering, that trade and services dominate the Georgian economy, the policy measures outlined in the Georgia’s 2030 Climate Change Strategy will have overall low impact on the economic sectors, especially in short and medium term. The Georgia’s 2030 Climate Change Strategy takes into consideration that Georgia is a transitional and growing economy, and therefore the government strategy is not to impede the growth of the GDP with policy measures and rather to support a smooth transition where necessary. It is worth noting, that the economic sectors most affected by transitional risks world-wide such as mining crude petroleum, natural gas and metal ores, manufacturing coke and refined pe-

39. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

troleum products are present to the extremely limited extent in Georgia, resulting in a low overall impact of transitional measures on economic growth, if any. In order to increase the understanding of climate-related risks on its loan portfolio, the Bank performed a high-level sectoral risk assessment, as different sectors might be vulnerable to different climate-related risks over different time horizons. The maturity structure of the loan portfolio shows that the largest part of assets is distributed in the time horizons that are much shorter than the impacts of climate change, especially of physical risks, can be materialized in Georgia. Therefore, the bank has not made any adjustment to the level of provisions purely related to climate risk. On the other hand, the understanding of climate related risks, which have longer-term impacts need to be increased in coming years, therefore, if the bank will have a plausible findings and conclusions, it will further develop the approach, how to consider climate risks in provisioning. No post model adjustments (PMAs) or Post model overlays (PMOs) have been posted for 2021 in this regard. Details of climate related risks and steps taken are disclosed in the material existing and emerging risks section of the annual report

Geographical risk concentrations

Assets, liabilities, credit related commitments and performance guarantees have generally been attributed to geographic regions based on the country in which the counterparty is located. Balances legally outstanding to/from off-shore companies which are closely related to Georgian counterparties are allocated to the caption "Georgia". Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

Tables below includes geographical concentration by country of incorporation. Loans and advances to OECD and Non-OECD resident customers, as well as to Georgian customers, are issued to the entities most of which are based and performing in Georgia.

The geographical concentration of the Group's assets and liabilities as at 31 December 2021 is set out below by country of incorporation:

<i>in thousands of GEL</i>	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	989,156	593,003	139,978	1,722,137
Due from other banks	56,203	16,033	6,906	79,142
Mandatory cash balances with National Bank of Georgia and Uzbekistan	2,086,113	-	1,028	2,087,141
Loans and advances to customers	16,104,160	126,415	406,570	16,637,145
Investment securities measured at fair value through OCI	1,440,168	496,377	1,651	1,938,196
Bonds carried at amortised cost	1,537	-	48,045	49,582
Finance lease receivables	246,328	-	15,718	262,046
Other financial assets	443,536	2,749	6,830	453,115
Total financial assets	21,367,201	1,234,577	626,726	23,228,504
Non-financial assets	1,226,898	-	53,159	1,280,057
Total assets	22,594,099	1,234,577	679,885	24,508,561
Liabilities				
Due to credit institutions	1,272,866	1,612,336	98,974	2,984,176
Customer accounts	12,752,286	1,029,719	1,256,167	15,038,172
Debt securities in issue	1,704,639	-	5,649	1,710,288
Other financial liabilities	137,171	270	2,370	139,811
Lease liabilities	57,303	-	8,864	66,167
Subordinated debt	109,427	357,834	156,386	623,647
Total financial liabilities	16,033,692	3,000,159	1,528,410	20,562,261
Non-financial liabilities	243,935	-	10,136	254,071
Total liabilities	16,277,627	3,000,159	1,538,546	20,816,332
Net balance sheet position	6,316,472	(1,765,582)	(858,661)	3,692,229
Performance guarantees	724,502	675,323	165,661	1,565,486
Credit related commitments	2,178,835	4,197	12,317	2,195,349

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

39. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The geographical concentration of the Group's assets and liabilities as at 31 December 2020 is set out below by country of incorporation:

<i>in thousands of GEL</i>	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	940,076	686,110	9,219	1,635,405
Due from other banks	37,753	13,052	–	50,805
Mandatory cash balances with National Bank of Georgia	2,098,506	–	–	2,098,506
Loans and advances to customers	14,111,683	131,066	351,525	14,594,274
Investment securities measured at fair value through OCI				
	1,206,673	318,682	1,913	1,527,268
Bonds carried at amortised cost	1,089,801	–	–	1,089,801
Finance lease receivables	271,314	–	346	271,660
Other financial assets	167,163	3,978	161	171,302
Total financial assets	19,922,969	1,152,888	363,164	21,439,021
Non-financial assets	1,133,766	396	4,622	1,138,784
Total assets	21,056,735	1,153,284	367,786	22,577,805
Liabilities				
Due to credit institutions	2,363,147	2,110,307	12,919	4,486,373
Customer accounts	10,647,808	911,146	1,013,774	12,572,728
Debt securities in issue	1,496,497	–	–	1,496,497
Other financial liabilities	227,063	356	13	227,432
Lease liabilities	57,317	–	1,666	58,983
Subordinated debt	115,394	390,941	166,405	672,740
Total financial liabilities	14,907,226	3,412,750	1,194,777	19,514,753
Non-financial liabilities	122,684	63	4,371	127,118
Total liabilities	15,029,910	3,412,813	1,199,148	19,641,871
Net balance sheet position	6,026,825	(2,259,529)	(831,362)	2,935,934
Performance guarantees	745,511	746,871	258,659	1,751,041
Credit related commitments	1,868,011	4,678	8,627	1,881,316

39. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The geographical concentration of the Group's assets and liabilities as at 31 December 2019 is set out below by country of incorporation:

<i>in thousands of GEL</i>	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	701,993	287,079	14,511	1,003,583
Due from other banks	21,538	12,067	–	33,605
Mandatory cash balances with National Bank of Georgia	1,591,829	–	–	1,591,829
Loans and advances to customers	11,775,027	147,222	427,150	12,349,399
Investment securities measured at fair value through OCI	985,293	–	–	985,293
Bonds carried at amortised cost	1,022,684	–	–	1,022,684
Finance lease receivables	255,596	–	1,064	256,660
Other financial assets	132,060	1,431	245	133,736
Total financial assets	16,486,020	447,799	442,970	17,376,789
Non-financial assets	978,387	364	3,726	982,477
Total assets	17,464,407	448,163	446,696	18,359,266
Liabilities				
Due to credit institutions	1,813,684	1,744,130	36,087	3,593,901
Customer accounts	8,406,484	733,778	909,062	10,049,324
Debt securities in issue	1,213,598	–	–	1,213,598
Other financial liabilities	113,271	329	8	113,608
Lease liabilities	59,898	–	–	59,898
Subordinated debt	100,993	343,861	146,181	591,035
Total financial liabilities	11,707,928	2,822,098	1,091,338	15,621,364
Non-financial liabilities	132,559	830	5,423	138,812
Total liabilities	11,840,487	2,822,928	1,096,761	15,760,176
Net balance sheet position	5,623,920	(2,374,765)	(650,065)	2,599,090
Performance guarantees	603,910	232,328	622,646	1,458,884
Credit related commitments	1,485,032	4,476	11,459	1,500,967

Market risk. The Bank follows the Basel Committee's definition of market risk as the risk of losses in on- and off-balance sheet positions arising from movements in market prices. This risk is principally made up of (a) risks pertaining to interest rate instruments and equities in the trading book and (b) foreign exchange rate risk (or currency risk) and commodities risk throughout the Bank. The Bank's strategy is not to be involved in trading book activity or investments in commodities. Accordingly, the Bank's exposure to market risk is primarily limited to foreign exchange rate risk in the structural book.

Currency risk. Foreign exchange rate risk arises from the potential change in foreign currency exchange rates, which can affect the value of a financial instrument. This risk stems from the open currency positions created due to mismatches in foreign currency assets and liabilities. The NBG requires the Bank to monitor both balance-sheet and total aggregate (including off-balance sheet) open currency positions and to maintain the later one within 20% of the Bank's regulatory capital. As at 31 December 2021, the Bank maintained an aggregate open currency position of 0.5% of regulatory capital (2020: 3.4%; 2019: 0.5%). The Asset-Liability Management Committee ("ALCO") has set limits on the level of exposure by currency as well as on aggregate exposure positions which are more conservative than those set by the NBG. The Bank's compliance with such limits is monitored daily by the heads of the Treasury and Financial Risk Management Departments.

On 13 August 2018 the NBG introduced new regulation on changes to OCP ("open currency position") calculation method, according to this regulation, from March 2019 special reserves assigned to FC balance-sheet assets would be deductible gradually for OCP calculation purposes. As a result of COVID-19 pandemic, the NBG implemented countercyclical measure in relation to OCP requirements: suspended the phasing in of special reserved planned to be fully implemented by July 2022.

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

39. FINANCIAL AND OTHER RISK MANAGEMENT **CONTINUED**

Currency risk management framework is governed through the Market Risk Management Policy. The table below summarises the Group's exposure to foreign currency exchange rate risk at the balance sheet date. While managing open currency position the Group considers part of the provisions to be denominated in the USD, Euro and other currencies. Gross amount of currency swap deposits is included in Derivatives. Therefore, total financial assets and liabilities below are not traceable with either balance sheet or liquidity risk management tables, where net amount of gross currency swaps is presented.

As of 31 December 2021
in thousands of GEL

	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position
Georgian Lari	10,265,265	7,401,028	(113,407)	2,750,830
US Dollar	8,106,000	11,108,986	3,014,476	11,490
Euro	4,422,716	1,686,664	(2,725,047)	11,005
Other	434,523	365,583	(39)	68,901
Total	23,228,504	20,562,261	175,983	2,842,226

As of 31 December 2020
in thousands of GEL

	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position
Georgian Lari	8,756,581	7,115,738	159,241	1,800,084
US Dollar	8,004,885	10,956,193	2,914,494	(36,814)
Euro	4,556,780	1,315,871	(3,227,918)	12,991
Other	120,775	126,951	61,164	54,988
Total	21,439,021	19,514,753	(93,019)	1,831,249

As of 31 December 2019
in thousands of GEL

	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position
Georgian Lari	7,502,497	5,706,300	(91,472)	1,704,725
US Dollar	6,846,799	8,774,033	1,945,714	18,480
Euro	2,970,008	1,035,944	(1,924,793)	9,271
Other	57,485	105,087	56,134	8,532
Total	17,376,789	15,621,364	(14,417)	1,741,008

US Dollar strengthening by 20% (weakening 20%) would increase Group's profit or loss and equity in 2021 by GEL 2,298 thousand (decrease by GEL 2,298 thousand). Euro strengthening by 20% (weakening 20%) would increase Group's profit or loss and equity in 2021 by GEL 2,201 thousand (decrease by GEL 2,201 thousand).

US Dollar strengthening by 20% (weakening 20%) would decrease Group's profit or loss and equity in 2020 by GEL 7,363 thousand (increase by GEL 7,363 thousand). Euro strengthening by 20% (weakening 20%) would increase Group's profit or loss and equity in 2020 by GEL 2,598 thousand (decrease by GEL 2,598 thousand).

US Dollar strengthening by 20% (weakening 20%) would increase Group's profit or loss and equity in 2019 by GEL 3,696 thousand (decrease by GEL 3,696 thousand). Euro strengthening by 20% (weakening 20%) would increase Group's profit or loss and equity in 2019 by GEL 1,854 thousand (decrease by GEL 1,854 thousand).

39. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

Interest rate risk. Interest rate risk arises from potential changes in the market interest rates that can adversely affect the fair value or future cash flows of the financial instrument. This risk can arise from maturity mismatches of assets and liabilities, as well as from the re-pricing characteristics of such assets and liabilities.

The biggest share of the Bank's deposits and the part of the loans are at fixed interest rates, while a portion of the Bank's borrowings is at a floating interest rate. In case of need, the Bank also applies for interest rate risk hedging instruments in order to mitigate interest rate risk. Furthermore, many of the Bank's loans to customers contain a clause allowing it to adjust the interest rate on the loan in case of adverse interest rate movements, thereby limiting the Bank's exposure to interest rate risk. The management also believes that the Bank's interest rate margins provide a reasonable buffer to mitigate the effect of possible adverse interest rate movements.

The Group employs an advanced framework for the management of interest rate risk by establishing appropriate Risk Appetite limits, monitoring compliance with them and preparing forecasts. From September, 2020 the NBG introduced regulation on interest rate risk and set the limit for Economic Value of Equity (EVE) sensitivity at 15% of NBG Tier 1 Capital. The main principles and assumptions of NBG IRR methodology are in line with Basel standards and EBA guidelines developed for IRR management purposes. As of 31 December 2021 the Bank was in compliance with the regulatory requirement with EVE=2.9%. According to NBG guidelines the net interest income sensitivity under parallel shifts of interest rate scenarios are maintained for monitoring purposes, while EVE sensitivity is calculated under 6 predefined stress scenarios of interest rate changes and the limit is applied to the worst case scenario result.

