

Management Report of JSC PASHA Bank Georgia as per year end

2021

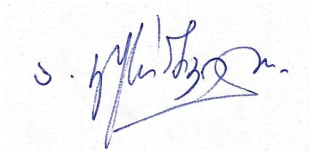
Report in accordance with the requirements of Article 7, paragraph 10 of the
Georgian Law on Accounting, Reporting and Auditing

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

We expressed an unmodified audit opinion on the audited financial statements in our report dated 24 February 2022. The audited financial statements do not reflect the effects of events that occurred subsequent to the date our report on the audited financial statements. The effect of events described in the Annual report that occurred after the date of our auditor's report on the audited financial statements were not audited by us.

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

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



Ana Kusrashvili,
On behalf of EY LLC

12 August 2022

CONTENT

MANAGEMENT STATEMENT	3
FOREWORD BY CHIEF EXECUTIVE OFFICER	5
FINANCIAL HIGHLIGHTS	6
STRATEGY	7
HUMAN RESOURCES	9
OUR PEOPLE	9
LEARNING AND DEVELOPMENT	11
EMPLOYEE ENGAGEMENT AND SATISFACTION	11
REMUNERATION OF EMPLOYEES	12
CORPORATE GOVERNANCE	15
CSR, CHARITY AND SPONSORSHIP ACTIVITIES	16
COMMITMENT TO CORPORATE GOVERNANCE	16
CODE OF ETHICS	17
OPEN-DOOR POLICY	18
GOVERNANCE STRUCTURE	18
MEMBERS OF THE SUPERVISORY BOARD	19
SHAREHOLDER STRUCTURE AND SHARE CAPITAL	25
GENERAL MEETING OF SHAREHOLDERS	26
ISSUES REQUIRING APPROVAL OF THE GENERAL MEETING OF SHAREHOLDERS	26
SHAREHOLDER RIGHTS	28
THE SUPERVISORY BOARD	28
DEFINITION OF AN INDEPENDENT SUPERVISORY	31
BOARD MEMBER	31
SUPERVISORY BOARD MEMBERSHIP CRITERIA	32
BOARD EFFECTIVENESS REVIEW: EVALUATION OF THE SUPERVISORY BOARD MEMBERS	34
REVIEW AND ASSESSMENT OF BOARDROOM	34
INDEPENDENT ASSESSMENT	34
MEETINGS OF THE SUPERVISORY BOARD	36
AGENDA OF SUPERVISORY BOARD MEETINGS	37
STRATEGY CHANGE	38
THE SUPERVISORY BOARD COMMITTEES	39
THE BOARD OF DIRECTORS	43
MEMBERS OF THE BOARD OF DIRECTORS	47
COMMITTEES OF THE BOARD OF DIRECTORS	51
INTERNAL AUDIT DEPARTMENT	52
REMUNERATION POLICY FOR DIRECTORS	53
SCHEDULE OF MATTERS RESERVED FOR THE BOARD DECISION	58
RISK AND CONTROLS	61
SUPERVISORY BOARD	63
RISK MANAGEMENT COMMITTEE	63
BOARD OF DIRECTORS	63
RISK FUNCTION	64
RISK APPETITE	64
ORGANIZATIONAL STRUCTURE OF RISK MANAGEMENT:	66
RISK MANAGEMENT AND CAPITAL ALLOCATION	67
STRATEGIC RISK	72
REPUTATIONAL RISK	72
GROUP RISK	72
MACROECONOMIC RISK	73
REGULATORY RISK	73
RISK MITIGATION STRATEGY	74
RISK REPORTING	74
STRESS TESTS AND SCENARIO ANALYSIS	75
FINANCIAL DISCLOSURES	76
ANEX 1 FINANCIAL STATEMENTS	114

Management Statement

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



NIKOLAZ SHURGAIA

CEO, CHAIRMAN OF BOARD OF DIRECTORS

FOREWORD BY CHIEF EXECUTIVE OFFICER

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

2021 was a very distinguished year for PASHA Bank and Re|Bank. We maintained stability in a challenging economic environment and have upgraded our products and services in multiple dimensions.

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

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

FINANCIAL HIGHLIGHTS

Below are some financial highlights of JSC PASHA Bank Georgia for the year ended 31 December 2021 with comparative figures:

PROFIT AND LOSS	2021	2020
	GEL'000	GEL'000
Net interest income after impairment losses	21,428	6,047
Non-interest income	3,123	6,364
Non-interest expenses	(28,783)	(31,502)
Income tax benefit/(expense)	226	(162)
Net loss for the year	(4,006)	(19,253)
Other comprehensive income	-	-
Total comprehensive loss for the year	(4,006)	(19,253)

BALANCE SHEET	31 DECEMBER 2021	31 DECEMBER 2020
	GEL'000	GEL'000
Cash and cash equivalents and Amounts due from credit institutions	93,042	85,636
Loans to customers	294,973	320,118
Investments in securities	42,059	46,223
Other assets	15,921	21,427
Total assets	445,995	473,404
Amounts due to credit institutions	123,135	131,091
Amounts due to customers	201,987	210,222
Other liabilities	41,795	49,007
Total liabilities	366,917	390,320
Equity	79,078	83,084
Total equity and liabilities	445,995	473,404

During the 2021 reporting year, the government started to gradually lift numerous COVID-19 related restrictions imposed earlier. This has had a positive overall impact on the economy, allowing it to gain impressive momentum over the year, translating into the officially published estimated 10.6% GDP growth in 2021. The financial sector has proved resilient thanks to the NBG's prudent supervisory approach before the COVID-19 crisis and decisive actions afterwards. In the recent years banks' prudential requirements have been brought in line with the Basel III framework, retail lending regulations revised and excessive dollarization issues addressed. Fiscal support measures to households and businesses have helped cushion the impact of the pandemic on the financial sector.

The Bank continued to assess pandemic effect and changing micro- and macroeconomic conditions on its activities, financial position and financial results. In line with the overall developments in the Georgian banking sector, the Bank has also suffered from the effects of the economic downturn caused by COVID-19 with deterioration of the performance and credit risk of the borrowers operating in the vulnerable sectors. This has resulted in the increase of the number of restructured loans and significant increase in the ECL rates across all portfolio segments, compared to the average rates existing in the pre-pandemic periods. Nevertheless, the roll out of the vaccination program by the government, the positive economic outlook for 2021 and the ongoing modifications of the customer's loan facilities has allowed the Bank to obtain certain improvements on the quality of its portfolios and recognize reversal of provisions in the reporting period. Despite the negative effect of the pandemic, the management maintains strong liquidity positions supported by the NBG's measures to strengthen banking sector resilience amidst the crisis, reasonable NPL levels due to timely restructuring actions and continued support from the Parent.

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

STRATEGY

In 2021 the Bank aspired of becoming a trusted provider of innovative win-win financial solutions in Georgia and an integral part of a prominent regional strategic investor led by integrity, sound practices, advanced technology, and competent human talent. With the strategy, the Bank is committed to be a contributor to a prominent regional investment group, committed to encouraging a culture of innovation, creativity, best corporate practice, continuity, and respect to all our stakeholders; to be a good corporate citizen and contribute to sustainable economic practices, professional entrepreneurship, and regional business partnership.

PASHA Bank's retail sub-brand Re|Bank offers transparent terms and fair relationship, with mutually beneficial financial solutions to make your everyday life easier. The Bank's corporate culture evolves with its developing strategy, always staying loyal to its core values and adopting new policies and procedures which comply with the Georgian legislation.



HUMAN RESOURCES

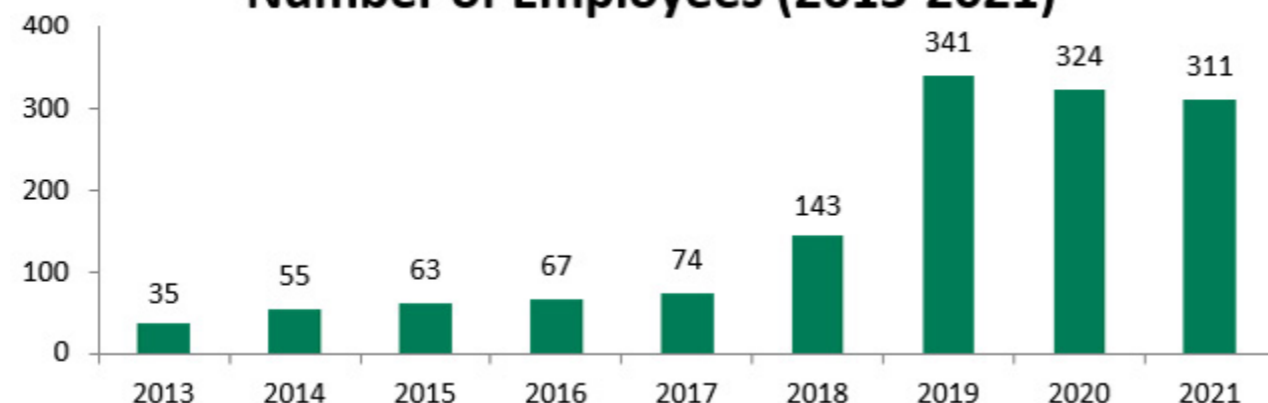
OUR PEOPLE

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

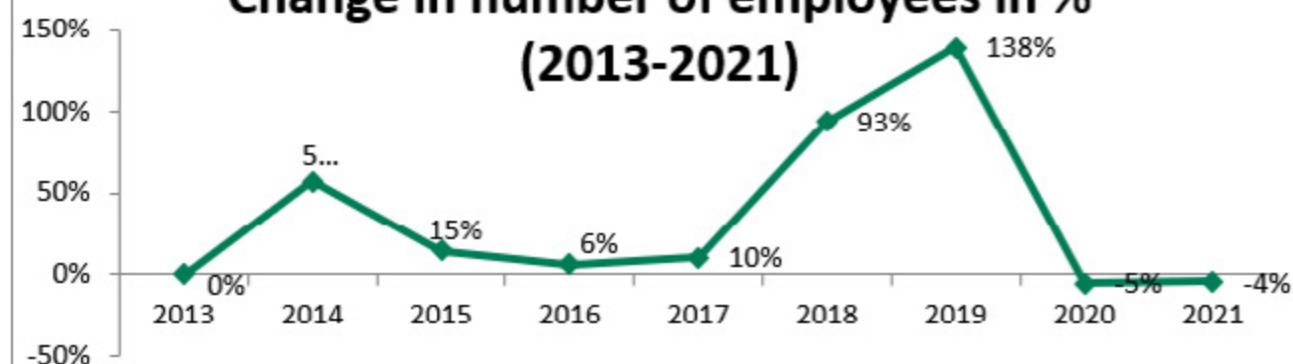
We fully support our people in their professional development, encourage their initiatives, promote transparent cooperation, and strive to keep a good work-life balance.

The HR strategy for 2021 was mostly focused on supporting the Bank's new business direction through attracting developing and retaining top talents, as well as by motivating and strengthening the existing team.

Number of Employees (2013-2021)



Change in number of employees in % (2013-2021)



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

Age Composition (Newcomers 2021)



Age Composition (December 2021)



Gender balance (December 2021)



Gender balance in MM 2021



LEARNING AND DEVELOPMENT

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

PASHA Bank's internship programs are a great start for the career advancement of young talents. The Bank hosted 36 interns during 2021 and we are proud to say that 64% out of these interns were hired and keep being a valuable member of PASHA family.

Number of People Trained (2021)	319
Total Training Hours of Employees (2021)	8360
Average Training Hours Per Employee (2021)	38

EMPLOYEE ENGAGEMENT AND SATISFACTION

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

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

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

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



REMUNERATION OF EMPLOYEES

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

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

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

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

Individual remuneration in the Bank is determined by the principle of equal pay and aims to ensure equal compensation opportunities for relatively similar jobs. Salary range and grade of the given position, individual knowledge/experience, and recent market tendencies are taken into consideration when deter-

mining the fixed remuneration. Salary range pay scales job grading methodology developed for the PBG by the worldwide acknowledged leader Korn Ferry Hay Group.

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

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

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

CORPORATE GOVERNANCE

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

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

CSR, CHARITY AND SPONSORSHIP ACTIVITIES

PASHA Bank

Throughout 2021, PASHA Bank has conducted a Pro Bono webinar for community-based organizations about "Cyber Security in Everyday Life". Pro Bono Webinar was led by Head of Information Security Department of PASHA Bank Georgia. During the meeting the participants received information about the following topics: Privacy of personal data; SPAM; Phishing issues; Security of home wireless internet; Email and security; How to protect yourself from cyber-attack; How to protect yourself from online banking and banking fraud in general.

PASHA Bank sponsored a publication and a webinar series about Georgia – Azerbaijan Strategic Partnership, organized by ADA University, the leading Azerbaijani educational institute. The University is the legal heir of the Azerbaijan Diplomatic Academy (ADA) and Information Technologies University. Objectives of the project include a review of Georgia-Azerbaijan strategic relations in the post-Karabakh war period and re-affirmation of the importance of the strategic axis between Tbilisi and Baku for regional stability and development, foreign policy agendas of both nations, and analyzing existing and emerging transport corridors.

On March 21st, PASHA Bank joined CENN's tree planting and clean-up campaign in Krtsanisi Forest Park. The event was organized with the support of the Austrian Development Cooperation (ADC) and in partnership with the Ministry of Environment and Agriculture of Georgia. March 21st marks the International Day of Forests, which has been celebrated since 2012 to raise awareness about forests. This year's theme was Forest restoration: a path to recovery and well-being. To celebrate this day, CENN, with its partner organizations has cleaned up adopted territories and planted trees in Krtsanisi Forest Park.

Re|Bank

The third year in a row Re|Bank has supported Tbilisi Mural Fest. Like the previous years this year as well 8 walls have been painted by the well-known international and local street artists. The project was supported by Tbilisi City Hall.

COMMITMENT TO CORPORATE GOVERNANCE

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

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

- Responsible, accountable, and value-based management;

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

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

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

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

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

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

CODE OF ETHICS

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

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

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

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

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

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

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

The Code of Ethics sets the following requirements:

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

OPEN-DOOR POLICY

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

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

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

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

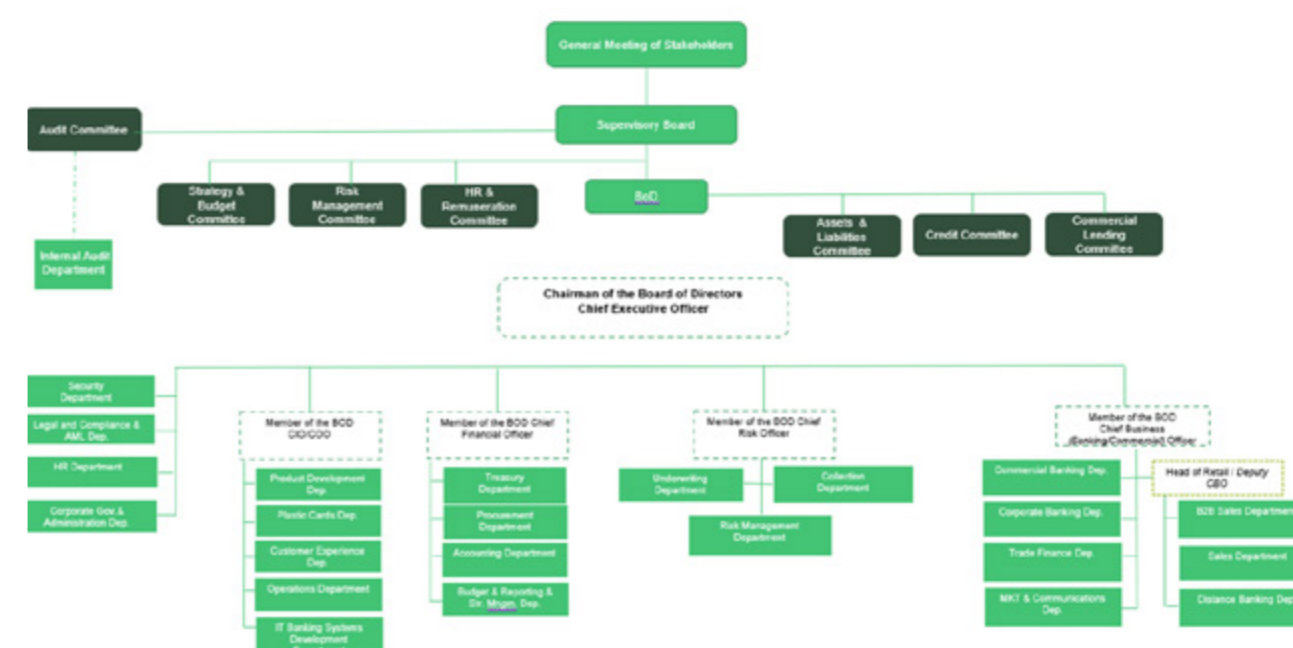
The document of the Code of Ethics can be viewed on PASHA Bank's website at www.pashabank.ge

GOVERNANCE STRUCTURE

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

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

On July 26 of 2021, the Bank updated its Organizational Structure. The modified structure offers elimination of the role duplication; ensuring the proper split of responsibilities and communication between functions; aligning proper co-existence of business functions under CIO/COO scope to ensure the effectiveness of bank digital onboarding; optimization of resources and decrease of organizational layers.



MEMBERS OF THE SUPERVISORY BOARD



FARID MAMMADOV

Chairman of the Supervisory Board

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

Experience

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

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

Education

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



GEORGE GLONTI

Senior Independent Member of the Supervisory Board

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

Experience

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

Education

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



EBRU OGAN KNOTTNERUS

Independent Member of the Supervisory Board

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

Experience

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

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

Education

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



JALAL GASIMOV

Member of the Supervisory Board

Jalal Gasimov is a member of the Supervisory Board since October 19, 2015. He is also the Chairman of the Strategy and Budget Committee and a member of the HR and Remuneration Committee.

Experience

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

Education

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

**SHAHIN MAMMADOV****Member of the Supervisory Board**

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

Experience

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

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

Education

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

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

SHAREHOLDER STRUCTURE AND SHARE CAPITAL

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

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

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

The Bank has four service offices in Georgia as of 31 December 2021. The Bank's registered legal address is 37M, Ilia Chavchavadze Avenue, 0179, Tbilisi, Georgia.

As at 31 December 2021, the Bank's 100% owner was OJSC PASHA Bank (the "Parent"). As at 31 December 2021, the Bank is ultimately owned by Mrs. Leyla Aliyeva (34.91%), Mrs. Arzu Aliyeva (34.91%) and Mr. Arif Pashayev (19.49%) and Mr. Jamal Pashayev (10.69%), who exercise joint control over the Bank.

The Bank's total authorized share capital is divided into 103,000,000 (one hundred and three million) common shares. Nominal value per share is GEL 1.00 (one Georgian Lari). Each common share entitles one vote to its owner at the General Meeting of Shareholders. The Bank is a subsidiary bank. As of December 31, 2021, 100% of the shares emitted by the Bank was solely owned by OJSC PASHA Bank.

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

In GEL thousands'		
	OJSC PASHA Bank Azerbaijan	PASHA Holding Companies
	2021	
Fee and commissions	2	5
Interest on amounts borrowed from credit institutions	21	711
Interest on subordinated debt	816	816

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

Group Structure is as follows:



GENERAL MEETING OF SHAREHOLDERS

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

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

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

ISSUES REQUIRING APPROVAL OF THE GENERAL MEETING OF SHAREHOLDERS

- a) Approval and amendment of the Bank's Charter;
- b) Approval of the Bank's annual audited financial statements;
- c) Reorganization of the Bank, which includes mergers, divisions, transformations (change of organizational- legal form), and liquidation of the Bank, full or partial cancellation of pre-emptive rights during a increase in the share capital of the Bank;
- d) Issuance of new shares, sale of shares by the existing shareholder(s), or other securities convertible into shares;
- e) Accepting or rejecting proposals of the Supervisory Board or the Board of Directors concerning the utilization (including distribution) of profit, or making decisions concerning the utilization of net prof-

it, if the said bodies fail to agree on a proposal;

- f) Approval of reports by the Board of Directors and the Supervisory Board;
- g) Election and dismissal of members of the Supervisory Board, determining the question of member remuneration, and conclusion of member contracts;
- h) Approval of the first composition of the Board of Directors of the Bank;
- i) Approval of the first composition of the Audit Committee of the Bank;
- j) Making decisions on the participation in court proceedings against the Board of Directors and the Supervisory Board members, including the appointment of a representative for such action;
- k) Adopting resolutions on the issuance and sale of shares and other securities under this Charter and Georgian legislation;
- l) Making decisions on the acquisition, sale, transfer, exchange (or other transactions to similar effect), or encumbrance of the Bank's properties the value of which is more than 25% of the book value of the Bank;
- m) Deciding on other matters according to effective Georgian legislation.