Interest rate risk is managed by the financial risk management department and is monitored by the ALCO, which decides on actions that are necessary for effective interest rate risk management and follows up on their implementation. The major aspects of interest rate risk management development and the respective reporting are periodically provided to the Management Board, the Supervisory Board and the Risk Committee.

Following main assumptions under NBG IRR Regulation and EBA 2018 guidelines, at 31 December, 2021, if interest rates had been 200 basis points higher, with all other variables held constant, profit would have been GEL 129 million higher, mainly as a result of higher interest income on variable interest assets (2020: GEL 95 million). If interest rates at 31 December, 2021 had been 200 basis points lower with all other variables held constant, profit for the year would have been GEL 40 million lower, mainly as a result of lower interest income on variable interest assets (2020: GEL 31 million).

At 31 December, 2021, if interest rates had been 200 basis points lower, with all other variables held constant, other comprehensive income would have been GEL 57 million higher (2020: GEL 24 million; 2019: GEL 9.4 million), as a result of an increase in the fair value of fixed rate financial assets measured at fair value through other comprehensive income and repurchase receivables. If interest rates at 31 December, 2021 had been 200 basis points higher with all other variables held constant, Other comprehensive income would have been GEL 60.8 million lower (2020: GEL 35 million; 2019: GEL 9.1 million), as a result of decrease in the fair value of fixed rate financial assets measured at fair value through other comprehensive income.

The Bank calculates the impact of changes in interest rates using both Net Interest Income and Economic Value sensitivity. Net Interest Income sensitivity measures the impact of a change of interest rates along the various maturities on the yield curve on the net interest revenue for the nearest year. Economic Value measures the impact of a change of interest rates along the various maturities on the yield curve on the present value of the Group's assets, liabilities and off-balance sheet instruments. When performing Net Interest Income and Economic Value sensitivity analysis, the Bank uses parallel shifts in interest rates as well as number of different scenarios. TBC Bank closely monitors the adverse effect of possible parallel yield curve shift scenarios on net interest income over a one-year period to ensure compliance with the predefined risk appetite of the Bank.

In order to manage interest rate risk the Bank establishes appropriate limits. The Bank monitors compliance with the limits and prepares forecasts. ALCO decides on actions that are necessary for effective interest rate risk management and follows up on the implementation. Periodic reporting is done to Management Board and the Board's Risk Committee.

Liquidity Risk. The liquidity risk is the risk that TBC Bank either does not have sufficient financial resources available to meet all of its obligations and commitments as they fall due, or can access those resources only at a high cost. The risk is managed by the Financial Risk Management and Treasury Departments and is monitored by the ALCO.

The principal objectives of the TBC Bank's liquidity risk management policy are to: (i) ensure the availability of funds in order to meet claims arising from total liabilities and off-balance sheet commitments, both actual and contingent, at an economic price; (ii) recognise any structural mismatch existing within TBC Bank's statement of financial position

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

39. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

and set monitoring ratios to manage funding in line with well-balanced growth; and (iii) monitor liquidity and funding on an on-going basis to ensure that approved business targets are met without compromising the risk profile of the Bank.

The liquidity risk is categorised into two risk types: the funding liquidity risk and the market liquidity risk.

Funding liquidity risk is the risk that TBC will not be able to efficiently meet both expected and unexpected current and future cash flow and collateral needs without affecting either its daily operations or its financial condition. To manage funding liquidity risk TBC Bank uses the Liquidity Coverage ratio and the Net Stable Funding ratio set forth under Basel III, and defined further by the NBG. In addition the Bank performs stress tests and “what-if” scenario analysis. In 2017, for liquidity risk management purposes National Bank of Georgia introduced Liquidity Coverage Ratio (“NBG LCR”), where in addition to Basel III guidelines conservative approaches are applied to the deposits’ withdrawal rates depending on the clients group’s concentration. From September, 2017 the Bank also monitors compliance with NBG LCR limits. In 2019, for long-term liquidity risk management purposes NBG introduced Net Stable Funding Ratio (“NBG NSFR”). From September, 2019, on a monthly basis the Bank monitors compliance with the set limit for NBG NSFR.

The Liquidity Coverage Ratio is used to help manage short-term liquidity risks. The Bank’s liquidity risk management framework is designed to comprehensively project cash flows arising from assets, liabilities and off-balance sheet items over certain time buckets and ensure that NBG LCR limits, are met on a daily basis.

The Net Stable Funding ratio is used for long-term liquidity risk management to promote resilience over a longer time horizon by creating additional incentives for TBC Bank to rely on more stable sources of funding on a continuous basis. The Bank also monitors deposit concentration for large deposits and set limits for non-Georgian residents deposits share in total deposit portfolio.

The management believes, that a strong and diversified funding structure is one of TBC Bank’s differentiators. The Bank relies on relatively stable deposits from Georgia as the main source of funding. In order to maintain and further enhance the liability structure TBC Bank sets the targets for deposits and IFI funding within the Bank’s risk appetite.

Maturity analysis. The table below summarizes the maturity analysis of the Group’s financial liabilities, based on remaining undiscounted contractual obligations as of 31 December 2021 subject-to-notice repayments are treated as if notice were to be given immediately. However, the Group expects, that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group’s deposit retention history.

39. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The maturity analysis of undiscounted financial liabilities as of 31 December 2021 is as follows:

<i>in thousands of GEL</i>	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Due to credit institutions	1,439,008	569,613	1,162,095	7,407	3,178,123
Customer accounts – individuals	5,444,135	1,714,309	1,265,259	85,094	8,508,797
Customer accounts – other	5,467,638	330,231	850,626	439,336	7,087,831
Other financial liabilities	128,667	11,096	48	-	139,811
Lease liabilities	3,995	11,836	50,322	5,705	71,858
Subordinated debt	5,331	60,491	338,052	478,851	882,725
Debt securities in issue	6,593	109,343	1,735,965	242,651	2,094,552
Gross settled swaps and forwards:					
-Inflows	603,531	19,722	401,231	-	1,024,484
-Outflows	606,432	19,967	407,812	-	1,034,211
Performance guarantees	1,596,244	-	-	-	1,596,244
Financial guarantees	357,896	-	-	-	357,896
Letters of credit	20,619	96,112	64,687	-	181,418
Other credit related commitments	1,672,854	-	-	-	1,672,854
Total potential future payments for financial obligations	16,145,881	2,903,276	5,473,635	1,259,044	25,781,836

The maturity analysis of undiscounted financial liabilities as of 31 December 2020 is as follows:

<i>in thousands of GEL</i>	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Due to credit institutions	2,138,399	1,156,117	2,678,130	146,205	6,118,851
Customer accounts – individuals	4,275,412	1,828,748	1,282,427	53,445	7,440,032
Customer accounts – other	4,077,900	502,224	619,298	492,887	5,692,309
Other financial liabilities	210,061	16,834	537	-	227,432
Lease liabilities	3,098	9,029	35,298	5,849	53,274
Subordinated debt	13,998	75,845	1,441,419	1,635,831	3,167,093
Debt securities in issue	1,230	59,356	1,451,263	-	1,511,849
Gross settled swaps and forwards:					
-Inflows	2,937,065	259,369	103,181	-	3,299,615
-Outflows	3,045,427	262,302	113,820	-	3,421,549
Performance guarantees*	1,751,075	-	-	-	1,751,075
Financial guarantees	318,935	-	-	-	318,935
Letters of credit	10,820	90,559	59,463	-	160,842
Other credit related commitments	1,401,539	-	-	-	1,401,539
Total potential future payments for financial obligations	14,310,829	3,741,645	7,578,474	2,334,217	27,965,165

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

39. FINANCIAL AND OTHER RISK MANAGEMENT **CONTINUED**

The maturity analysis of undiscounted financial liabilities as of 31 December 2019 is as follows:

<i>in thousands of GEL</i>	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Due to credit institutions	1,590,089	616,417	3,724,084	435,233	6,365,823
Customer accounts – individuals	3,407,952	1,658,316	699,554	27,344	5,793,166
Customer accounts – other	3,722,452	339,113	250,328	142,043	4,453,936
Other financial liabilities	92,795	15,896	4,917	–	113,608
Lease liabilities	4,367	12,509	57,058	11,988	85,922
Subordinated debt	2,019	55,182	1,255,291	2,330,270	3,642,762
Debt securities in issue	–	56,797	1,156,801	–	1,213,598
Gross settled swaps and forwards:					
-Inflows	1,240,368	412,444	160,951	–	1,813,763
-Outflows	1,248,782	418,016	167,231	–	1,834,029
Performance guarantees*	1,458,884	–	–	–	1,458,884
Financial guarantees	241,124	–	–	–	241,124
Letters of credit	41,132	19,687	48,914	–	109,733
Other credit related commitments	1,150,110	–	–	–	1,150,110
Total potential future payments for financial obligations	11,719,338	2,779,489	7,203,227	2,946,878	24,648,932

**In 2021 the Management took more conservative approach for the classification of performance guarantees contractual maturities by pulling the whole contractual amount into the less than 3 months bucket. As far as, contractually (which may differ from behavioral maturity) performance guarantee contracts can be reimbursed at any point in time Management considers that the amended approach will be more prudent for contractual analysis disclosure. Comparable periods has also been amended respectively to reflect the similar logic (2020: less than 3 months GEL 211,607 thousand, from 3 to 12 months GEL 588,883 thousand, from 1 to 5 years GEL 937,975 thousand and over 5 years GEL 12,610 thousand; 2019: less than 3 months GEL 115,997 thousand, from 3 to 12 months GEL 332,833 thousand, from 1 to 5 years GEL 909,502 thousand and over 5 years GEL 100,552thousand).*

The undiscounted financial liability analysis gap does not reflect the historical stability of the current accounts. Their liquidation has historically taken place over a longer period than the one indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Term deposits included in the customer accounts are classified based on remaining contractual maturities, according to the Georgian Civil Code, however, individuals have the right to withdraw their deposits prior to maturity, if they partially or fully forfeit their right to accrued interest and the Group is obliged to repay such deposits upon the depositor's demand. Based on the Bank's deposit retention history, the Management does not expect that many customers will require repayment on the earliest possible date; accordingly, the table does not reflect the management's expectations as to actual cash outflows.

The Group does not use the above undiscounted maturity analysis to manage liquidity as it shows contractual terms purely and disregard the actual expected behaviour of the instruments. Instead, the Group monitors the liquidity gap analysis based on the expected maturities. In particular, expected maturities disclosure include customers' deposits and contingent liabilities according to their behavioral analysis, while for undiscounted cash flow disclosure purposes, demand deposits and issued guarantees are put in on demand bucket.

39. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

As at 31 December 2021 the analysis by expected maturities is as follows:

<i>in thousands of GEL</i>	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Cash and cash equivalents	1,722,137	-	-	-	1,722,137
Due from other banks	32,075	17,983	14,305	14,779	79,142
Mandatory cash balances with National Bank of Georgia and Uzbekistan	2,086,737	-	-	404	2,087,141
Loans and advances to customers	1,421,375	3,348,606	6,696,990	5,170,174	16,637,145
Investment securities measures at fair value through OCI	1,938,196	-	-	-	1,938,196
Bonds carried at amortised cost	48,082	1,000	500	-	49,582
Finance lease receivables	30,810	66,683	158,573	5,980	262,046
Insurance and reinsurance Receivables	11,366	21,108	-	-	32,474
Other financial assets	415,852	2,410	2,379	-	420,641
Total financial assets	7,706,630	3,457,790	6,872,747	5,191,337	23,228,504
Due to credit institutions	1,418,250	509,471	1,049,362	7,093	2,984,176
Customer accounts	1,178,993	105,267	-	13,753,912	15,038,172
Debt securities in issue	5,261	100,349	1,454,896	149,782	1,710,288
Other financial liabilities	126,717	5,221	48	-	131,986
Lease liabilities	4,045	10,703	46,275	5,144	66,167
Insurance contract liabilities	1,950	5,875	-	-	7,825
Subordinated debt	2,357	19,067	179,989	422,234	623,647
Total financial liabilities	2,737,573	755,953	2,730,570	14,338,165	20,562,261
Performance guarantees	4,620	-	-	-	4,620
Financial guarantees	3,624	-	-	-	3,624
Other credit related commitments	64,196	-	-	-	64,196
Credit related commitments and performance guarantees	72,440	-	-	-	72,440
Net liquidity gap as of 31 December 2021	4,896,617	2,701,837	4,142,177	(9,146,828)	2,593,803
Cumulative gap as of 31 December 2021	4,896,617	7,598,454	11,740,631	2,593,803	

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

39. FINANCIAL AND OTHER RISK MANAGEMENT **CONTINUED**

As at 31 December 2020 the analysis by expected maturities is as follows:

<i>in thousands of GEL</i>	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Cash and cash equivalents	1,634,585	820	–	–	1,635,405
Due from other banks	11,736	14,600	24,469	–	50,805
Mandatory cash balances with National Bank of Georgia	2,098,506	–	–	–	2,098,506
Loans and advances to customers	1,555,793	2,512,140	6,117,469	4,408,872	14,594,274
Investment securities measures at fair value through OCI	1,527,268	–	–	–	1,527,268
Bonds carried at amortised cost	41,168	164,846	559,823	323,964	1,089,801
Finance lease receivables	23,675	73,284	168,447	6,254	271,660
Insurance and reinsurance Receivables	7,641	14,190	–	–	21,831
Other financial assets	135,716	2,094	11,652	9	149,471
Total financial assets	7,036,088	2,781,974	6,881,860	4,739,099	21,439,021
Due to credit institutions	2,116,391	1,007,235	1,322,468	40,279	4,486,373
Customer accounts	1,267,458	380,992	–	10,924,278	12,572,728
Debt securities in issue	121	56,031	1,440,345	–	1,496,497
Other financial liabilities	208,111	10,236	537	–	218,884
Lease liabilities	4,061	9,061	35,281	10,580	58,983
Insurance contract liabilities	1,950	6,598	–	–	8,548
Subordinated debt	11,747	16,369	258,110	386,514	672,740
Total financial liabilities	3,609,839	1,486,522	3,056,741	11,361,651	19,514,753
Performance guarantees	4,427	–	–	–	4,427
Financial guarantees	5,424	–	–	–	5,424
Other credit related commitments	100,214	–	–	–	100,214
Credit related commitments and performance guarantees	110,065	–	–	–	110,065
Net liquidity gap as of 31 December 2020	3,316,184	1,295,452	3,825,119	(6,622,552)	1,814,203
Cumulative gap as of 31 December 2020	3,316,184	4,611,636	8,436,755	1,814,203	

39. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

As of 31 December 2019 the analysis by expected maturities is as follows:

<i>in thousands of GEL</i>	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Cash and cash equivalents	1,003,583	–	–	–	1,003,583
Due from other banks	15,193	3,500	14,912	–	33,605
Mandatory cash balances with National Bank of Georgia	1,591,829	–	–	–	1,591,829
Loans and advances to customers	1,303,711	2,307,064	5,108,650	3,629,974	12,349,399
Investment securities measures at fair value through OCI	985,293	–	–	–	985,293
Bonds carried at amortised cost	124,006	215,711	555,379	127,588	1,022,684
Finance lease receivables	34,448	70,398	148,542	3,272	256,660
Insurance and reinsurance Receivables	9,073	17,104	–	–	26,177
Other financial assets	104,611	2,946	2	–	107,559
Total financial assets	5,171,747	2,616,723	5,827,485	3,760,834	17,376,789
Due to credit institutions	1,573,720	427,794	1,496,459	95,928	3,593,901
Customer accounts	1,082,198	174,905	–	8,792,221	10,049,324
Debt securities in issue	–	56,797	1,156,801	–	1,213,598
Other financial liabilities	90,944	10,133	4,918	–	105,995
Lease liabilities	4,394	8,513	38,831	8,160	59,898
Insurance contract liabilities	1,850	5,763	–	–	7,613
Subordinated debt	331	–	113,497	477,207	591,035
Total financial liabilities	2,753,437	683,905	2,810,506	9,373,516	15,621,364
Performance guarantees	7,466	–	–	–	7,466
Financial guarantees	4,511	–	–	–	4,511
Other credit related commitments	100,212	–	–	–	100,212
Credit related commitments and performance guarantees	112,189	–	–	–	112,189
Net liquidity gap as of 31 December 2019	2,306,121	1,932,818	3,016,979	(5,612,682)	1,643,236
Cumulative gap as of 31 December 2019	2,306,121	4,238,939	7,255,918	1,643,236	

The Management believes that the Group has sufficient liquidity to meet its current on- and off-balance sheet obligations.

40. CONTINGENCIES AND COMMITMENTS

Legal proceedings. When determining the level of provision to be set up with regards to such claims, or the amount (not subject to provisioning) to be disclosed in the financial statements, the management seeks both internal and external professional advice. The management believes that the provision recorded in these financial statements is adequate and the amount (not subject to provisioning) need not be disclosed as the probability of material adverse effect on the financial condition or the results of future operations of the Group is remote.

Tax legislation. Georgian, Azerbaijani and Uzbekistan tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. The management's interpretation of the legislation as applied to the Group's transactions and activity may be challenged by the relevant authorities. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the review period. To respond to the risks, the Group has engaged external tax specialists to carry out periodic reviews of Group's taxation policies and tax filings. The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax and customs positions will be sustained. Accordingly, as of 31 December 2021, 2020 and 2019 no material provision for potential tax liabilities has been recorded.

Compliance with covenants. The Group is subject to certain financial and non-financial covenants primarily related

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

40. CONTINGENCIES AND COMMITMENTS CONTINUED

to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including mandatory prepayment and declaration of default. The Group was in compliance with all covenants as of 31 December 2021, 31 December 2020 and 31 December 2019.

Group's financial covenants mainly consist of three major sub-categories. Key covenants within each category and their compliance status is disclosed below:

Covenant Description	Status
Liquidity	
Net Stable Funding Ratio (NSFR)	Complied
Liquidity Coverage Ratio (LCR)	Complied
Net loan to deposit and funding ratio	Complied
Capital Adequacy	
Tier 1 capital ratio	Complied
Total capital ratio	Complied
Asset Quality	
Net problem loans to total capital	Complied

Covid-19 pandemic didn't have major negative effects on the compliance of Group's financial covenants in 2020, except for the asset quality ratios. Due to bank's immediate action to request the waiver from lenders, at the end of 2020 all waivers were granted with the pre-defined validity period. In 2021, as the probability of non-compliance was relatively high due to unforeseen negative consequences of Covid-19 on Group's operations, bank continued to work with the lenders on this matter, with the core objective to either prolong the waivers or amend the asset quality ratios.

Before pandemic, covenants in loan agreements with IFIs incorporated non-performing loans exposures, which has been composed of restructured loans. As pandemic evolved, the number of restructurings has increased significantly due to loan repayment grace periods granted to borrowers back in 2020, partially in line with imposed Government programs. Although, majority of such borrowers remained healthy, the number of restructured loan exposures has still increased. As a result, the Group has renegotiated the NPL ratio with majority of IFIs, replacing non-performing loans exposures that included restructured loans, by stage 3 loans according to IFRS 9.

Respective change has been successfully implemented in the vast majority of covenants with IFI's. Alternatively, for the two lenders the Group has extended renegotiated compliance terms existing in relation to the asset quality ratios. Apart from asset quality ratios for other financial covenants the Group has sufficient headroom for any potential violation risks to materialise.

Management of capital. The Bank manages capital requirements under regulatory rules. The Bank complied with all its imposed capital requirements throughout the reporting period.

Credit related commitments and financial guarantees. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Financial guarantees and standby letters of credit, which represent the irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, that are underwritten by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to prolong credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss is lower than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term ones.

40. CONTINGENCIES AND COMMITMENTS CONTINUED

As of 31 December 2021 outstanding credit related commitments presented by stages are as follows:

<i>in thousands of GEL</i>	Stage 1	Stage 2	Stage 3
Undrawn credit lines	1,628,437	40,572	3,856
Letters of credit issued	170,174	208	-
Financial guarantees issued	343,536	8,510	56
Total credit related commitments (before provision)	2,142,147	49,290	3,912

Credit loss allowance for credit related commitments	Stage 1	Stage 2	Stage 3
Undrawn credit lines	(1,961)	(578)	(22)
Letters of credit issued	(320)	-	-
Financial guarantees issued	(734)	(9)	-
Credit loss allowance for credit related commitments	(3,015)	(587)	(22)
Total credit related commitments	2,139,132	48,703	3,890

As of 31 December 2020 outstanding credit related commitments presented by stages are as follows:

<i>in thousands of GEL</i>	Stage 1	Stage 2	Stage 3
Undrawn credit lines	1,222,916	165,798	12,825
Letters of credit issued	158,131	1,464	1,247
Financial guarantees issued	303,046	14,571	1,318
Total credit related commitments (before provision)	1,684,093	181,833	15,390

Credit loss allowance for credit related commitments	Stage 1	Stage 2	Stage 3
Undrawn credit lines	(3,246)	(986)	(15)
Letters of credit issued	(376)	-	-
Financial guarantees issued	(795)	(4)	(2)
Credit loss allowance for credit related commitments	(4,417)	(990)	(17)
Total credit related commitments	1,679,676	180,843	15,373

As of 31 December 2019 outstanding credit related commitments presented by stages are as follows:

<i>in thousands of GEL</i>	Stage 1	Stage 2	Stage 3
Undrawn credit lines	1,124,862	18,548	6,700
Letters of credit issued	109,299	-	434
Financial guarantees issued	240,205	550	369
Total credit related commitments (before provision)	1,474,366	19,098	7,503

Credit loss allowance for credit related commitments	Stage 1	Stage 2	Stage 3
Undrawn credit lines	(2,096)	(514)	(182)
Letters of credit issued	(473)	-	-
Financial guarantees issued	(1,244)	(2)	-
Credit loss allowance for credit related commitments	(3,813)	(516)	(182)
Total credit related commitments	1,470,553	18,582	7,321

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

40. CONTINGENCIES AND COMMITMENTS **CONTINUED**

The credit quality of contingencies and commitments is as follows at 31 December 2021:

<i>in thousands of GEL</i>	31 December 2021			Total
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	
Undrawn credit lines risk category				
– Very low	1,537,915	1,794	-	1,539,709
– Low	86,611	30,143	-	116,754
– Moderate	3,911	7,764	-	11,675
– High	-	871	-	871
– Default	-	-	3,856	3,856
Gross carrying amount	1,628,437	40,572	3,856	1,672,865
Credit loss allowance	(1,961)	(578)	(22)	(2,561)
Carrying amount	1,626,476	39,994	3,834	1,670,304
Letters of credit issued risk category				
– Very low	167,570	-	-	167,570
– Low	2,604	-	-	2,604
– Moderate	-	208	-	208
– High	-	-	-	-
– Default	-	-	-	-
Gross carrying amount	170,174	208	-	170,382
Credit loss allowance	(320)	-	-	(320)
Carrying amount	169,854	208	-	170,062
Financial guarantees issued risk category				
– Very low	331,437	1,733	-	333,170
– Low	12,099	1,367	-	13,466
– Moderate	-	5,108	-	5,108
– High	-	302	-	302
– Default	-	-	56	56
Gross carrying amount	343,536	8,510	56	352,102
Credit loss allowance	(734)	(9)	-	(743)
Carrying amount	342,802	8,501	56	351,359

40. CONTINGENCIES AND COMMITMENTS CONTINUED

The credit quality of contingencies and commitments is as follows at 31 December 2020:

<i>in thousands of GEL</i>	31 December 2020			Total
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	
Undrawn credit lines risk category				
- Very low	1,157,753	3,820	-	1,161,573
- Low	62,193	146,114	-	208,307
- Moderate	2,963	14,723	-	17,686
- High	7	1,141	-	1,148
- Default	-	-	12,825	12,825
Gross carrying amount	1,222,916	165,798	12,825	1,401,539
Credit loss allowance	(3,246)	(986)	(15)	(4,247)
Carrying amount	1,219,670	164,812	12,810	1,397,292
Letters of credit issued risk category				
- Very low	157,992	-	-	157,992
- Low	139	1,464	-	1,603
- Moderate	-	-	-	-
- High	-	-	-	-
- Default	-	-	1,247	1,247
Gross carrying amount	158,131	1,464	1,247	160,842
Credit loss allowance	(376)	-	-	(376)
Carrying amount	157,755	1,464	1,247	160,466
Financial guarantees issued risk category				
- Very low	268,333	100	-	268,433
- Low	34,713	14,471	-	49,184
- Moderate	-	-	-	-
- High	-	-	-	-
- Default	-	-	1,318	1,318
Gross carrying amount	303,046	14,571	1,318	318,935
Credit loss allowance	(795)	(4)	(2)	(801)
Carrying amount	302,251	14,567	1,316	318,134

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

40. CONTINGENCIES AND COMMITMENTS CONTINUED

The credit quality of contingencies and commitments is as follows at 31 December 2019:

<i>in thousands of GEL</i>	31 December 2019			Total
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for defaulted)	
Undrawn credit lines risk category				
- Very low	1,027,350	2,706	-	1,030,056
- Low	92,030	5,589	-	97,619
- Moderate	5,480	9,455	-	14,935
- High	2	798	-	800
- Default	-	-	6,700	6,700
Gross carrying amount	1,124,862	18,548	6,700	1,150,110
Credit loss allowance	(2,096)	(514)	(182)	(2,792)
Carrying amount	1,122,766	18,034	6,518	1,147,318
Letters of credit issued risk category				
- Very low	108,476	-	-	108,476
- Low	823	-	-	823
- Moderate	-	-	-	-
- High	-	-	-	-
- Default	-	-	434	434
Gross carrying amount	109,299	-	434	109,733
Credit loss allowance	(473)	-	-	(473)
Carrying amount	108,826	-	434	109,260
Financial guarantees issued risk category				
- Very low	233,004	-	-	233,004
- Low	7,027	62	-	7,089
- Moderate	174	488	-	662
- High	-	-	-	-
- Default	-	-	369	369
Gross carrying amount	240,205	550	369	241,124
Credit loss allowance	(1,244)	(2)	-	(1,246)
Carrying amount	238,961	548	369	239,878

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Non-cancellable commitments as of 31 December 2021 were GEL 251,903 thousand (2020: GEL 579,915 thousand; 2019: GEL 472,485 thousand).