General Meeting of Shareholders

In 2021, the General Meeting of Shareholders was conducted once on March 01st. At the General Meeting of Shareholders, Mr. Mir Jamal Pashayev represented the Bank's shareholder, under a duly notarized and legalized power of attorney (proxy).

Agenda of the Annual Meeting of Shareholders

Changes in the Organizational Structure

At the meeting of March 01, 2021, the General Meeting of Shareholders approved to delegate to the Board of Directors of JSC PASHA Bank Georgia the power to approve further modifications to the organizational chart if the adjustments do not concern the governing bodies and departments.

Approval of updated Corporate Governance Policy

The meeting approved updated Corporate Governance Policy and annulled the Supervisory Board Statute and the Board of Directors Statute.

Note: The Annual Audit Financial Statements together with Independent Auditors' Report for the financial year 2021 was approved by the General Meeting of Shareholders on March 17, 2022.

The General Meeting of Shareholders approved not to distribute dividends for the period ended 31st December.

SHAREHOLDER RIGHTS

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

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

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

- a) Attend or be represented at the General Meeting and take part in the voting process (holders of common shares only);
- b) Be elected in the Supervisory Board;
- c) Participate in the distribution of profit and receive pro rata share of the dividends;
- d) Dispose their shares in accordance with Georgian legislation and the Bank Charter;
- e) In case of the Bank's liquidation, receive pro rata share of the assets remaining after the payment of the creditors' claims;
- f) Have access to information concerning economic activities of the Bank;
- g) Appeal to the Directors of the Bank to specify issues in the General Meeting agenda, request an extraordinary General Meeting, or add issues for consideration to the agenda of an already appointed General Meeting;
- h) Request a special inspection of the Bank's economic activities and annual balance sheets if they have a reasonable doubt that material irregularities have taken place;
- i) Preemptively subscribe for newly issued or existing shares of the Bank on a pro-rata basis in accordance with the terms and conditions of the Bank Charter;
- j) Appeal to a local court or, by agreement of the parties, seek private arbitration for the solution of a conflict between themselves and the Bank;
- k) Other rights as stipulated by Georgian legislation and the Bank Charter.

THE SUPERVISORY BOARD

The Supervisory Board is responsible for the general oversight of the Bank and of the Board of Directors. Its members are elected by the shareholders. The Supervisory Board is led by a Chairman, it advises the Board of Directors, and is involved in decision-making on all fundamental matters affecting the Bank. It is the key decision-making body of the Bank, responsible to the shareholders for creating and delivering sustainable shareholder value through providing entrepreneurial leadership and direction to the Bank. It

determines the Bank's strategic objectives and policies, provides the overall strategic direction within a framework of rewards, incentives and controls, demonstrates ethical leadership, and promotes a collective vision of the Bank's purpose, values, culture, and behaviors.

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

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

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

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

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

DEFINITION OF AN INDEPENDENT SUPERVISORY BOARD MEMBER

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

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

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

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

trators and significant shareholders (exception is the case when a person performs non-executive functions or occupies non-executive position);

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

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

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

SUPERVISORY BOARD MEMBERSHIP CRITERIA

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

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

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

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

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

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

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

BOARD EFFECTIVENESS REVIEW: EVALUATION OF THE SUPERVISORY BOARD MEMBERS

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

REVIEW AND ASSESSMENT OF BOARDROOM

PRACTICES

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

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

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

Throughout the year, the Bank held a high number of Board meetings; in total, the Bank convened 41 Board meetings, 30 of which were extraordinary. According to survey data from 2021 evaluations, the survey response rate remained essentially stable throughout the year, the measurements of the quality of the material delivered, duration of the meeting, as well as timeliness of submission of documentation and information to Board members were all improving.

INDEPENDENT ASSESSMENT

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

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

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

Deloitte carried out the following work for the assessment:

- Review of documentation;
- Distribution of an online survey to all Board members;
- Interviews with the Board members, C-suite executives, and some key stakeholders who regularly interact with the board; and
- Observation of some Board and committee meetings.

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

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

The strengths of the Board were identified as follows:

- Approach to governance: The Bank takes the Board effectiveness and wider governance seriously, as evidenced by the regular board evaluation process and the robust corporate governance policy.
- Strong professional background of members: The Board members are former or current executives of banks, including those outside of Azerbaijan. The Board members have substantial experience in senior executive roles, the majority of them within the Azerbaijani financial industry in general and PASHA Holding in particular.
- Positive assessment of the Board dynamics: The Board team dynamics were described positively,

with interviewees referring to a culture of open, extensive, informal, and robust debate conducive to a productive exchange of views and opinions.

- High level of participation: The Board members were reported to attend the meetings regularly and to be actively involved in boardroom discussions.
- High level of engagement from Independent Members: The degree of Independent Member engagement and personal commitment to the Bank is a strength of the Board. Deloitte considers the alignment of individual Independent Board members to strategic initiatives and the high level of interaction between Executive Directors and Independent Board Members outside of the Board meetings to be in line with the best practices.
- Cohesiveness: The Board is collegial and cohesive. Members have a good working relationship with each other, helped by the engagement described above, and the management is willing to spend time with Independent Board Members.

MEETINGS OF THE SUPERVISORY BOARD

Throughout 2021, the Supervisory Board held forty-one, including thirty extraordinary Board meetings. Due to coronavirus related restrictions, all meeting were held via videoconferencing.

Supervisory Board

Members as of 31 December 2021

SUPERVISORY BOARD					
MEMBERS ON 31 DECEMBER 2021					
Name-Surname	Position	Date of Election	Other positions	Meetings attended/eligible to attend	Attendance Rate
Farid Mammadov	Board Chairman	01.06.2017	Strategy and Budget Committee Chairman; HR and Remuneration Committee Chairman; Risk Management Committee Member	41/39	95%
George Glonti	Senior Independent member	31.12.2018	Audit Committee Chairman; Risk Management Committee Member	41/41	100%
Ebru Ogan Knottnerus	Independent member	31.12.2018	Risk Management Committee Chairperson; Audit Committee Member.	41/41	100%
Jalal Gasimov	Board Member	19.10.2015	HR and Remuneration Committee Member;	41/38	93%
Shahin Mammadov	Board Member	30.05.2018	Audit Committee Member, HR Committee Member	41/39	95%

AGENDA OF SUPERVISORY BOARD MEETINGS

Throughout the year 2021, the Supervisory Board included in its agenda, reviewed and/or approved a range of topics concerning corporate governance, operational and organizational risk management, strategic planning and budgeting, and different operational matters, such as the approval of credit facilities, etc.

Items Related to Corporate Governance

1. Approval of EY LLC as the independent auditor for the financial years of 2021 and 2022;
2. Approval of the changes in the composition of the Board of Directors;
3. Approval of Mission, Vision, Purpose and metrics for measuring success;
4. Approval of updates to the organizational structure;
5. Approval of the Annual Bank KPIs and KPIs and Scorecards 2021 for members of the Board of Directors of JSC PASHA Bank Georgia;
6. Approval of disbursement of the year-2020 performance-based bonus to the Bank employees;
7. Approval of the updated internal regulatory documents: Conflict of Interest and Disclosure of Interest Policy; Bank Related Party Standard; Bank Related Party Identification Procedure; Decision Making and Signatory Authority Matrix; Employee Benefits Scheme Proposal for 2021; Budgeting Policy; Group Accounting Policy; IFRS Accounting Policy; Internal and External Communication Policy; Group-wide Internal Mobility Policy; Department Statutes; Committee Statutes; Code of Ethics;
8. Approval of closure (suspension of operations) of branches;
9. Approval of cancelation of the Strategy and Budget Committee, the HR Committee and the Nomination and Remuneration Committee;
10. Quarterly reports on financial and other activities;
11. Quarterly reports on critical and high-risk audit findings;
12. Retail business updates;
13. Quarterly reports on related party transactions;
14. Quarterly reports on the Supervisory Board Committees;
15. Semi-annual Compliance Reports;
16. Quarterly abridged reports on boardroom practices.

Items Related to Risk Management

- 1. Risk Management Committee Reports;
- 2. Approval of internal documents: Fraud Management Policy; framework of granting grace periods to the borrowers and IFRS 9 treatment of COVID restructured portfolio; Credit Standard; Crisis Management Plan; Disaster Recovery Plan; IT Controls Action Plan; Backup Policy; Mobile Computing Device Management Policy;
- 3. Review of the memo on RAS ratio breaches and waiver approval.

Items Related to Strategic Planning and Budget

- 1. Approval of 2021-2023 strategic KPIs;
- 2. Approval of 2022 budget.

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

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

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

The Schedule of Matters Reserved for the Supervisory Board Decision can be found on Page 58.

STRATEGY CHANGE

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

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

THE SUPERVISORY BOARD COMMITTEES

The Supervisory Board has established four committees under its mandate – the Audit Committee, the Risk Management Committee, the Strategy and Budget Committee, and the HR and Remuneration Committee.

The Audit Committee

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

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

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

The Committee meetings should be held at least quarterly and may be held more often if required. During 2021, the committee held eleven meetings.

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

MEMBERS AS OF 31 DECEMBER 2021 AND COMMITTEE ATTENDANCE				
NAME-SURNAME	POSITION	DATE OF ELECTION	MEETINGS ATTENDED/ ELIGIBLE TO ATTEND	ATTENDANCE RATE
George Glonti	Committee Chairman; Senior Independent Member of the Supervisory Board	01.01.2019	11/11	100 %
Ebru Ogan Knottnerus	Committee Member; Independent Member of the Supervisory Board	01.01.2019	11/11	100 %
Shahin Mammadov	Committee Member; Member of the Supervisory Board	01.01.2019	10/11	91%

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

Remuneration of the Bank’s external auditor

Remuneration of the Bank’s auditor, including under professional services fees, for the years ended 31 December 2021 and 2020 comprises (net of VAT):

	2021	2020
Fees for the audit of the Bank’s annual financial statements for the year ended 31 December	130	138
Expenditures for other assurance services	56	55
Expenditures for other professional service	4	10
Total fees and expenditures	190	203

Fees and expenditures to other professional audit firms in respect of other professional services comprised GEL 28 thousand in 2021 (2020: GEL 34 thousand).

The Risk Management Committee

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

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

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

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

Throughout 2021, the Committee held nine meetings during which various risk management issues were reviewed and, where appropriate, endorsed for approval by the Supervisory Board. Among others, the Committee agenda included the review of risk reports and Committee presentations, proposal to shift from COVID19 Guide Special Regime for Impairment to standard IFRS 9 methodology, review the information on IFRS and regulatory provisions, ICAAP methodologies, general risk assessment of the Bank performed by NBG and its decision on GRAPE buffer, Moody’s updated Corporate PD tools, Stress Test results, RHI Glossary Terms, Information Security matters, cyber security related incident, Penetration Test Results, updates on the progress of the action plan on identified vulnerabilities, ERM and inherent risk assessment approach, Fraud Risk Management Framework, analysis on stickiness of our depositors to their commitments, the Credit Standard, Crisis Management Plan (framework) and Disaster Recovery Plan (policy), approval of the body responsible to assess probability of inherent risk assessment of business processes, updates on development of collection function of the Bank, updates on credit portfolio, Internal Audit Reports, Audit findings-status quo updates, Business Continuity Plan Test Results, status update of RHI transformation plan, the Outsourcing Policy.

MEMBERS AS OF 31 DECEMBER 2021 AND COMMITTEE ATTENDANCE				
NAME-SURNAME	POSITION	DATE OF ELECTION	MEETINGS ATTENDED/ ELIGIBLE TO ATTEND	ATTENDANCE RATE
Ebru Ogan Knottnerus	Committee Chairperson	31.12.2019	9/9	100%
Farid Mammadov	Committee Member	02.10.2017	8/9	89%
George Glonti	Committee Member	31.12.2019	9/9	100%

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

The Strategy and Budget Committee

The Strategy and Budget Committee is established with the purpose to advise and assist the Supervisory Board in discharging its duties and responsibilities. The Committee provides assurance to the Supervisory Board with respect to the preparation of the Bank’s Business Plan in accordance with the strategy formulation process, and the preparation of annual budget in accordance with the budgeting process.

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

Throughout the year, the Strategy and Budget Committee met seven times. The Committee considered and proposed to the Supervisory Board for approval a number of issues, including the Bank’s strategy and budgeting processes, Strategic KPIs for 2021-2023, the Budget for 2021, Board of Directors KPIs, and JSC PASHA Bank Georgia’s Mission, Vision, and Purpose Statements. It examined a range of reports, including financial performance reports and reports from the Strategy and Budget Committee, major strategic projects.

MEMBERS AS OF 31 DECEMBER 2021 AND COMMITTEE ATTENDANCE				
NAME-SURNAME	POSITION	DATE OF ELECTION	MEETINGS ATTENDED/ ELIGIBLE TO ATTEND	
Farid Mammadov	Committee Chairman	27.01.2020	7/6	86%
Elman Eminov	Committee Member	30.04.2018	7/6	86%
Vugar Akhundov	Committee Member	30.04.2018	7/7	100%
Murad Suleymanov	Committee Member	13.11.2019	7/6	86%
Teymur Huseynov	Committee Member	13.11.2019	7/7	100%

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

The HR and Remuneration Committee

On January 22, 2021, the HR and Remuneration Committee meeting decided to propose to the Supervisory Board and the latter approved:

Dissolution of the HR and Remuneration Committee;

Establishment of the Nomination and Remuneration Committee as a board committee with the following composition:

- Chairman: Farid Mammadov;
- Member: Jalal Gasimov;
- Member: Ayten Abbasli.

The establishment of the HR Committee as a board committee with the following composition is supported:

- Chairman: Farid Mammadov;
- Member: Shahin Mammadov;
- Member: Ayten Abbasli;

The Nomination and Remuneration Committee

The Committee was established with the purpose to provide to the Supervisory Board preliminary examinations and recommendations with respect to priority tasks in the appointment and remuneration policies. Notably, the Committee reviews the remuneration policy, grading system, recruitment, retention, and termination policies, as well as proposals to the Supervisory Board with respect to the approval

of candidates as Members of the Board of Directors. At least once a year, the Committee, together with the Risk Management Committee, reviews the remuneration process and evaluates the effectiveness of the remuneration system.

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

Throughout the year, the Nomination and Remuneration Committee held six meetings. The Committee reviewed and, where necessary, endorsed for subsequent approval by the Supervisory Board a number of issues, including, annual KPIs and scorecards for members of the Board of Directors for 2021, the fulfillment of performance KPIs and the Bank's eligibility for the bonus pool.

The HR Committee

The Committee was established with the purpose to provide to the Supervisory Board preliminary examinations and recommendations with respect to priority tasks in the human resources management.

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

Throughout the year, the HR Committee held three meetings. The Committee reviewed and, where necessary, endorsed for subsequent approval by the Supervisory Board a number of issues, including, updated Code of Ethics, grading project results, Internal Mobility Policy, HR report.

Changes to the committees:

On December 14, 2021, by the decision of the Supervisory Board, the Strategy and Budget Committee, the HR Committee, and the Nomination and Remuneration Committee were abolished.

THE BOARD OF DIRECTORS

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

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

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

- Carry out the Bank's day-to-day business operations;
- Take all reasonable measures to have up to date information on the financial standing of the Bank and make informed decisions on matters concerning the operation of the Bank; in cooperation with other functional units of the Bank, the Board of Directors shall ensure maintenance of the Bank's solvency and liquidity, and shall ensure that all measures required for this purpose are taken;
- Develop corporate strategy, strategic objectives, business plan, annual budget, and submit it to the Supervisory Board for approval;
- Present to the Supervisory Board and the General Meeting of Shareholders audited financial statements together with Independent Auditors Reports;
- Submit to the Supervisory Board for approval transactions that go beyond the scope of corporate strategy and strategic objectives, business plan and the budget (non-standard transactions);
- Report to the Supervisory Board any performance against the corporate strategy and strategic objectives, business plan and budget;
- Approve day-to-day operational banking activities, including attraction of borrowings, granting lending and trade finance products, approval of loan restructuring, approval of acquisition and disposal of fixed assets and intangible assets, administrative expenses, cash limits, implementation of equity investments in public companies, and sign respective agreements within the limits of its decision-making and signatory authority as approved by the Supervisory Board in the Decision Making and Signatory Authority Matrix;
- Determine and approve minimum and maximum interest rates to be used for credit recourses and deposits;
- Approve all forms of technical assistance, service, purchase agreements, and know-how;
- Supervise units and/or departments of the Bank, ensuring that the Bank provides proper services to its customers;
- Solve issues of collateral seizure and take other appropriate measures to protect the Bank against losses;
- Ensure the existence of a proper system of risk control in the Bank following the requirements of Georgian legislation;
- Prepare complete and accurate annual, semiannual, quarterly reports, and other financial information;
- Prepare and submit proposals and draft resolutions, reports, and any other information or documentation requested by or to be presented to the Supervisory Board or the General Meeting of Shareholders;
- Review information provided by internal and external audit of the Bank, the Audit Committee, and any expert and/or advisor engaged by the Bank, as well as reports submitted by managers of the Bank, and make appropriate decisions;
- Approve and amend internal regulatory documents of the Bank except those related to the Super-

visory Board privileges;

- Develop and submit for approval to the Supervisory Board internal regulatory documents of the Bank;
- Develop and submit for approval to the Supervisory Board the Code of Ethics, including whistleblowing procedures;
- Develop and submit for approval to the Supervisory Board organizational structure of the Bank;
- Approve structure, size, and composition of the Board of Directors committees, including appointment and removal of committee members; review committee reports;
- Approve job descriptions for managerial positions, work schedules, and collective labor agreements;
- Decide on appointment, dismissal, and remuneration of the Bank employees, except members of the Board of Directors; - Determine any other matter related to the Bank employees;
- Recommend and submit for approval to the Supervisory Board bonus pool for the Bank employees, except bonus amounts to be disbursed to front-office function;
- Approve disbursement of bonus amount to front-office function;
- Monitor compliance with legislation, internal normative documentation, and implementation of resolutions of the General Meeting of Shareholders and the Supervisory Board;
- Execute and implement resolutions issued by the Supervisory Board and the General Meeting of Shareholders;
- Perform any other duties imposed by the Supervisory Board and the General Meeting of Shareholders. The Board of Directors is led by the Chairman of the Board of Directors, who simultaneously serves as the CEO of PASHA Bank. Decisions of the Board of Directors are made by a simple majority of votes.

Nomination Process

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

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

Changes in the Board

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

- Nikoloz Shurgaia was approved on the position of the Chief Executive Officer, the Chairman and Member of the Board of Directors of JSC PASHA Bank Georgia.
- Levan Aladashvili was approved on the position of the Chief Risk Officer and the Member of the Board of Directors of JSC PASHA Bank Georgia.
- Giorgi Chanadiri was approved on the position of the Chief Information Officer/Chief Operating Officer and the Member of the Board of Directors of JSC PASHA Bank Georgia.
- The resignation of Asaf Huseynov from the position of the Chief Risk Officer and the Member of the Board of Directors of JSC PASHA Bank Georgia was approved.
- The resignation of Arda Arkun from the position of the Chief Executive Officer, the Chairman and Member of the Board of Directors of JSC PASHA Bank Georgia was approved.