Performance guarantees. Performance guarantees are contracts that provide compensation in case of another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under the performance guarantee contracts is the possibility that the insured event occurs (i.e.: the failure to perform the contractual obligation by another party). The key risks the Group faces are significant fluctuations in the frequency and severity of payments incurred on such contracts, relative to expectations.

Outstanding amount of performance guarantees and respective provision as of 31 December 2021 is GEL 1,565,486 thousand and GEL 4,620 thousand (2020: GEL 1,751,041 thousand and GEL 4,427 thousand, 2019: GEL 1,458,884 thousand and GEL 7,466 thousand).

Fair value of credit related commitments were GEL 3,624 thousand as of 31 December 2021 (2020: GEL 5,424 thousand; 2019: GEL 4,511 thousand). Total credit related commitments and performance guarantees are denominated in currencies as follows:

40. CONTINGENCIES AND COMMITMENTS CONTINUED

<i>in thousands of GEL</i>	2021	2020	2019
Georgian Lari	897,969	1,208,199	1,155,421
US Dollar	901,092	1,584,878	1,203,296
Euro	220,068	776,307	542,303
Other	68,841	62,973	58,830
Total	2,087,970	3,632,357	2,959,850

Capital expenditure commitments. As of 31 December 2021, the Group has contractual capital expenditure commitments amounting to GEL 104,162 thousand (2020: GEL 14,631 thousand; 2019: GEL 33,723 thousand). Out of total amount as at 31 December 2021, contractual commitments related to the head office construction amounted GEL 79,004 thousand (2020: GEL 4,853 thousand).

41. NON-CONTROLLING INTEREST

Acquisition of remaining interest in My.ge LLC

In September 2021 TBC Bank Group PLC finalized acquisition process of remaining interest in My.ge LLC. The acquired interest amounted 35% of total shareholding. The consideration amounted GEL 16,180 thousands.

The acquisition-date fair value of the total purchase consideration is following:

<i>In thousands of GEL</i>	
Cash consideration paid	16,180
Total purchase consideration	16,180

The carrying value of the net assets of My.ge LLC was GEL 8,421 thousands, out of which NCI amounted to GEL 2,947 thousands. Considering, that the Group has already owned 65% of stake in My.ge, the acquisition of remaining 35% has been treated as acquisition of NCI of controlled subsidiary. The consideration paid for acquiring 35% of stake, has exceeded the net assets acquired by GEL 13,233 thousand which has been recorded as equity transaction between the Group members.

The following table discloses the calculation of excess consideration paid for acquiring non-controlling interest in My.ge LLC:

<i>In thousands of GEL</i>	
Cash consideration paid	16,180
Carrying value of purchased interest (NCI)	(2,947)
Difference: Transaction with Non-Controlling Shareholders recognised in retained earnings	13,233

Sale of shares in TBC Bank UZ

On 16 December 2021 TBC Bank Group PLC finalized selling of 39.8% ownership interest in fully owned subsidiary TBC Bank UZ. TBC Bank UZ issued 174,215 thousands of additional shares, which was fully acquired by EBRD and IFC for the stake of 19.9% each. The control has still remained with the Group. The consideration received from EBRD and IFC amounted GEL 57,039 thousands. The carrying value of total net assets owned by TBC Bank UZ at the point of selling the stake to EBRD and IFC has been GEL 95,359 thousand.

The following table discloses the calculation of excess consideration received for the disposed interest:

<i>In thousands of GEL</i>	
Cash consideration received	57,039
Carrying value of disposed interest (NCI)	(37,914)
Difference: Transaction with Non-Controlling Shareholders recognised in retained earnings	19,125

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

41. NON-CONTROLLING INTEREST CONTINUED

The following table provides information for each subsidiary with a non-controlling interest as of 31 December 2021:

<i>in thousands of GEL</i>	Proportion of non-controlling interest's voting rights held	Profit/(loss) attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary
TBC Bank UZ	39.8%	(2,056)	37,914
TKT Online LLC	45%	(32)	617
TKT UZ	25%	(14)	(39)
Inspired LLC	49%	8,370	5,132
Billing solution	49%	(96)	(30)
Accumulated net income of NCI before disposal	-	980	-
TBC Bank JSC including:	0.12%	1,065	4,465
United Financial Corporation JSC	0.47%	16	93
Total Non-Controlling		8,217	48,059

The summarised financial information of these subsidiaries was as follows as of and for the year ended 31 December 2021:

<i>in thousands of GEL</i>	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/(loss)	Total comprehensive (expense)/income	Net cash flows
TBC Bank UZ	210,512	105,427	132,100	90,908	1,876	(34,747)	(38,986)	92,613
TKT Online LLC	875	1,745	1,271	-	905	(58)	(58)	577
TKT UZ	94	9	3	-	3	(22)	(22)	(32)
Inspired LLC	14,262	2,078	1,976	-	28,826	17,989	17,989	(119)
Billing solution	12	412	4	464	95	(190)	(190)	(24)
TBC Bank JSC including:	11,268,120	12,771,392	3,627,610	16,821,847	1,399,104	858,266	835,938	(36,200)
United Financial Corporation JSC	4,173	16,352	1,838	3,593	16,691	3,113	3,113	(626)

The following table provides information for each subsidiary with a non-controlling interest as of 31 December 2020:

<i>in thousands of GEL</i>	Proportion of non-controlling interest's voting rights held	Profit attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary
Inspired LLC	49%	4,164	4,824
TKT Online LLC	45%	(182)	643
TKT UZ	25%	(86)	(26)
My.Ge LLC*	35%	507	2,496
Allproperty.ge LLC**	10%	9	(27)
Billing Solutions LLC	49%	(108)	61
TBC Bank JSC including:	0.12%	433	3,508
United Financial Corporation JSC	0.47%	22	105
Total Non-Controlling		4,737	11,479

*In September 2021 the Group purchased remaining 35% shareholding from My.Ge LLC shareholders and became 100% owner of the Company.

**In November 2021 the Group purchased remaining 10% shareholding from allproperty.ge LLC shareholders and became 100% owner of the Company.

41. NON-CONTROLLING INTEREST CONTINUED

The summarised financial information of these subsidiaries was as follows as of and for the year ended 31 December 2020:

<i>in thousands of GEL</i>	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/(loss)	Total comprehensive income/(expense)	Net cash flows
TBC Bank JSC	9,992,348	12,070,130	14,066,164	5,251,319	1,033,580	330,969	353,307	557,847
Inspired LLC	8,972	1,572	496	–	15,094	8,498	8,498	5,160
United Financial Corporation JSC	5,269	17,803	504	257	14,716	4,573	4,573	676
Allproperty.ge LLC	1,410	1,496	595	237	2,200	87	87	(530)
My.Ge LLC	625	7,394	925	–	5,646	1,449	1,449	(499)
TKT Online LLC	181	1,705	478	–	649	(404)	(404)	(1,255)
TKT UZ	126	10	5	–	15	(147)	(147)	(107)
Billing Solutions LLC	38	406	3	318	(17)	(220)	(220)	36

The following table provides information about each subsidiary with a non-controlling interest for the year ended as of 31 December 2019:

<i>in thousands of GEL</i>	Proportion of non-controlling interest's voting rights held	Profit/(loss) attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary
Inspired LLC	49%	1,350	1,906
TKT Online LLC	45%	303	815
TKT UZ	25%	–	21
My.Ge LLC*	35%	130	2,094
Allproperty.ge LLC**	10%	(65)	(36)
Billing Solutions LLC	49%	–	169
TBC Bank JSC including:	0.12%	728	3,561
TBC Leasing JSC	0.39%	11	–
United Financial Corporation JSC	0.47%	63	582
Total Non-Controlling		2,446	8,530

* In September 2021 the Group purchased remaining 35% shareholding from My.Ge LLC shareholders and became 100% owner of the Company.

** In November 2021 the Group purchased remaining 10% shareholding from allproperty.ge LLC shareholders and became 100% owner of the Company.

The summarised financial information of these subsidiaries was as follows as of and for the year ended 31 December 2019:

<i>in thousands of GEL</i>	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/(loss)	Total comprehensive income/(expense)	Net cash flows
TBC Bank JSC	8,026,612	10,280,004	11,254,319	4,520,588	1,010,616	545,055	545,080	(434,292)
TBC Leasing JSC	180,282	172,275	133,198	182,804	29,894	6,861	6,861	719
TBC Kredit LLC	10,605	14,140	6,238	5,730	4,543	2,221	2,221	473
United Financial Corporation JSC	9,507	8,821	155	435	12,023	4,725	4,725	(622)
Inspired LLC	2,796	1,177	185	–	5,683	2,759	2,756	1,686
TKT Online LLC	1,586	1,562	1,336	–	1,468	714	675	1,280
Allproperty.ge LLC	1,286	1,053	426	582	1,965	651	651	697
My.Ge LLC	863	5,845	586	–	2,122	442	442	482
TKT UZ	231	5	1	–	–	(1)	(1)	230
Billing Solutions LLC	–	344	–	–	–	–	–	–

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

42. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

As of 31 December 2021, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c)=(a)-(b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		
				Financial instruments (d)	Cash collateral received (e)	Net amount of exposure (c)-(d)-(e)
<i>in thousands of GEL</i>						
Assets						
Other financial assets:						
– Receivables on credit card services and money transfers	70,501	7,620	62,881	-	-	62,881
ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	70,501	7,620	62,881	-	-	62,881
Liabilities						
Other financial liabilities:						
– Payables on credit card services and money transfers	36,583	7,620	28,963	-	-	28,963
LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	36,583	7,620	28,963	-	-	28,963

As of 31 December 2020, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c)=(a)-(b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		
				Financial instruments (d)	Cash collateral received (e)	Net amount of exposure (c)-(d)-(e)
<i>in thousands of GEL</i>						
Assets						
Other financial assets:						
– Receivables on credit card services and money transfers	25,245	18	25,227	-	-	25,227
ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	25,245	18	25,227	-	-	25,227
Liabilities						
Other financial liabilities:						
– Payables on credit card services and money transfers	8,800	18	8,782	-	-	8,782
LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	8,800	18	8,782	-	-	8,782

42. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES CONTINUED

As of 31 December 2019, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c)=(a)-(b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		
				Financial instruments (d)	Cash collateral received (e)	Net amount of exposure (c)-(d)-(e)
<i>in thousands of GEL</i>						
Assets						
Other financial assets:						
– Receivables on credit card services and money transfers	24,139	2,244	21,895	–	–	21,895
ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	24,139	2,244	21,895	–	–	21,895
Liabilities						
Other financial liabilities:						
– Payables on credit card services and money transfers	17,518	2,244	15,274	–	–	15,274
LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	17,518	2,244	15,274	–	–	15,274

The amount set off in the statement of financial position reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting. Similarly, the amounts in columns (d) and (e) are limited to the exposure reported in column (c) for each individual instrument in order not to understate the ultimate net exposure.

Deposits placed with other banks and deposits received from other banks as part of gross settled currency swap arrangements have been netted-off in these financial statements and the instrument has been presented as either asset or liability at a fair value.

The disclosure does not apply to loans and advances to customers and related customer deposits unless they are netted-off in the statement of financial position.

43. DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Group enters into various derivative financial instruments, to manage currency, liquidity and interest rate risks and for trading purposes.

<i>in thousands of GEL</i>	2021	2020	2019
Fair value of gross settled currency swaps, included in other financial assets or due from banks	185,710	28,915	5,849
Fair value of foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	(9,727)	(121,934)	(20,266)
Total	175,983	(93,019)	(14,417)

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

43. DERIVATIVE FINANCIAL INSTRUMENTS **CONTINUED**

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

The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange forwards contracts and gross settled currency swaps the Group entered. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective balance sheet date.