The new composition of the Board of Directors of JSC PASHA Bank Georgia was approved as follows:

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

MEMBERS OF THE BOARD OF DIRECTORS



NIKOLAZ SHURGAIA

CEO, Chairman of Board of Directors

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

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

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

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



LEVAN ALADASHVILI

Member of the Board of Directors, Chief Risk Officer

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

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

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

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



GIORGI CHANADIRI

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

Giorgi Chanadiri graduated from Tbilisi State University Sukhumi Branch in 2005 and obtained his Bachelor's degree in Mathematics and Computer Sciences. He also attended Project Management course (CAMo2) at Free University of Tbilisi in 2012.

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

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

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

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



SELIM BERENT

Member of the Board of Directors, CFO

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

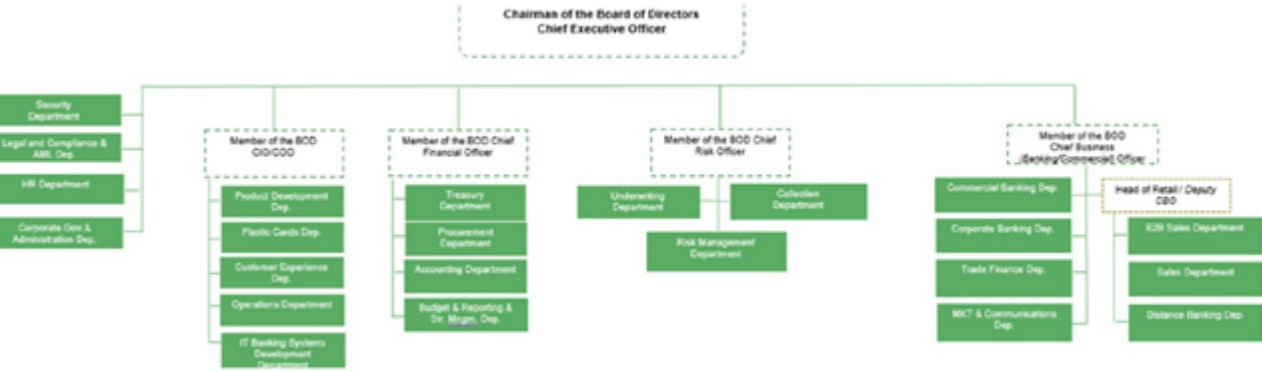
Mr. Selim Berent started his career as the financial controller in Roche Diagnostics, Istanbul in 2003. He then, worked as consultant for PricewaterhouseCoopers, in Istanbul, advising reputable companies in finance function efficiency.

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

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

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

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



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

COMMITTEES OF THE BOARD OF DIRECTORS

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

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

There are currently four committees supporting the Board of Directors:

Credit Committee

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

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

Commercial Lending Committee

The committee was established to assist the Board of Directors in discharging its duties and responsibilities in specific areas of business activities. The committee adopts decisions, releases recommendations, and monitors credit risk related issues with respect to commercial lending within delegated authority; it approves individual or group credits, or other credit products, issues recommendations regarding individual or group credit exposures, monitors commercial loan portfolio, commercial trade finance portfolio and collateral portfolio, manages problem loans, and ensures the adequacy of loan loss allowance. The Committee is accountable to the Board of Directors and works within the powers conferred to it by the Board of Directors.

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

Assets and Liabilities Committee

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

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

INTERNAL AUDIT DEPARTMENT

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

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

The Internal Audit Department Statute describes matters related to the Department's purpose, rights and duties, scope of activities, reporting, and independence. The Internal Audit Policies and Procedures

Manual defines a set of comprehensive policies, methodology, procedures, and guidance for performing risk based and value-added audits.

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

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

REMUNERATION POLICY FOR DIRECTORS

On May 13, 2019 the General Meeting of Shareholders approved the Remuneration Policy for Directors (the "Policy"). The Policy establishes guiding principles for decisions concerning remuneration of the Bank's executive and non-executive directors that ensure fair, risk based, aligned to corporate culture, competitive, and appropriate remuneration for the market in which the Bank operates. The Policy ensures that the remuneration is appropriate to attract, motivate, retain, and fairly reward executive and non-executive directors of the Bank and is consistent with the Corporate Governance Code for Commercial Banks approved by Decree № 215/04 by the Governor of the National Bank of Georgia.

Principles Of Remuneration For Non-executive Directors

Concerning remuneration of non-executive directors, the Policy adopts the following principles:

- Non-executive directors of the Bank are remunerated only in the form of fixed remuneration.
- Non-executive directors are not provided with performance-based remuneration bonuses.
- Each non-executive director is reimbursed for all reasonable expenses (travel expenses, travel insurance, accommodation, etc.) incurred in connection with their attendance of the Supervisory Board or other meetings of the governing bodies as these meetings can be held on the territory of Georgia or abroad.
- Each non-executive director, in performing his/her duties as a member of the Supervisory Board or other governing body, has the statutory right to request independent consultancy services and costs of such services shall be reimbursed by the Bank.
- The Bank is prohibited from concluding any type of consultancy agreements with non-executive directors and from paying extra for services provided to the Bank to avoid compromising independence of non-executive directors. When preparing recommendations to the General Meeting of Shareholders regarding base remuneration for non-executive directors, the HR and Remuneration Committee considers time commitment, additional responsibilities, country-specific remuneration benchmarks, residency, and active legislation. The HR and Remuneration Committee is led by the

principle of equal pay. Remuneration is determined in a way that does not compromise independence of non-executive directors. The HR and Remuneration Committee shall review remuneration of non-executive directors periodically, at least annually, to ensure remuneration levels are maintained in line with market expectations. The HR and Remuneration Committee shall inform the General Meeting of Shareholders of all cases when deviations from the Policy take place, indicating reasons for deviations.

Principles of Remuneration for Executive Directors

Concerning remuneration of executive directors, the Policy adopts the following principles:

- Executive directors’ remuneration consists of fixed and performance-based variable remuneration and other benefits.
- Executive directors are eligible for an annual bonus pool provided that they meet their performance KPIs.
- The Bank’s remuneration system should not jeopardize its standing in terms of compliance with regulatory capital requirements. If such material risk persists, consideration should be given to refraining from payment of variable remuneration to directors.
- The annual amount of performance-based variable remuneration for each executive director should not exceed 100% of the amount of his/her fixed annual remuneration with any reasonable exception approved by the General Meeting of Shareholders, but only to a maximum limit of 200%.

When preparing recommendations to the Supervisory Board regarding base remuneration for an executive director, the HR and Remuneration Committee shall consider responsibilities, country-specific remuneration benchmarks, residency, and active legislation. The HR and Remuneration Committee shall be led by the principle of equal pay.

Difference in pay might derive from “material factors”, such as geographical variations in the rates of pay determined by the cost of living. The state of the job market may also lead to different remuneration for executive directors and might constitute an objectively justified economic ground for a difference in pay. The HR and Remuneration Committee shall review remuneration of executive directors periodically, at least annually, to ensure remuneration levels are maintained in line with market expectations. Deductions from remuneration are permitted only in the order defined by Georgian legislation. The HR and Remuneration Committee shall inform the General Meeting of Shareholders on all cases when deviations from the Policy take place, indicating reasons for deviations.

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

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

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

Bonus eligibility

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

	KPI	WEIGHT
1	BEHAVIORAL KPI	10%
2	PERFORMANCE KPIS	90%

Behavioral KPIs

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

Performance KPIs 2021

- Total comprehensive income
- Number of active IC cards
- Provision expense/average portfolio
- Number of open overdue critical/high audit findings

Bonus calculation

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

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

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

LEVEL OF ACHIEVEMENT	SCORE OF ACHIEVEMENT	ADJUSTMENT TO BASE BONUS IN %
Exceed expectations	4.26-5.00	110
Meet expectations	3.00-4.25	100
Almost as expected	2.76-2.99	80
Below expectations	1.75-2.75	60
Extremely below expectations	0.00-1.74	40
Members of the Board of Directors were not eligible for bonus payments in the year 2021 due to Bank's option to use part of the capital buffers that were made available by NBG when Covid-19 pandemic started.		

REMUNERATION AWARDED DURING THE REPORTING PERIOD			
		BOARD OF DIRECTORS	SUPERVISORY BOARD
Fixed remuneration	Number of employees	6	3
	Total fixed remuneration	1,496,857	479,349
	Of which cash-based	1,367,968 ¹	479,349 ²
	Of which: deferred		
	Of which: shares or other share-linked instruments		
	Of which deferred		
	Of which other forms	128,889 ³	
	Of which deferred		
Variable remuneration	Number of employees	6	
	Total variable remuneration	541,138	0
	Of which cash-based	530,896 ⁴	
	Of which: deferred		
	Of which shares or other share-linked instruments		
	Of which deferred		
	Of which other forms	10,243 ⁵	
	Of which deferred		
Total remuneration		2,037,996	479,349

¹ The given amount is composed of the fixed pay of six members of the Board of Directors - two former members who left the Bank in the first quarter of 2021 and four current members who took office in 2021.

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

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

⁴ The bonus accrued in 2021 but to be disbursed in 2022 (318,110.7), Premiums of 2021 (19,854.13), bonus of 2020 disbursed in 2021 to two Board members that left the Bank in 2021 (192,930.79).