	2021		2020		2019	
	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
<i>In thousands of GEL</i>						
Foreign exchange forwards and gross settled currency swaps: fair values, at the balance sheet date, of						
– USD payable on settlement (-)	(301,500)	(528,905)	(404,289)	(145,313)	(123,836)	(14,480)
– USD receivable on settlement (+)	3,353,189	491,692	353,946	3,110,150	337,218	1,746,812
– GEL payable on settlement (-)	(112,743)	(476,269)	(164,233)	(23,545)	-	(200,386)
– GEL receivable on settlement (+)	269,936	205,667	211,903	135,116	108,914	-
– EUR payable on settlement (-)	(3,096,222)	(9,883)	(175,194)	(3,252,692)	(333,757)	(1,616,275)
– EUR receivable on settlement (+)	54,955	326,103	199,968	-	16,048	9,191
– Other payable on settlement (-)	(1,031)	(19,165)	(2,903)	-	(1,630)	(2,887)
– Other receivable on settlement (+)	19,126	1,031	9,717	54,350	2,892	57,759
Fair value of foreign exchange forwards and gross settled currency swaps	185,710	(9,727)	28,915	(121,934)	5,849	(20,266)
Net fair value of foreign exchange forwards and gross settled currency swaps	175,983			(93,019)		(14,417)

44. FAIR VALUE DISCLOSURES

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised as follows:

	31 December 2021					31 December 2020					31 December 2019				
	Level 1	Level 2	Level 3	Total fair Value	Carrying value	Level 1	Level 2	Level 3	Total fair Value	Carrying value	Level 1	Level 2	Level 3	Total fair Value	Carrying value
<i>in thousands of GEL</i>															
ASSETS CARRIED AT FAIR VALUE															
FINANCIAL ASSETS															
<i>Investment securities measured at fair value through other comprehensive income</i>															
- Certificates of Deposits of National Bank of Georgia	-	-	-	-	-	-	21,687	-	21,687	21,687	-	40,346	-	40,346	40,346
- Corporate Bonds	-	704,435	-	704,435	704,435	-	664,563	-	664,563	664,563	-	611,000	-	611,000	611,000
- Ministry of Finance of Uzbekistan treasury bills	-	1,683	-	1,683	1,683	-	1,950	-	1,950	1,950	-	1,596	-	1,596	1,596
- Ministry of Finance Treasury Bills	-	1,231,024	-	1,231,024	1,231,024	-	838,152	-	838,152	838,152	-	329,352	-	329,352	329,352
- Corporate shares	-	-	1,054	1,054	1,054	-	-	916	916	916	-	-	2,999	2,999	2,999
<i>Investment securities measured at fair value through profit and loss</i>															
- Foreign exchange forwards and gross settled currency swaps, included in other financial assets or due from banks	-	185,710	-	185,710	185,710	-	28,915	-	28,915	28,915	-	5,849	-	5,849	5,849
- Investment held at fair value through profit or loss	-	-	11,125	11,125	11,125	-	-	17,239	17,239	17,239	-	-	-	-	-
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	-	2,122,852	12,179	2,135,031	2,135,031	-	1,555,267	18,155	1,573,422	1,573,422	-	988,143	2,999	991,142	991,142
LIABILITIES CARRIED AT FAIR VALUE															
FINANCIAL LIABILITIES															
Foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	-	9,727	-	9,727	9,727	-	121,934	-	121,934	121,934	-	20,266	-	20,266	20,266
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS	-	9,727	-	9,727	9,727	-	121,934	-	121,934	121,934	-	20,266	-	20,266	20,266

There were no transfers between levels 1 and 2 during the year ended 31 December 2021 (2020: none, 2019: none).

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

44. FAIR VALUE DISCLOSURES **CONTINUED**

The description of the valuation technique and the description of inputs used in the fair value measurement for level 2 measurements:

	Fair value at 31 December				
<i>in thousands of GEL</i>	2021	2020	2019	Valuation technique	Inputs used
ASSETS CARRIED AT FAIR VALUE					
– Certificates of Deposits of NBG, Ministry of Finance Treasury Bills, Government notes, Corporate bonds	1,937,142	1,526,352	982,294	Discounted cash flows (“DCF”)	Government bonds yield curve
– Foreign exchange forwards and gross settled currency swaps, included in due from banks	185,710	28,915	5,849	Forward pricing using present value calculations	Official exchange rate, risk-free rate
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	2,122,852	1,555,267	988,143		

LIABILITIES CARRIED AT FAIR VALUE FINANCIAL LIABILITIES

– Foreign exchange forwards included in other financial liabilities	9,727	121,934	20,266	Forward pricing using present value calculations	Official exchange rate, risk-free rate
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	9,727	121,934	20,266		

The description of the valuation technique and the description of inputs used in the fair value measurement for level 3 measurements:

<i>in thousands of GEL</i>	2021	2020	2019	Valuation technique	Inputs used
ASSETS CARRIED AT FAIR VALUE					
– Investment held at fair value through profit or loss	11,125	17,239	–	Discounted cash flows (“DCF”)	Government bonds yield curve
– Corporate shares	1,054	916	2,999	Discounted cash flows (“DCF”)	Government bonds yield curve
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 3	12,179	18,155	2,999		

There were no changes in the valuation technique for the level 2 and level 3 recurring fair value measurements during the year ended 31 December 2021 (2020: none; 2019: none).

Sensitivity of the input to fair value – increase/(decrease) in projected cash flows by 10% would result in increase/(decrease) in fair value by GEL 886 thousand/ (GEL 886 thousand).

Fair value measurement analysis by level in the fair value hierarchy is disclosed in Note 2.

44. FAIR VALUE DISCLOSURES CONTINUED

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

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

	31 December 2021					31 December 2020					31 December 2019				
	Level 1	Level 2	Level 3	Total fair value	Carrying value	Level 1	Level 2	Level 3	Total fair value	Carrying value	Level 1	Level 2	Level 3	Total fair value	Carrying value
<i>in thousands of GEL</i>															
FINANCIAL ASSETS															
Cash and cash equivalents	839,821	882,316	–	1,722,137	1,722,137	755,686	879,719	–	1,635,405	1,635,405	650,700	352,883	–	1,003,583	1,003,583
Due from other banks	–	79,142	–	79,142	79,142	–	50,805	–	50,805	50,805	–	33,605	–	33,605	33,605
Mandatory cash balances with the NBG and NBU	–	2,087,141	–	2,087,141	2,087,141	–	2,098,506	–	2,098,506	2,098,506	–	1,591,829	–	1,591,829	1,591,829
Loans and advances to customers:															
– Corporate loans	–	–	6,492,668	6,492,668	6,497,010	–	–	5,728,134	5,728,134	5,583,108	–	–	4,838,348	4,838,348	4,579,723
– Consumer loans	–	–	2,394,481	2,394,481	2,062,976	–	–	2,025,055	2,025,055	1,769,760	–	–	1,876,364	1,876,364	1,750,050
– Mortgage loans	–	–	4,522,528	4,522,528	4,048,955	–	–	4,032,243	4,032,243	3,845,232	–	–	3,354,901	3,354,901	3,137,492
– Loans to micro, small and medium enterprises	–	–	4,126,318	4,126,318	4,028,204	–	–	3,508,881	3,508,881	3,396,174	–	–	2,891,382	2,891,382	2,882,134
Bonds carried at amortised cost	–	49,582	–	49,582	49,582	–	1,086,007	–	1,086,007	1,089,801	–	990,537	–	990,537	1,022,684
Finance lease receivables	–	–	261,561	261,561	262,046	–	–	274,402	274,402	271,660	–	–	265,165	265,165	256,660
Other financial assets	–	–	256,280	256,280	256,280	–	–	125,148	125,148	125,148	–	–	127,887	127,887	127,887
NON-FINANCIAL ASSETS															
Investment properties, at cost	–	–	29,493	29,493	22,892	–	–	105,628	105,628	68,689	–	–	123,325	123,325	72,667
TOTAL ASSETS	839,821	3,098,181	18,083,329	22,021,331	21,116,365	755,686	4,115,037	15,799,491	20,670,214	19,934,288	650,700	2,968,854	13,477,372	17,096,926	16,458,314
FINANCIAL LIABILITIES															
Customer accounts	–	9,982,595	5,026,676	15,009,271	15,038,172	–	7,481,872	5,113,469	12,595,341	12,572,728	–	6,480,250	3,580,630	10,060,880	10,049,324
Debt securities in issue	1,798,023	–	–	1,798,023	1,710,288	1,463,830	–	–	1,463,830	1,496,497	1,136,297	–	–	1,136,297	1,136,297
Due to credit institutions	–	–	2,986,731	2,986,731	2,984,176	–	4,490,963	–	4,490,963	4,486,373	–	3,600,318	–	3,600,318	3,593,901
Other financial liabilities	–	–	196,249	196,249	196,249	–	164,479	–	164,479	164,479	–	153,241	–	153,241	153,241
Subordinated debt	–	–	626,503	626,503	623,647	–	677,246	–	677,246	672,740	–	594,892	–	594,892	591,035
TOTAL LIABILITIES	1,798,023	9,982,595	8,836,159	20,616,777	20,552,532	1,463,830	12,814,560	5,113,469	19,391,859	19,392,817	1,136,297	10,828,701	3,580,630	15,545,628	15,523,798

The fair values in the level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of unquoted fixed interest rate instruments was calculated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of investment properties was estimated using market comparatives (refer to Note 17).

Amounts due to credit institutions were discounted at the Group's own incremental borrowing rate. Liabilities due on demand were discounted from the first date that the Group could be required to pay the amount. Amounts due to credit institutions, subordinated debt and other financial liabilities were moved from level 2 to level 3. There were no changes in the valuation technique for the level 2 and level 3 measurements of assets and liabilities not measured at fair values in the year ended 31 December 2021 (2020: none; 2019: none)

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

45. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2021:

<i>in thousands of GEL</i>	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total
ASSETS				
Cash and cash equivalents	1,722,137	-	-	1,722,137
Due from other banks	79,142	-	-	79,142
Mandatory cash balances with National Bank of Georgia and Uzbekistan	2,087,141	-	-	2,087,141
Loans and advances to customers	16,637,145	-	-	16,637,145
Investment securities measured at FVOCI	-	1,938,196	-	1,938,196
Bonds carried at amortised cost	49,582	-	-	49,582
Other financial assets	256,280	-	196,835	453,115
TOTAL FINANCIAL ASSETS SUBJECT TO IFRS 9 MEASUREMENT CATEGORIES	20,831,427	1,938,196	196,835	22,966,458
Finance lease receivables	-	-	-	262,046
Non-financial assets	-	-	-	1,280,057
TOTAL ASSETS	20,831,427	1,938,196	196,835	24,508,561

For the measurement purposes, IFRS 9, classifies financial assets into the categories discussed in Note 2. The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2020:

<i>in thousands of GEL</i>	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total
ASSETS				
Cash and cash equivalents	1,635,405	-	-	1,635,405
Due from other banks	50,805	-	-	50,805
Mandatory cash balances with National Bank of Georgia	2,098,506	-	-	2,098,506
Loans and advances to customers	14,594,274	-	-	14,594,274
Investment securities measured at FVOCI	-	1,527,268	-	1,527,268
Bonds carried at amortised cost	1,089,801	-	-	1,089,801
Other financial assets	125,148	-	46,154	171,302
TOTAL FINANCIAL ASSETS SUBJECT TO IFRS 9 MEASUREMENT CATEGORIES	19,593,939	1,527,268	46,154	21,167,361
Finance lease receivables	-	-	-	271,660
Non-financial assets	-	-	-	1,138,784
TOTAL ASSETS	19,593,939	1,527,268	46,154	22,577,805

45. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY CONTINUED

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2019:

<i>in thousands of GEL</i>	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total
ASSETS				
Cash and cash equivalents	1,003,583	–	–	1,003,583
Due from other banks	33,605	–	–	33,605
Mandatory cash balances with National Bank of Georgia	1,591,829	–	–	1,591,829
Loans and advances to customers	12,349,399	–	–	12,349,399
Investment securities measured at FVOCI	–	985,293	–	985,293
Bonds carried at amortised cost	1,022,684	–	–	1,022,684
Other financial assets	131,649	–	2,087	133,736
TOTAL FINANCIAL ASSETS SUBJECT TO IFRS 9 MEASUREMENT CATEGORIES	16,132,749	985,293	2,087	17,120,129
Finance lease receivables	–	–	–	256,660
Non-financial assets	–	–	–	982,477
TOTAL ASSETS	16,132,749	985,293	2,087	18,359,266

As of 31 December 2021, 2020 and 2019 all of the Group's financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the assets fair value through profit or loss measurement category under IFRS 9.

46. RELATED PARTY TRANSACTIONS

Pursuant to IAS 24 "Related Party Disclosures", parties are generally considered to be related if the parties are under common control or one party has the ability to control the other or it can exercise significant influence over the other party in taking 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:

- Parties with material ownership stake (more than 5% beneficial ownership stake for 2021, 2020 and 2019) in the TBCG or with representatives in the Board of Directors are considered as Significant Shareholders. Their close family members and related companies with ownership stake of more than 50% are also considered as significant shareholders
- The key management personnel include members of TBCG's Board of Directors, the Management Board of the Bank and their close family members.

Transactions between TBC Bank Group PLC and its subsidiaries also meet the definition of related party transactions. Where these are eliminated on consolidation, they are not disclosed in the Group Financial Statements.

The definition of the related party is different per standards of National Bank of Georgia and is regulated by the published Decree N 26/04 of the Governor of the National Bank of Georgia.

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

46. RELATED PARTY TRANSACTIONS **CONTINUED**

As of 31 December 2021, 2020 and 2019 the Group's outstanding balances with related parties were as follows:

<i>in thousands of GEL</i>	Contractual interest rate	Significant shareholders	Key management personnel
2021			
Gross amount of loans and advances to customers	4.0%-36.0%	24	12,394
Credit loss allowance for loans and advances to customers	–	–	6
Customer accounts	0%-12.5%	19,460	23,620
Other borrowed funds from EBRD	0.86%-12.85%	360,889	–
2020			
Gross amount of loans and advances to customers	6.6% – 36.0%	54	6,869
Credit loss allowance for loans and advances to customers	–	–	4
Customer accounts	0.0% – 11.5%	16,574	16,555
Other borrowed funds from EBRD	0.98%–11.09%	411,765*	–
2019			
Gross amount of loans and advances to customers	6.6% – 36.0%	77	9,723
Credit loss allowance for loans and advances to customers	–	–	1
Customer accounts	0.0% – 11.5%	16,418	12,997
Other borrowed funds from EBRD	4.5% – 11.55%	243,040*	–

The Group's income and expense items with related parties except from key management compensation for the year 2021, 2020 and 2019 were as follows:

<i>in thousands of GEL</i>	Significant shareholders	Key management personnel
2021		
Interest income - loans and advances to customers	5	384
Interest expense	98	673
Interest expense with EBRD	36,819	–
Fee and commission income	27	72
Administrative and other operating expenses (excluding staff costs)	–	431
2020		
Interest income - loans and advances to customers	8	346
Interest expense	–	1
Interest expense with EBRD	29,580*	–
Fee and commission income	21	24
Administrative and other operating expenses (excluding staff costs)	–	323
2019		
Interest income - loans and advances to customers	42	620
Interest expense	87	197
Interest expense with EBRD	22,826*	–
Fee and commission income	77	61
Administrative and other operating expenses (excluding staff costs)	68	978

*The management has added and separately disclosed the interest expense incurred for EBRD borrowings for current and comparative periods, considering, the data was incomplete and that the latter represents more than 5% shareholder of the Group. Other borrowed funds from EBRD were GEL 411,765 thousand and GEL 243,040 thousand as at 31 December 2020 and 2019. Interest expense with EBRD for the year 2020 and 2019 were GEL 29,580 thousand and GEL 22,826 thousand.

46. RELATED PARTY TRANSACTIONS CONTINUED

The aggregate loan amounts advanced to, and repaid, by related parties during 2021, 2020 and 2019 were as follows:

<i>in thousands of GEL</i>	Significant share-holders	Key management personnel
2021		
Amounts advanced to related parties during the year	67	5,131
Amounts repaid by related parties during the year	(97)	(5,311)
2020		
Amounts advanced to related parties during the year	107	3,750
Amounts repaid by related parties during the year	(76)	(8,193)
2019		
Amounts advanced to related parties during the year	249	15,160
Amounts repaid by related parties during the year	(1,878)	(17,747)

During the year 2021, 15 related parties were removed from the insider list. If they had remained in the list, customer accounts with related parties as of 31 December 2021 would have been GEL 324 thousand higher.

During the year 2020, 6 related parties were removed from the insider list. If they had remained in the list, customer accounts with related parties as of 31 December 2020 would have been GEL 27 thousand higher.

During the year 2019, 3 related parties were removed from the insider list. If they had remained in the list, customer accounts with related parties as of 31 December 2019 would have been GEL 266 thousand higher.

As of 31 December 2021, 2020 and 2019 transactions and balances of TBC Bank PLC with subsidiaries were as follows:

<i>in thousands of GEL</i>	Contractual interest rate	Total
2021		
Cash and cash equivalents	–	14,614
Loans issued	7.5%	10,862
Investment in subsidiary	–	1,674,273
Foreign exchange forward contracts	–	13,504
2020		
Due from other banks	8.05% – 9.03%	27,700
Cash and cash equivalents	–	10,631
Investment in subsidiary	–	1,456,862
Foreign exchange forward contracts	–	2,527
2019		
Due from other banks	8.05% – 9.03%	40,815
Cash and cash equivalents	–	6,612
Investment in subsidiary	–	1,463,084

Included in Investments in subsidiary in Separate Statement of Financial Position GEL 7,823 thousands and GEL 78,752 thousands relates to investment in JSC TBC Insurance and JSC TBC Bank UZ.

NOTES TO THE FINANCIAL STATEMENTS **CONTINUED**

46. RELATED PARTY TRANSACTIONS **CONTINUED**

The income and expense items for TBC Bank Group PLC with subsidiaries except from key management compensation for the year 2021, 2020 and 2019 were as follows:

<i>in thousands of GEL</i>	31 December 2021	31 December 2020	31 December 2019
Interest income	1,649	3,438	5,625
Interest expense	212	-	-
Fee and commission expense	1	5	48
Dividend income	95,252	6,297	109,520
Processional Expenses	12	746	-
Net gains from currency derivatives, foreign currency operations and translation	10,977	2,527	-

The compensation of the TBCG Board of Directors and the Bank's Management Board is presented below:

<i>In thousands of GEL</i>	2021		2020		2019	
	Expense	Accrued liability	Expense	Accrued liability	Expense	Accrued liability
Salaries and short-term bonuses	14,853	-	9,997	-	10,274	-
Cash settled bonuses related to share-based compensation	-	-	-	-	(1,627)	-
Equity-settled share-based compensation	13,013	-	11,514	-	25,695	-
Total	27,866	-	21,511	-	34,342	-

Included in salaries and bonuses for 2021, GEL 2,758 thousand (2020: GEL 2,513 thousand; 2019: GEL 2,879 thousand) relates to compensation for directors (2021: 8 person, 2020: 8 person, 2019: 9 person) of TBCG paid by TBC Bank Group PLC. Details of director's compensation is discussed in the remuneration committee report.

47. BUSINESS COMBINATION

Acquisition of Inspired LLC

In May 2019 TBC Bank Group PLC finalized acquisition process of Inspired LLC – the leading payment platform “Payme”. The acquired interest amounted 51% of total shareholding. The transaction is in line with the Group's international expansion strategy of operations. The consideration amounted GEL 14,981 thousands.

The acquisition-date fair value of the total purchase consideration is as follows:

<i>In thousands of GEL</i>	2019
Cash consideration paid	14,981
Total purchase consideration	14,981

The consideration paid by the Group was based on results of an appraisal of the acquiree's business taken as a whole. However, in accordance with IFRS 3 “Business Combinations”, the Group must account for acquisitions based on fair values of the identifiable assets acquired and liabilities and contingent liabilities assumed. These two different approaches can lead to differences; and, as set out in the table below, recognition of goodwill. Details of the assets and liabilities acquired and goodwill arising is as follows:

47. BUSINESS COMBINATION CONTINUED

<i>In thousands of GEL</i>	Fair Values
Cash and cash equivalents	223
Due from other banks	424
Other financial assets	676
Premises and equipment	379
Intangible assets	212
Other assets	79
Other liabilities	(159)
Fair value of net assets of subsidiary	1,834
Non-controlling interest	(868)
Goodwill arising from the acquisition	14,015
Total purchase consideration	14,981
Less: cash and cash equivalents of subsidiary acquired	(223)
Outflow of cash and cash equivalents on acquisition	14,758

The goodwill is primarily attributable to the profitability of the acquired business and the positive synergies expected to arise.

The acquired business combination contributed to Group's net operating income in the amount of GEL 5,683 thousand and to Group's net profit in the amount of GEL 2,759 thousand from the date of acquisition to 31 December 2019. If the acquisition had occurred on 1st of January 2019, the contribution to the Group's net operating income for the year ended 31 December 2019 would have been of GEL 8,561 thousand and to net profit would have been positive of GEL 4,272 thousand.

Acquisition of My.ge LLC

In August 2019 TBC Bank Group PLC finalized acquisition process of LLC My.ge – the leading online services platform in Georgia “My Group”. The acquired interest amounted 65% of total shareholding. The transaction is in line with the Group's international expansion strategy of operations. The consideration amounted GEL 19,450 thousands.

The acquisition-date fair value of the total purchase consideration is follows:

<i>In thousands of GEL</i>	2019
Cash consideration paid	19,450
Total purchase consideration	19,450

The consideration paid by the Group was based on results of an appraisal of the acquiree's business taken as a whole. However, in accordance with IFRS 3 “Business Combinations”, the Group must account for acquisitions based on fair values of the identifiable assets acquired and liabilities and contingent liabilities assumed. These two different approaches can lead to differences; and, as set out in the table below, recognition of goodwill. Details of the assets and liabilities acquired and goodwill arising is as follows:

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

47. BUSINESS COMBINATION CONTINUED

<i>In thousands of GEL</i>	Fair Values
Cash and cash equivalents	1,667
Other financial assets	232
Premises and equipment	1,208
Intangible assets	4,403
Other assets	1
Other financial liabilities	(1,862)
Other liabilities	(51)
Fair value of net assets of subsidiary	5,598
Non-controlling interest	(1,960)
Goodwill arising from the acquisition	15,812
Total purchase consideration	19,450
Less: cash and cash equivalents of subsidiary acquired	(1,667)
Outflow of cash and cash equivalents on acquisition	17,783

The goodwill is primarily attributable to the profitability of the acquired business and the positive synergies expected to arise.

The acquired business combination contributed to Group's net revenue in the amount of GEL 2,122 thousand and to Group's net profit in the amount of GEL 442 thousand from the date of acquisition to 31 December 2019. If the acquisition had occurred on 1st of January 2019, the contribution to the Group's net revenue for the year ended 31 December 2019 would have been of GEL 5,208 thousand and to net profit would have been positive of GEL 1,497 thousand.

48. EVENTS AFTER REPORTING PERIOD

Since February 2022 ongoing political tension in the region escalated as a result of Russian invasion in Ukraine. This has negatively impacted commodity and financial markets, and increased volatility, particularly with regard to foreign exchange rates. As a result of sanctions imposed from a number of countries, many companies left Russian market and as a result ceased providing services and products to Russian Market. There is an expectation of further sanctions and limitations on business activity of companies operating in Russia. To avoid the severe effects on Georgian economy the Georgian Government has not joined on all sanctions, but the full nature and possible effects of the imposed restrictions against Russia and Ukrainian economy downturn are yet unknown. However, taking into account Georgia's vulnerability to developments in Ukraine and Russia and economic links with these countries, there will be adverse implications for the growth outlook, as well as, for the other macro variables, which may also negatively affect the Bank's capital adequacy, liquidity and credit risks.

Russian entities from having access to the Euro and US\$ financial markets including removing access to the international SWIFT system and in such a situation this could further impact the Group's ability to transfer or receive funds in Russia. At this stage, it is not possible for the Management to predict with any degree of certainty the impact of all this uncertainty on the future operations of the Group. However, Group's Management believes, the war in Ukraine is non-adjusting event and closely monitors the current economic environment to adjust the Groups performance accordingly where needed.

In March 2022, the Bank obtained the funding resource of EUR 20 million from The European Fund for Southeast Europe S.A. ("EFSE") and USD 50 million from the Proparco. Loan agreements have the maturity of 3 and 5 years. USD 9.2 million from the European Bank for Reconstruction and Development ("EBRD") USD 15 million from the City Bank, also have been obtained in March 2022, with agreements maturity of 6-6 months.