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

SCHEDULE OF MATTERS RESERVED FOR THE BOARD DECISION

DUTIES AND RESPONSIBILITIES		QUORUM REQUIRED
1.	Strategic supervision and control of the Bank;	N/A
2.	Approval of the corporate strategy and strategic objectives, review of delivery of the strategy and performance against strategic objectives and operational plans;	simple majority
3.	Approval of the business plan, review of delivery of the performance against the business plan;	simple majority
4.	Approval of the annual budget, review of delivery of performance against the annual budget;	simple majority
5.	Initiation of new banking/commercial activities and termination or suspension of existing activities;	simple majority
6.	Establishment and liquidation of new enterprises, branches;	simple majority
7.	Acquisition and disposal of shares in other companies;	simple majority
8.	Approval of the organizational structure;	simple majority
9.	Approval of the Code of Ethics and whistleblowing procedures;	simple majority
10.	Rendering resolutions for implementation of the decision of the General Meeting of Shareholders on admission of the Bank's shares and other securities to the stock market;	simple majority
11.	Declaring an interim dividend and recommending a final dividend;	simple majority
12.	Redemption of shares by the Bank as provided under the Georgian legislation;	simple majority
13.	Perform strategic supervision of risk management activities;	N/A
14.	Approval of the risk appetite statement, conducting annual reviews;	simple majority
15.	Approval of the business continuity plan;	simple majority
16.	Authorization for conflicts or possible conflicts of interest and related party transactions;	simple majority
16.1.	Transactions with related legal entities;	simple majority
16.2.	Transactions with related persons;	simple majority
16.3.	Agreements with related legal entities;	simple majority
16.4.	Approval of cash covered credit products (including trade finance products) to the related party;	simple majority
17.	Approval of policies, standards and procedures in respect to conflicts of interest and related party transactions;	simple majority
18.	Approval of structure, size and composition of the Board of Directors, including appointments and dismissal of its members;	simple majority
19.	Determining rights and obligations of members of the Board of Directors, monitoring and supervising their activities, requesting reports from the Board of Directors;	simple majority
20.	Approval of succession policy and succession planning for members of the Board of Directors;	simple majority
21.	Conclude the labor agreements and determine remuneration packages for members of the Board of Directors;	simple majority
22.	Approval of the regulatory framework for determining bonuses and/or additional benefits for employees, including for members of the Board of Directors of the Bank;	simple majority
23.	Approval of structure, size and composition of the Supervisory Board committees, including appointments and removals of the Supervisory Board committee members; reviewing reports of the Supervisory Board committees;	simple majority
24.	Election of the external auditors;	simple majority

DUTIES AND RESPONSIBILITIES		QUORUM REQUIRED
25.	Appointment and dismissal of trade representatives (procurators);	simple majority
26.	Appointment and dismissal of the Corporate Secretary;	simple majority
27.	Attraction of borrowings by the Bank;	simple majority
28.	Securing borrowings or any other liabilities of the Bank or any third party, if they fall outside the scope of the regular economic activities of the Bank;	simple majority
29.	Granting lending and trade finance products (by amount; by maturity);	simple majority
30.	Sale of credit asset, disregard of its amount, if: <ul style="list-style-type: none">It is a collective sale (sale of more than one credit asset at once) of credit assets;The Bank will receive loss from the sale of credit asset, andthe sale is above the decision-making limits of the Board of Directors;	simple majority
31.	Approval of loan restructuring;	simple majority
32.	Approval of loan write-off;	simple majority
33.	Approval of acquisition and disposal of fixed assets and intangible assets;	simple majority
34.	Approval of issuance of bonds;	simple majority
35.	Approval of administrative expenses;	simple majority
36.	Approval of cash limits;	simple majority
37.	Implementation of equity investments in public companies;	simple majority
38.	Implementation of any equity investments in private companies;	simple majority
39.	Approval and amendment of the Bank's statute, framework and policy type of documents;	simple majority
40.	Determining and approving the terms and conditions to be used with regard to credit recourses and deposits to the Bank's employees;	simple majority
41.	Convening General Meetings, if deemed necessary for the interests of the Bank;	simple majority
42.	Supervision and representation of the Bank in case of conflict between the members of the Board of Directors;	simple majority
43.	Based on the decision of the General Meeting, procession of legal dispute against members of the Board of Directors on behalf of the Bank, submission of a claim against members of the Board of Directors without the decision of the General Meeting if the issue is related to the responsibility of members of the Board of Directors;	simple majority
44.	Supervising implementation of measures in accordance with results of examinations carried out by the External and Internal Audits, as well as the National Bank of Georgia;	simple majority
45.	Making a decision on such issues that are beyond the scope of the Board of Directors' powers;	simple majority
46.	Perform any other duties as required by the General Meeting.	simple majority

RISK AND CONTROLS



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

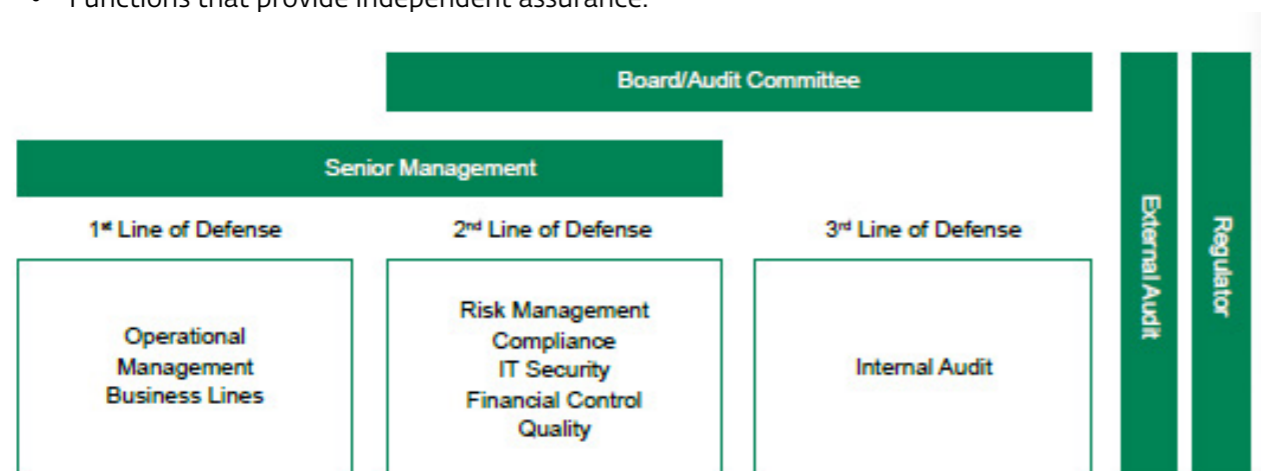
Strategies and processes are subject to regular internal review to ensure that they remain comprehensive and proportionate to the nature, scale, and complexity of the Bank's activities. Risk management helps to identify, assess, and manage risks stemming from the Bank's strategy.

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

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

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

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



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

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

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

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

SUPERVISORY BOARD

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

RISK MANAGEMENT COMMITTEE

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

BOARD OF DIRECTORS

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

RISK FUNCTION

- Develop, implement, and administer Risk Management (RM) program. This entails developing and maintaining RM policies, identifying key risks to be reported at the corporate level, coordinating risk management processes and procedures, tools, and information systems, risk analysis and risk treatment with risk owners, calculating an overall integrated risk portfolio, reporting on corporate risks and the risk portfolio to the Risk Management Committee, monitoring adherence to the risk management program, and improving risk management capability of the enterprise through communication and training;
- Establish RM communication at all levels. Gather data and develop risk reports for the RM Committee and others as directed by the RM Committee;
- Provide professional advice on RM. Provide advice and direction on current and evolving RM practices, make recommendations, and implement mandated improvements;
- Analyze RM metrics and report performance. Quantify and prioritize risks, validate decision-making analytics, assumptions and methodologies, report risks and ensure that information presented for decision-making and reporting is complete and correct;
- Deploy and maintain quantitative tools and models that assist in estimating the likelihood and severity of risk events such as an event tree model;
- Facilitate identification, measurement, monitoring, and reporting of risks;
- Design/revise the Risk Appetite Statement (RAS) in accordance with the Group RAS;
- Cascade the RAS down to different levels in the organization (i.e. define the “playing field” for units);
- Continuously review/report limit status/breaches and take proactive measures to avoid RAS breaches;
- In case of RAS breaches, propose and execute a mitigation plan;
- Ensure that incentives across the Bank are in line with the RAS;
- Ensure alignment of risk appetite, strategy, and capital allocation in the Bank (including budgeting and business planning cycles);
- Assess risk culture at different levels of the Bank.

RISK APPETITE

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

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

holders, regulator, and other stakeholders.

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

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

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

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

Risk appetite statement includes the following elements:

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

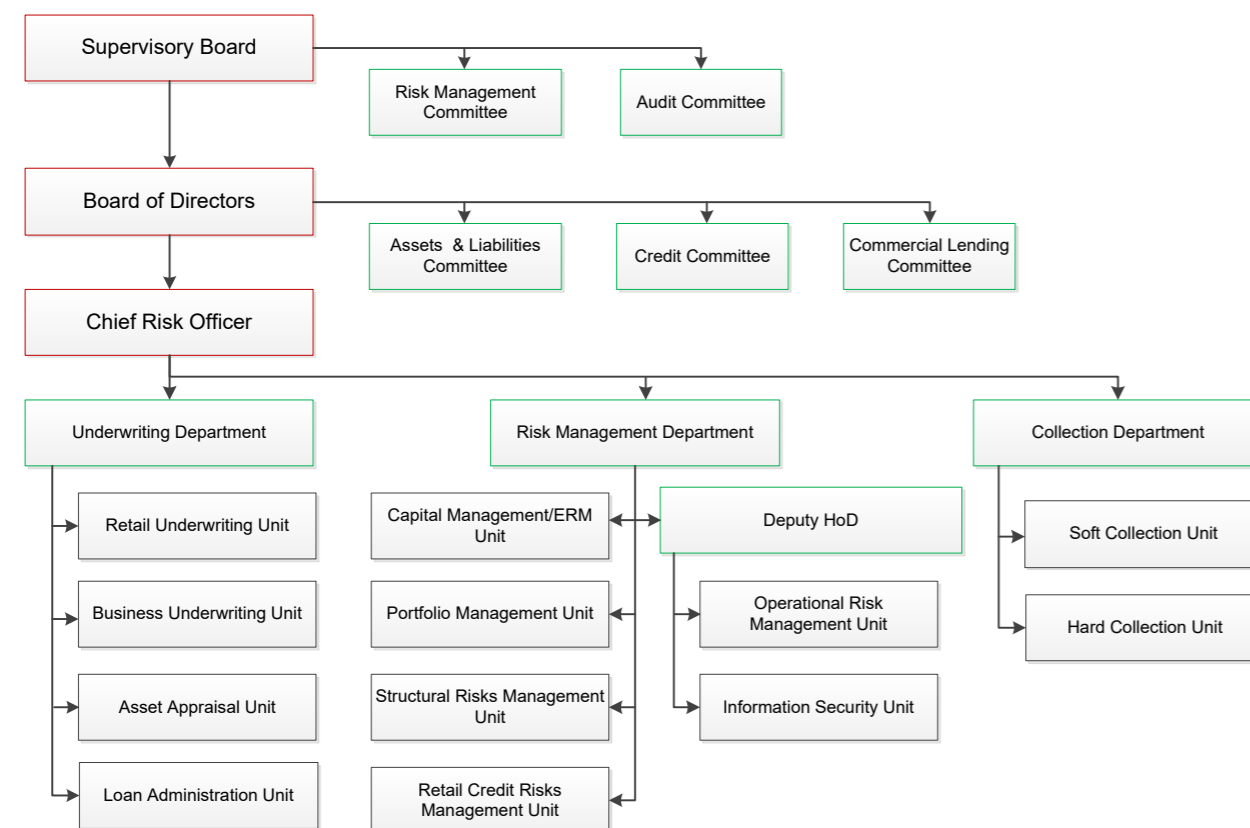
Below is an excerpt from RAS of PASHA Bank:

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

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

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

ORGANIZATIONAL STRUCTURE OF RISK MANAGEMENT:



RISK MANAGEMENT AND CAPITAL ALLOCATION

Credit Risk

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

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

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

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

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

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

- Creation of effective credit policies and procedures;
- Providing appropriate trainings to relevant employees;
- Increasing and diversifying the customer base;
- Ensuring efficiency of the decision-making process;
- Ensuring effective credit risk management;
- Monitoring external factors which can affect credit decision or portfolio quality;
- Running stress tests on portfolio level;
- Managing the optimal risk and return ratio of credit products;
- Improving and optimizing credit portfolio quality and structure;

- Assessing expected losses of loan portfolio and ensuring the adequate level of LLP;
- Assessing unexpected losses of loan portfolio and ensuring adequate capital allocation;
- Ensuring compliance of the credit process with Georgian legislation and regulations of the National Bank of Georgia.

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

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

Foreign Exchange Induced Credit Risk

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

Counterparty Risk

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

Country Risk

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

Operational Risk

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

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

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

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

Market Risk

Foreign Currency Exchange Risk

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

Interest Rate Risk

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

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

Business Risk

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

Credit Concentration Risk

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

The creation of capital buffers for concentration risk is required by the regulator under pillar 2.

Liquidity Risk

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

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

Measuring Liquidity Risk

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

Managing Liquidity Risk

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

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

refinancing facilities to maintain its liquidity in GEL. The Bank developed sound practices to manage liquidity risks, which are laid down in the Liquidity Management Policy and the Liquidity Management Procedure. Liquidity reports are regularly introduced to ALCO.

STRATEGIC RISK

Strategic risks arise from fundamental decisions that executives make concerning the Bank's objectives. Essentially, strategic risks are the risks of failing to achieve these business objectives. Strategic risks are managed by operating a proper internal governance system. In order to minimize potential losses due to strategic risks, the Bank established a framework for its internal governance system. Strategic risks are

only managed via processes; no capital is allocated for the purpose.

REPUTATIONAL RISK

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

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

GROUP RISK

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

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

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

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

MACROECONOMIC RISK

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

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

REGULATORY RISK

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

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

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

RISK MITIGATION STRATEGY

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

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

RISK REPORTING

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

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

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

STRESS TESTS AND SCENARIO ANALYSIS

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

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

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

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

Financial Disclosures

TABLE 1 Date: 31/12/2021

KEY METRICS

		4Q 2021	3Q 2021	2Q 2021	1Q 2021	4Q 2020
BASED ON BASEL III FRAMEWORK						
1	CET1 capital	65,001,418	69,006,996	70,133,158	70,050,249	71,776,388
2	Tier1 capital	65,001,418	69,006,996	70,133,158	70,050,249	71,776,388
3	Regulatory capital	88,849,008	100,472,169	103,406,697	107,992,024	110,184,247
4	CET1 capital total requirement	32,475,900	29,710,918	29,071,308	33,015,426	29,749,757
5	Tier1 capital total requirement	43,313,689	39,626,758	38,774,991	44,035,897	39,681,870
6	Regulatory capital total requirement	71,714,522	64,245,591	62,321,137	70,845,213	72,977,892
TOTAL RISK WEIGHTED ASSETS (AMOUNTS, GEL)						
7	Total Risk Weighted Assets (Total RWA) (Based on Basel III framework)	475,591,138	451,690,843	444,839,017	503,151,401	511,914,211
CAPITAL ADEQUACY RATIOS						
BASED ON BASEL III FRAMEWORK *						
8	CET1 capital	13.67%	15.28%	15.77%	13.92%	14.02%
9	Tier1 capital	13.67%	15.28%	15.77%	13.92%	14.02%
10	Regulatory capital	18.68%	22.24%	23.25%	21.46%	21.52%
11	CET1 capital total requirement	6.83%	6.88%	6.54%	6.56%	5.81%
12	Tier1 capital total requirement	9.11%	9.17%	8.72%	8.75%	7.75%
13	Regulatory capital total requirement	15.08%	15.22%	14.01%	14.08%	14.26%
INCOME						
14	Total Interest Income / Average Annual Assets	7.59%	6.95%	6.78%	6.68%	6.60%
15	Total Interest Expense / Average Annual Assets	3.38%	3.25%	3.09%	2.97%	3.14%
16	Earnings from Operations / Average Annual Assets	0.53%	-0.15%	0.03%	2.11%	-4.82%
17	Net Interest Margin	4.21%	3.70%	3.69%	3.71%	3.46%
18	Return on Average Assets (ROAA)	-1.38%	-0.84%	-0.63%	-1.09%	-4.83%
19	Return on Average Equity (ROAE)	-8.37%	-5.05%	-3.80%	-6.81%	-27.21%
ASSET QUALITY						
20	Non Performed Loans / Total Loans	12.70%	11.2%	8.2%	7.5%	7.4%
21	LLR/Total Loans	6.72%	6.3%	6.5%	6.3%	6.1%
22	FX Loans/Total Loans	64.39%	67.5%	71.0%	71.8%	71.4%
23	FX Assets/Total Assets	62.14%	67.9%	68.1%	69.4%	67.7%
24	Loan Growth-YTD	-7.78%	-14.6%	-13.3%	-1.6%	9.9%
LIQUIDITY						
25	Liquid Assets/Total Assets	13.75%	18.56%	8.31%	12.23%	10.49%
26	FX Liabilities/Total Liabilities	79.28%	78.04%	81.52%	83.22%	83.14%
27	Current & Demand Deposits/Total Assets	11.55%	12.35%	10.82%	17.67%	15.11%
LIQUIDITY COVERAGE RATIO***						
28	Total HQLA	104,280,998	108,143,749	86,056,497	90,498,031	104,948,298
29	Net cash outflow	43,044,126	38,706,725	47,485,889	57,194,378	61,827,540
30	LCR ratio (%)	246.01%	280.48%	187.21%	161.30%	169.57%
NET STABLE FUNDING RATIO						
31	Available stable funding	298,809,539	329,806,884	329,580,680	363,627,191	362,799,006
32	Required stable funding	262,699,005	247,216,831	252,802,494	276,701,836	285,625,100
33	Net stable funding ratio (%)	113.75%	133.41%	130.37%	131.41%	127.02%

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

*** LCR calculated according to NBG's methodology which is more focused on local risks than Basel framework. See the table 14. LCR; Commercial banks are required to comply with the limits by coefficients calculated according to NBG's methodology. The numbers calculated within Basel framework are given for illustratory purposes.

TABLE 2

Date: 31/12/2021

BALANCE SHEET

		REPORTING PERIOD			RESPECTIVE PERIOD OF THE PREVIOUS YEAR		
N	ASSETS	GEL	FX	TOTAL	GEL	FX	TOTAL
1	Cash	1,042,129	3,705,151	4,747,280	1,761,357	3,690,583	5,451,941
2	Due from NBG	152,538	47,578,675	47,731,213	2,224,169	47,070,075	49,294,244
3	Due from Banks	15,055,676	25,509,089	40,564,766	4,352,521	26,555,920	30,908,441
4	Dealing Securities	0	0	0	0	0	0
5	Investment Securities	28,082,000	12,590,995	40,672,995	31,411,918	13,315,232	44,727,149
6.1	Loans	109,144,121	197,372,268	306,516,389	95,196,911	237,193,668	332,390,579
6.2	Less: Loan Loss Reserves	-5,202,521	-15,381,631	-20,584,152	-7,149,453	-13,127,852	-20,277,304
6	Net Loans	103,941,600	181,990,637	285,932,237	88,047,459	224,065,816	312,113,274
7	Accrued Interest and Dividends Receivable	1,423,155	1,243,097	2,666,252	1,839,718	3,403,264	5,242,982
8	Other Real Estate Owned & Repossessed Assets	232,301	0	232,301	98,175	0	98,175
9	Equity Investments	0	0	0	0	0	0
10	Fixed Assets and Intangible Assets	14,102,196	0	14,102,196	19,899,377	0	19,899,377
11	Other Assets	2,068,098	16,637	2,084,735	2,093,147	29,137	2,122,284
12	Total assets	166,099,693	272,634,282	438,733,975	151,727,840	318,130,026	469,857,867
LIABILITIES							
13	Due to Banks	3,010,590	58,882,622	61,893,211	63,545	76,398,766	76,462,311
14	Current (Accounts) Deposits	5,270,824	41,125,909	46,396,733	12,566,761	55,805,176	68,371,937
15	Demand Deposits	3,195,878	1,096,776	4,292,655	1,670,905	956,854	2,627,759
16	Time Deposits	40,510,228	120,362,181	160,872,408	30,247,839	119,188,082	149,435,920
17	Own Debt Securities			0			0
18	Borrowings	20,000,000	23,729,034	43,729,034	15,000,000	24,583,607	39,583,607
19	Accrued Interest and Dividends Payable	453,512	7,567,740	8,021,251	327,982	4,615,357	4,943,339
20	Other Liabilities	4,002,140	8,686,138	12,688,278	6,508,132	13,141,556	19,649,688
21	Subordinated Debentures	0	30,976,000	30,976,000	0	32,766,000	32,766,000
22	Total liabilities	76,443,171	292,426,400	368,869,571	66,385,163	327,455,397	393,840,560
EQUITY CAPITAL							
23	Common Stock	103,000,000	0	103,000,000	103,000,000	0	103,000,000
24	Preferred Stock	0	0	0	0	0	0
25	Less: Repurchased Shares	0	0	0	0	0	0
26	Share Premium	0	0	0	0	0	0
27	General Reserves	0	0	0	0	0	0
28	Retained Earnings	-33,135,596	0	-33,135,596	-26,982,693	0	-26,982,693
29	Asset Revaluation Reserves	0	0	0	0	0	0
30	Total Equity Capital	69,864,404	0	69,864,404	76,017,307	0	76,017,307
31	Total liabilities and Equity Capital	146,307,575	292,426,400	438,733,975	142,402,470	327,455,397	469,857,867