A FULL LIST OF RELATED UNDERTAKINGS AND THE COUNTRY OF INCORPORATION IS SET OUT BELOW

Company Name	Country of incorporation
JSC TBC Bank	7 Marjanishvili Street, 0102, Tbilisi, Georgia
United Financial Corporation JSC	154 Agmashenebeli Avenue, 0112, Tbilisi, Georgia
TBC Capital LLC	11 Chavchavadze Avenue, 0179, Tbilisi, Georgia
TBC Leasing JSC	76 Chavchavadze Avenue, 0162,, Tbilisi, Georgia
TBC Kredit LLC	71-77, 28 May Street, AZ1010, Baku, Azerbaijan
TBC Pay LLC	7 Marjanishvili Street, 0102, Tbilisi, Georgia
TBC Invest LLC	7 Jabonitsky street, , 52520, Tel Aviv, Israel
Index LLC	8 Tetelashvili,0102,, Tbilisi, Georgia
JSC TBC Insurance	24B, Al. Kazbegi Avenue, 0160, Tbilisi, Georgia
TBC Invest International Ltd	7 Marjanishvili Street, 0102, Tbilisi, Georgia
University Development Fund	1 Chavchavadze Avenue, 0128 , Tbilisi, Georgia
CreditInfo Georgia JSC	2 Tarkhnishvili street, 0179, Tbilisi, Georgia
Online Tickets LLC	3 Irakli Abashidze street, 0179, Tbilisi, Georgia
VENDOO LLC (Geo)	44 Petre Kavtaradze street, 0128, Tbilisi, Georgia
Natural Products of Georgia LLC	1 Chavchavadze Avenue, 0128 , Tbilisi, Georgia
Mobi Plus JSC	45 Vajha Pshavela Street, 0177, Tbilisi, Georgia
Mineral Oil Distribution Corporation JSC	11 Tskalsadeni Street, 0153, Tbilisi, Georgia
Georgian Card JSC	106 Beliashvili Street, 0159, Tbilisi Georgia
Georgian Central Securities Depository JSC	74 Chavchavadze Avenue, 0162, Tbilisi, Georgia
JSC Givi Zaldastanishvili American Academy In Georgia	37 Chavchavadze Avenue, 0162, Tbilisi Georgia
United Clearing Centre	5 Sulkhan Saba Street, 0105, Tbilisi, Georgia
GRDC N.V	Utrechtseweg 95, 1213 TN Hilversum, Netherlands
Banking and Finance Academy of Georgia	123, Agmashenebeli Avenue, 0112, Tbilisi, Georgia
Tbilisi's City JSC	15 Rustaveli Avenue, 0108, Tbilisi Georgia
TBC Trade LLC	11A Chavchavadze Ave, 0179, Tbilisi, Georgia
Redmed LLC	25 Al. Kazbegi Avenue, 0160, Tbilisi, Georgia
TBC Net LLC	7 Marjanishvili st. Didube-chugureti District, Tbilisi, Georgia
TKT UZ	12, Shota Rustaveli, Yakkasaray district, Tashkent, Uzbekistan
Mypost LLC	129a Sh. Nutsubidze St. Vake, Tbilisi, Georgia
Billing Solutions LLC	14 Khelovanta St. Isani, Tbilisi, Georgia
F Solutions LLC	36, Kakheti Hwy, Isani-Samgori District, Tbilisi, Georgia
Inspired LLC	1, Chust, Mirzo Ulugbek district, Tashkent, Uzbekistan
VENDOO LLC (UZ Leasing)	10B, Fidokor, Yakkasaray, Tashkent, Uzbekistan
Marjanishvili 7 LLC	7 Marjanishvili st. Didube-chugureti District, Tbilisi, Georgia
TBC Bank JSC UZ	118/1, Amir Temur avenue, Yunusobod district, Tashkent, Uzbekistan
TBC Group Support LLC	7 Marjanishvili st. Didube-chugureti District, Tbilisi, Georgia
Tbilisi Stock Exchange JSC	floor 2th block 8, 71 Vazha Pshavela Ave, Tbilisi, Georgia
Georgian Stock Exchange JSC	74a chavchavadzis avenue, vake-saburtalo, Tbilisi, Georgia
Kavkasreestri JSC	74a chavchavadzis avenue, vake-saburtalo, Tbilisi, Georgia
Freeshop.ge LLC	74 chavchavadzis avenue, vake-saburtalo, Tbilisi, Georgia
The.ge LLC	20 amaglebis st. old Tbilisi, Georgia
SABA LLC	5, Gabashvili street, vake-saburtalo Tbilisi, Georgia
Artarea.ge LLC	25 Al. Kazbegi Avenue, 0160, Tbilisi, Georgia
TBC Art Gallery LLC	6, Tsimakuridze str, Tbilisi, Georgia
TBC Capital Asset Management LLC	7 Marjanishvili Street, 0102, Tbilisi, Georgia
Swift	1 Adele Avenue, B-1310, La Hulpe, Belgium
Space International JSC	7 Marjanishvili Street, 0102, Tbilisi, Georgia
Space JSC	7 Marjanishvili Street, 0102, Tbilisi, Georgia
Georgia Large Cap Diversified Credit Portfolio JSC	7 Marjanishvili Street, 0102, Tbilisi, Georgia

ADDITIONAL INFORMATION

GLOSSARY

Active customers	Clients who have at least one active product or performed at least one transaction during the last 3 months.
Active retail digital users	Includes unique digital users of TBC Bank, Space app and TBC Pay mobile app, who logged in at least once for the past 3 months.
Active merchant terminals	Active merchant terminals include POS terminals and e-commerce with at least one transaction conducted during the month.
Bank	Joint Stock Company TBC Bank
Board	Board of Directors of TBC Bank Group PLC
Chairman	Chairman of Board of Directors of TBC Bank Group PLC
Code	The UK Corporate Governance Code
Company	TBC Bank Group PLC
Consumer loans offloading	Consumer loans offloading ratios includes the number of consumer loans disbursed via the remote channels divided by total number of such loans issued.
Corporate and Investment Banking segment	A legal entity/group of affiliated entities with an annual revenue exceeding GEL 12.0 million or which has been granted facilities of more than GEL 5.0 million. Some other business customers may also be assigned to the CIB segment or transferred to the MSME segment on a discretionary basis. In addition, CIB includes Wealth Management private banking services to high-net-worth individuals with the threshold of US\$ 250,000 on assets under management (AUM), as well as on discretionary basis.
Daily active digital users (DAU)	Monthly average number of digital users who logged into our digital channels at least once per day.
DAU/MAU	Average daily active digital users divided by monthly active digital users. DAU/MAU is calculated for the Bank internet and mobile banking only.
Deposit offloading	Deposit offloading ratio includes the number of time and savings deposits opened via remote channels divided by total number of such deposits opened.
Director(s)	Members of the Board of TBC Bank Group PLC
ENPS (Employee Net Promoter Score)	The employee net promoter score measures employee loyalty and reflects the likelihood of our colleagues recommending their workplace to their friends and family
Group	TBC Bank Group PLC and its subsidiary companies
Management Board	Management Board of Joint Stock Company TBC Bank
Monthly active digital users (MAU)	For Georgian business, the number of digital users who logged into our digital channels at least once a month; For Uzbek businesses, number of digital users who conducted at least one transaction per month.
MSME (Micro, Small and Medium) segment	Business customers who are not included in the CIB segment
NPS (Net Promoter Score)	Net promoter score measures how willing customers are to recommend our products and services to others.
Retail offloading ratio	The retail offloading ratios measures the share of transactions conducted in our remote channels, that is outside the branches.
Retail segment	Non-business individual customers, including the fully-digital bank, Space
Supervisory Board	Supervisory Board of Joint Stock Company TBC Bank
TBC Bank	TBC Bank Group PLC and its subsidiary companies
TBC Bank Group PLC	A public limited company registered in England and Wales. It is the parent company of JSC TBC Bank (the Bank) and a group of companies that principally operate in Georgia in the financial sector and other closely related fields. TBC Bank Group PLC is listed on the London Stock Exchange under the symbol TBCG.
TBC JSC	JSC TBC Bank
TBC PLC	TBC Bank Group PLC
TBC UZ	TBC Bank UZ JSCB
TBCG	TBC Bank Group PLC

ALTERNATIVE PERFORMANCE MEASURES

The Group utilises a wide range of alternative performance measures (APMs) to assess the Group's performance. These measures can be grouped under the following headings:

- Profitability
- Asset quality & portfolio concentration
- Capital & liquidity positions

Certain performance measures are calculated on standalone basis for the Bank only in order to highlight the performance of the Bank, which is the major subsidiary of the Group, as well as facilitate peer comparison.

The regulatory performance measures are calculated in accordance with NBG's requirements for the Bank only based on local accounting standards.

Term	#	Type	Definition
Profitability			
ROE	1	IFRS based	Return on average total equity (ROE) equals net income attributable to owners divided by the monthly average of total shareholders' equity attributable to the PLC's equity holders for the same period; annualised where applicable.
Bank's standalone ROE		IFRS based	Bank's standalone ROE equals the Bank's net income of the period divided by the monthly average of total shareholders' equity for the same period; For the ratio calculation all relevant group recurring costs are allocated to the bank; annualised where applicable.
ROA	2	IFRS based	Return on average total assets (ROA) equals net income of the period divided by monthly average total assets for the same period; annualised where applicable.
Bank's standalone ROA		IFRS based	Bank's standalone ROA equals the Bank's net income of the period divided by monthly average total assets for the same period; For the ratio calculation all relevant group recurring costs are allocated to the bank; annualised where applicable.
Cost to income	3	IFRS based	Cost to income ratio equals total operating expenses for the period divided by the total revenue for the same period. (Revenue represents the sum of net interest income, net fee and commission income and other non-interest income).
Bank's standalone cost to income		IFRS based	Bank's standalone cost to income ratio equals the Bank's total operating expenses for the period divided by the total revenue for the same period. (Revenue represents the sum of net interest income, net fee and commission income and other non-interest income); For the ratio calculation all relevant group recurring costs are allocated to the bank; annualised where applicable.
NIM	4	IFRS based	Net interest margin (NIM) is net interest income divided by monthly average interest-earning assets; annualised where applicable. Interest-earning assets include investment securities (excluding CIB shares), net investment in finance lease, net loans, and amounts due from credit institutions.
Loan yields	5	IFRS based	Loan yields equal interest income on loans and advances to customers divided by monthly average gross loans and advances to customers; annualised where applicable.
Deposit rates	6	IFRS based	Deposit rates equal interest expense on customer accounts divided by monthly average total customer deposits; annualised where applicable.
Cost of funding	7	IFRS based	Cost of funding equals sum of the total interest expense and net interest gains on currency swaps (entered for funding management purposes), divided by monthly average interest bearing liabilities; annualized where applicable.
Asset quality & portfolio concentration			
Cost of risk	8	IFRS based	Cost of risk equals credit loss allowance for loans to customers divided by monthly average gross loans and advances to customers; annualised where applicable.
PAR 90 to Gross Loans	9	IFRS based	PAR 90 to gross loans ratio equals loans for which principal or interest repayment is overdue for more than 90 days divided by the gross loan portfolio for the same period.
NPLs to Gross Loans	10	IFRS based	NPLs to gross loans equals loans with 90 days past due on principal or interest payments, and loans with a well-defined weakness, regardless of the existence of any past-due amount or of the number of days past due divided by the gross loan portfolio for the same period.

ALTERNATIVE PERFORMANCE MEASURES CONTINUED

NPL provision coverage	11	IFRS based	NPL provision coverage equals total credit loss allowance for loans to customers divided by the NPL loans.
Total NPL coverage	12	IFRS based	Total NPL coverage equals total credit loss allowance plus the minimum of collateral amount of the respective NPL loan (after applying haircuts in the range of 0%-50% for cash, gold, real estate and PPE) and its gross loan exposure divided by the gross exposure of total NPL loans.
Credit loss level to Gross Loans	13	IFRS based	Credit loss level to gross loans equals credit loss allowance for loans to customers divided by the gross loan portfolio for the same period.
Related Party Loans to Gross Loans	14	IFRS based	Related party loans to total loans equals related party loans divided by the gross loan portfolio.
Top 10 Borrowers to Total Portfolio	15	IFRS based	Top 10 borrowers to total portfolio equals the total loan amount of the top 10 borrowers divided by the gross loan portfolio.
Top 20 Borrowers to Total Portfolio	16	IFRS based	Top 20 borrowers to total portfolio equals the total loan amount of the top 20 borrowers divided by the gross loan portfolio.
Capital & liquidity positions			
Net Loans to Deposits plus IFI Funding	17	IFRS based	Net loans to deposits plus IFI funding ratio equals net loans divided by total deposits plus borrowings received from international financial institutions.
Net Stable Funding Ratio		Regulatory based	Net stable funding ratio equals the available amount of stable funding divided by the required amount of stable funding as defined by NBG in line with Basel III guidelines. Calculations are made for the Bank only, based on local standards.
Liquidity Coverage Ratio		Regulatory based	Liquidity coverage ratio equals high-quality liquid assets divided by the total net cash outflow amount as defined by the NBG. Calculations are made for the Bank only, based on local accounting standards.
Leverage	18	IFRS based	Leverage equals total assets to total equity.
CET 1 CAR (Basel III)		Regulatory based	CET 1 CAR equals CET 1 capital divided by total risk weighted assets, both calculated in accordance with requirements of the NBG Basel III standards. Calculations are made for the Bank only, based on local accounting standards.
Tier 1 CAR (Basel III)		Regulatory based	Tier 1 CAR equals tier I capital divided by total risk weighted assets, both calculated in accordance with the requirements of the NBG Basel III standards. Calculations are made for the Bank only, based on local accounting standards.
Total CAR (Basel III)		Regulatory based	Total CAR equals total capital divided by total risk weighted assets, both calculated in accordance with the requirements of the NBG Basel III standards. Calculations are made for the Bank only, based on local accounting standards.

These tables provide the reconciliation of the Group's IFRS based alternative performance measures with Financial Statements.

1 in thousands of GEL	Reference to financial statements	FY 2021	FY 2020
Net income	Consolidated statement of profit and loss and other comprehensive income	800,782	317,752
Total shareholders' equity	Consolidated statement of financial position	3,644,170	2,924,455
<i>Adjustment to get weighted average</i>		-362,376	-211,425
Monthly averages of total shareholders' equity		3,281,794	2,713,030
Return on average total equity (ROE)		24.4%	11.7%

2 in thousands of GEL	Reference to financial statements	FY 2021	FY 2020
Net income attributable to owners	Consolidated statement of profit and loss and other comprehensive income	800,782	317,752
Total assets	Consolidated statement of financial position	24,508,561	22,577,805
<i>Adjustment to get weighted average</i>		-1,251,670	-2,303,071
Monthly averages of total assets		23,256,891	20,274,734
Return on average total assets (ROA)		3.4%	1.6%

3 in thousands of GEL	Reference to financial statements	FY 2021	FY 2020
Total operating expenses	Consolidated statement of profit and loss and other comprehensive income	(545,834)	(437,462)
Total revenue	Consolidated statement of profit and loss and other comprehensive income	1,452,020	1,155,591
Cost to income		37.6%	37.9%

4 in thousands of GEL	Reference to financial statements	FY 2021	FY 2020
Net interest income	Consolidated statement of profit and loss and other comprehensive income	1,002,732	835,433
Total interest earning assets	Consolidated statement of financial position	21,037,596	19,619,662
– <i>Investment securities measured at fair value through OCI (excluding corporate shares)</i>		1,937,177	1,526,352
– <i>Bonds carried at amortised cost</i>		49,582	1,089,801
– <i>Net investment in finance lease</i>		262,046	271,660
– <i>Net loans</i>		16,637,145	14,594,274
– <i>Mandatory cash balances with National Bank of Georgia</i>		2,087,141	2,098,506
– <i>Due from other banks (excluding restricted cash)</i>		64,505	39,069
<i>Adjustment to get weighted average</i>		-1,223,602	-1,884,835
Monthly average interest earning assets		19,813,994	17,734,827
Net interest margin (NIM)		5.1%	4.7%

5 in thousands of GEL	Reference to financial statements	FY 2021	FY 2020
Interest income from loans	Note 30. Interest income and expense	1,614,374	1,394,033
Total loan portfolio	Note 9. Loans and advances to customers	17,047,391	15,200,520
<i>Adjustment to get weighted average</i>		-1,376,579	-1,381,833
Total monthly average loan portfolio		15,670,812	13,818,687
Loan yields		10.3%	10.1%

6 in thousands of GEL	Reference to financial statements	FY 2021	FY 2020
Interest expense from customer accounts	Note 30. Interest income and expense	(471,972)	(397,542)
Total deposits portfolio	Note 20. Customer accounts	15,038,172	12,572,728
<i>Adjustment to get weighted average</i>		-1,130,292	-1,430,623
Total monthly average deposits portfolio		13,907,880	11,142,105
Deposit rates		3.4%	3.6%

ALTERNATIVE PERFORMANCE MEASURES CONTINUED

7	in thousands of GEL	Reference to financial statements	FY 2021	FY 2020
	Total Interest expense		(883,124)	(832,566)
	– <i>Interest Expense</i>	Consolidated statement of profit and loss and other comprehensive income	(911,267)	(853,516)
	– <i>Net gains from currency swaps</i>	Consolidated statement of profit and loss and other comprehensive income	28,143	20,950
	Total interest bearing liabilities	Consolidated statement of financial position	20,422,450	19,287,321
	– <i>Customer accounts</i>		15,038,172	12,572,728
	– <i>Due to credit institutions</i>		2,984,176	4,486,373
	– <i>Subordinated Debt</i>		623,647	672,740
	– Debt securities in issue		1,710,288	1,496,497
	– <i>Lease Liabilities</i>		66,167	58,983
	<i>Adjustment to get weighted average</i>		-809,229	-2,012,762
	Monthly average interest bearing liabilities		19,613,221	17,274,559
	Cost of funding		4.5%	4.8%
8	in thousands of GEL	Reference to financial statements	FY 2021	FY 2020
	Credit loss allowance for loans	Consolidated statement of profit and loss and other comprehensive income	40,123	(330,811)
	Total loan portfolio	Note 9. Loans and advances to customers	17,047,391	15,200,520
	<i>Adjustment to get weighted average</i>		-1,376,579	-1,381,833
	Total monthly average loan portfolio		15,670,812	13,818,687
	Cost of risks		-0.3%	2.4%
9	in thousands of GEL	Reference to financial statements	FY 2021	FY 2020
	Total principal or interest repayment is overdue for more than 90 days	Not available	195,857	227,498
	Total gross loan portfolio	Note 9. Loans and advances to customers	17,047,391	15,200,520
	Par 90 to gross loans		1.1%	1.5%
10	in thousands of GEL	Reference to financial statements	FY 2021	FY 2020
	NPLs to gross loans equals loans with 90 days past due on principal	Not available	410,853	714,424
	Total gross loan portfolio	Note 9. Loans and advances to customers	17,047,391	15,200,520
	NPLs to gross loans		2.4%	4.7%
11	in thousands of GEL	Reference to financial statements	FY 2021	FY 2020
	Total credit loss allowance for loans to customers	Note 9. Loans and advances to customers	410,246	606,246
	Total NPL exposure	Not available	410,853	708,116
	NPL provision coverage		99.9%	85.6%

12 in thousands of GEL	Reference to financial statements	FY 2021	FY 2020
<i>NPL collateral</i>	<i>Not available</i>	309,979	522,584
<i>Total credit loss allowance for loans to customers</i>	<i>Note 9. Loans and advances to customers</i>	410,246	606,246
Total		720,225	1,128,831
Total NPL exposure	Not available	410,853	708,116
Total NPL Coverage		175.3%	159.4%

13 in thousands of GEL	Reference to financial statements	FY 2021	FY 2020
Total credit loss allowance for loans to customers	Note 9. Loans and advances to customers	410,246	606,246
Total gross loan portfolio	Note 9. Loans and advances to customers	17,047,391	15,200,520
Credit loss level to Gross Loans		2.4%	4.0%

14 in thousands of GEL	Reference to financial statements	FY 2021	FY 2020
Related party loans	Note 44. Related party transactions	12,015	6,923
Total gross loan portfolio	Note 9. Loans and advances to customers	17,047,391	15,200,520
Related party loans to gross loans		0.1%	0.0%

15 in thousands of GEL	Reference to financial statements	FY 2021	FY 2020
Top 10 borrowers	Not available	1,165,425	1,204,111
Total gross loan portfolio	Note 9. Loans and advances to customers	17,047,391	15,200,520
Top 10 borrowers		6.8%	7.9%

16 in thousands of GEL	Reference to financial statements	FY 2021	FY 2020
Top 20 borrowers	Not available	1,796,675	1,838,204
Total gross loan portfolio	Note 9. Loans and advances to customers	17,047,391	15,200,520
Top 20 borrowers		10.5%	12.1%

17 in thousands of GEL	Reference to financial statements	FY 2021	FY 2020
Net loans	Consolidated statement of financial position	16,637,145	14,594,274
<i>Total Deposits portfolio</i>	<i>Note 20. Customer accounts</i>	15,038,172	12,572,728
<i>IFI funding</i>	<i>Not available</i>	1,455,723	1,853,303
Deposits + IFI Funding		16,493,895	14,426,031
Net loans to deposits + IFI Funding		100.9%	101.2%

18 in thousands of GEL	Reference to financial statements	FY 2021	FY 2020
Total assets	Consolidated statement of financial position	24,508,561	22,577,805
Total equity	Consolidated statement of financial position	3,644,170	2,924,455
Leverage		6.7	7.7

CHANGES IN KPIS

The following tables summarise the changes in 2021 KPIs compared to 2020 KPIs:

Financial KPIs

	Profitability	Asset quality	Capital	Growth
Added KPIs	- Return on assets; - Growth of net fee and commission income	Non-performing loans	CET 1 Capital ratio	- Loan book growth; - Deposit growth
Removed KPIs	- Net profit; - Basic earnings per share; - Return on equity before expected credit loss allowances	Cost of risk	- Tier 1 Capital ratio; - Total Capital adequacy ratio	Loan book market share

Non-financial KPIs

	Customer satisfaction	Digitalization
Added KPIs	Net promoter score (NPS)	Daily active users/monthly active user (DAU/MAU)
Removed KPIs	The best service company in Georgia (gap with peer bank)	Retail internet and mobile banking penetration ratio

ABBREVIATIONS

ACCA	Association of Chartered Certified Accountants	IAS	International Accounting Standards
AFS	Available for sale	IASB	International Accounting Standards Board
ALCO	Asset-liability management committee	IDR	Issuer default rating
APM	Alternative performance measure	IFC	International Finance Corporation
ATM	Automated teller machine	IFI	International financial institution
BNY	Bank of New York	IFRIC	International Financial Reporting Interpretations Committee
CAGR	Compounded annual growth rate	IFRS	International Financial Reporting Standards
CAR	Capital adequacy ratio	IMF	International Monetary Fund
CEE	Central and Eastern Europe	IPCC	Intergovernmental Panel on Climate Change
CEO	Chief executive officer	IPO	Initial public offering
CFA	Chartered Financial Analyst	IT	Information technology
CFO	Chief financial officer	JSC	Joint stock company
CGU	Cash generating unit	KPI	Key performance indicators
CIB	Corporate investment banking	LED	Light-emitting diode
CIS	The Commonwealth of Independent States	LSE	London Stock Exchange
COR	Cost of risk	LTV	Loan to value
CRM	Customer relationship management	MBA	Master of Business Administration
CRO	Chief risk officer	MBO	Management-by-objectives
CSAT	Customer satisfaction	MSME	Micro, small and medium-sized enterprises
CSR	Corporate social responsibility	NBG	National Bank of Georgia
CVP	Cost volume profit	NCI	Non-controlling interest
DCF	Discounted cash flows	NIM	Net interest margin
EBRD	European Bank for Reconstruction and Development	NPL	Non-performing loans
ECL	Expected credit losses	NPS	Net promoter score
EECG	Energy Efficiency Centre Georgia	OCI	Other comprehensive income
EFSEDF	The Development Facility of the European Funds for Southeast Europe	OECD	Organisation for Economic Cooperation and Development
EMEA	Europe, Middle East and Africa	PLC	Public limited company
ENPS	Employee Net Promoter Score	POS	Point of sale
EPS	Earnings per share	P2P	Peer-to-peer
ERM	Enterprise risk management	PPP	Purchasing power parity
ESRM	Environmental and social risk management	PTI	Payment to income
EU	European Union	PWC	PricewaterhouseCoopers
EUR	Euro	ROA	Return on average assets
FDI	Foreign direct investment	ROE	Return on average equity
FTSE	Financial Times Stock Exchange	SME	Small and medium-sized enterprises
FVOCI	Fair value through other comprehensive income	SPPI	Solely payments of principal and interest
FVPL	Fair value through profit or loss	STEM	Science, technology, engineering and mathematics
GBP	Great British pound, national currency of the UK	UK	United Kingdom of Great Britain and Northern Ireland
GDP	Gross domestic product	US\$	The US dollar, national currency of the United States
GDR	Global depositary receipt	VAR	Value-at-risk
GEL	Georgian lari, national currency of Georgia	VIP	Very important person
GHG	Greenhouse gas	WB	World Bank
GWP	Gross written premium	WRI	World Resources Institute
HNWI	High-net-worth individuals		
HR	Human resources		

SHAREHOLDERS INFORMATION

REPORTS AND COMMUNICATIONS

We issue regulatory announcements through the Regulatory News Service (“RNS”). Our regulatory announcements are also available at our website www.tbcbankgroup.com in the “regulatory news” section.

SHARE PRICE INFORMATION

Our latest and historical share prices are available through our website www.tbcbankgroup.com.

SHAREHOLDER INQUIRES

TBC Bank Group’s share register is maintained by Equiniti.

If you have any questions about your TBC Bank Group’s shares, please contact Equiniti

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