TABLE 3

Date: 31/12/2021

INCOME STATEMENT

		in Lari					
		REPORTING PERIOD			RESPECTIVE PERIOD OF THE PREVIOUS YEAR		
		GEL	FX	TOTAL	GEL	FX	TOTAL
INTEREST INCOME							
1	Interest Income from Bank's "Nostro" and Deposit Accounts	707,256	-103,943	603,313	672,317	320,393	992,710
2	Interest Income from Loans	12,899,448	14,974,931	27,874,379	12,381,321	13,141,391	25,522,712
2.1	from the Interbank Loans		6	6			0
2.2	from the Retail or Service Sector Loans	4,445,677	7,997,389	12,443,066	6,149,905	5,972,818	12,122,722
2.3	from the Energy Sector Loans		537,408	537,408	427,321	189,385	616,706
2.4	from the Agriculture and Forestry Sector Loans	614,284	61,345	675,629	260,360	48,671	309,031
2.5	from the Construction Sector Loans	925,724	2,169,878	3,095,603	834,375	2,151,391	2,985,766
2.6	from the Mining and Mineral Processing Sector Loans	9,479	4,209	13,689	175	8,614	8,789
2.7	from the Transportation or Communications Sector Loans			0			0
2.8	from Individuals Loans	2,957,038	1,233,790	4,190,827	1,265,222	1,192,215	2,457,437
2.9	from Other Sectors Loans	3,947,245	2,970,905	6,918,151	3,443,963	3,578,298	7,022,261
3	Fees/penalties income from loans to customers	363,780	677,755	1,041,536	215,352	359,379	574,731
4	Interest and Discount Income from Securities	3,280,571	1,015,401	4,295,972	4,100,117	474,550	4,574,667
5	Other Interest Income			0			0
6	Total Interest Income	17,251,056	16,564,144	33,815,200	17,369,107	14,295,714	31,664,820
INTEREST EXPENSE							
7	Interest Paid on Demand Deposits	373,155	93,271	466,426	354,651	126,482	481,132
8	Interest Paid on Time Deposits	3,268,711	4,000,842	7,269,553	2,611,516	1,342,615	3,954,131
9	Interest Paid on Banks Deposits	631,992	2,715,800	3,347,792	597,052	2,807,851	3,404,903
10	Interest Paid on Own Debt Securities			0	1,694,208	2,473,889	4,168,097
11	Interest Paid on Other Borrowings	1,701,842	2,289,672	3,991,513	786,797	2,263,800	3,050,597
12	Other Interest Expenses			0			0
13	Total Interest Expense	5,975,699	9,099,585	15,075,284	6,044,224	9,014,636	15,058,860
14	Net Interest Income	11,275,356	7,464,559	18,739,916	11,324,883	5,281,077	16,605,960
NON-INTEREST INCOME							
15	Net Fee and Commission Income	-43,484	77,200	33,716	-55,706	94,907	39,201
15.1	Fee and Commission Income	118,099	380,158	498,257	101,335	361,180	462,515
15.2	Fee and Commission Expense	161,583	302,958	464,541	157,040	266,273	423,314
16	Dividend Income			0			0
17	Gain (Loss) from Dealing Securities			0			0
18	Gain (Loss) from Investment Securities			0			0
19	Gain (Loss) from Foreign Exchange Trading	9,946,379	0	9,946,379	-9,195,690	0	-9,195,690
20	Gain (Loss) from Foreign Exchange Translation	-6,985,817	0	-6,985,817	13,948,236	0	13,948,236
21	Gain (Loss) on Sales of Fixed Assets	-803,084		-803,084	-150,304		-150,304
22	Non-Interest Income from other Banking Operations	1,229,651	424,536	1,654,187	1,134,776	497,250	1,632,026
23	Other Non-Interest Income	398,863		398,863	369,968		369,968
24	Total Non-Interest Income	3,742,507	501,736	4,244,244	6,051,280	592,157	6,643,437
NON-INTEREST EXPENSES							
25	Non-Interest Expenses from other Banking Operations	880,957	1,348,671	2,229,628	946,138	904,670	1,850,808
26	Bank Development, Consultation and Marketing Expenses	4,726,470	2,814	4,729,285	5,980,784	10	5,980,795
27	Personnel Expenses	13,988,850	0	13,988,850	16,577,772	0	16,577,772
28	Operating Costs of Fixed Assets	5,711	0	5,711	9,337	0	9,337
29	Depreciation Expense	5,815,015	0	5,815,015	6,504,313	0	6,504,313
30	Other Non-Interest Expenses	1,655,367		1,655,367	1,687,858		1,687,858
31	Total Non-Interest Expenses	27,072,371	1,351,485	28,423,856	31,706,203	904,680	32,610,883
32	Net Non-Interest Income	-23,329,863	-849,749	-24,179,612	-25,654,922	-312,523	-25,967,445
33	Net Income before Provisions	-12,054,507	6,614,810	-5,439,697	-14,330,039	4,968,554	-9,361,485
34	Loan Loss Reserve	1,426,592	0	1,426,592	13,456,515	0	13,456,515
35	Provision for Possible Losses on Investments and Securities		0	0		0	0
36	Provision for Possible Losses on Other Assets	-650,504		-650,504	501,215		501,215
37	Total Provisions for Possible Losses	776,088	0	776,088	13,957,729	0	13,957,729
38	Net Income before Taxes and Extraordinary Items	-12,830,595	6,614,810	-6,215,785	-28,287,768	4,968,554	-23,319,214
39	Taxation			0			0
40	Net Income after Taxation	-12,830,595	6,614,810	-6,215,785	-28,287,768	4,968,554	-23,319,214
41	Extraordinary Items	62,882	0	62,882	125,336	0	125,336
42	Net Income	-12,767,713	6,614,810	-6,152,902	-28,162,433	4,968,554	-23,193,879

TABLE 4

Date: 31/12/2021

ON-BALANCE SHEET ITEMS PER STANDARDIZED REGULATORY REPORT

		in Lari					
		REPORTING PERIOD			RESPECTIVE PERIOD OF THE PREVIOUS YEAR		
		GEL	FX	TOTAL	GEL	FX	TOTAL
1	Contingent Liabilities and Commitments	33,284,807	18,907,716	52,192,523	42,671,004	28,088,161	70,759,166
1.1	Guarantees Issued	11,537,782	14,193,372	25,731,154	19,745,186	15,127,297	34,872,483
1.2	Letters of credit Issued			0		181,049	181,049
1.3	Undrawn loan commitments	21,747,025	4,714,344	26,461,369	22,925,818	12,779,816	35,705,634
1.4	Other Contingent Liabilities			0			0
2	Guarantees received as security for liabilities of the bank			0			0
3	Assets pledged as security for liabilities of the bank	0	0	0	0	0	0
3.1	Financial assets of the bank			0			0
3.2	Non-financial assets of the bank			0			0
4	Guarantees received as security for receivables of the bank	30,819,843	328,298,043	359,117,886	39,674,199	384,917,201	424,591,401
4.1	Surety, joint liability	27,899,002	311,835,405	339,734,407	36,624,207	370,335,782	406,959,989
4.2	Guarantees	2,920,841	16,462,638	19,383,479	3,049,992	14,581,420	17,631,412
5	Assets pledged as security for receivables of the bank	89,024,604	1,093,303,260	1,182,327,864	86,114,040	944,441,661	1,030,555,700
5.1	Cash	2,601,659	6,183,237	8,784,896	9,749,535	11,483,732	21,233,267
5.2	Precious metals and stones			0			0
5.3	Real Estate:	37,655,876	965,525,581	1,003,181,458	39,855,876	845,913,939	885,769,816
5.3.1	Residential Property	0	46,286,604	46,286,604	0	77,056,267	77,056,267
5.3.2	Commercial Property	3,855,876	847,053,641	850,909,517	3,855,876	688,686,145	692,542,022
5.3.3	Complex Real Estate	0	3,493,164	3,493,164	0	3,784,473	3,784,473
5.3.4	Land Parcel	0	38,619,226	38,619,226	0	56,357,522	56,357,522
5.3.5	Other	33,800,000	30,072,947	63,872,947	36,000,000	20,029,531	56,029,531
5.4	Movable Property	2,308,546	103,008,761	105,317,307	1,308,547	67,220,851	68,529,398
5.5	Shares Pledged	0	56	56	0	16	16
5.6	Securities			0			0
5.7	Other	46,458,522	18,585,625	65,044,147	35,200,081	19,823,122	55,023,203
6	Derivatives	24,446,025	120,526,488	144,972,513	37,872,475	256,552,384	294,424,859
6.1	Receivables through FX contracts (except options)	3,230,820	69,182,652	72,413,472	17,250,168	129,793,574	147,043,742
6.2	Payables through FX contracts (except options)	21,215,205	51,343,836	72,559,041	20,622,307	126,758,810	147,381,117
6.3	Principal of interest rate contracts (except options)			0			0
6.4	Options sold			0			0
6.5	Options purchased			0			0
6.6	Nominal value of potential receivables through other derivatives			0			0
6.7	Nominal value of potential payables through other derivatives			0			0
7	Receivables not recognized on-balance	2,593,602	3,474,526	6,068,127	1,027,027	3,943,690	4,970,717
7.1	Principal of receivables derecognized during last 3 month	279,153	0	279,153			0
7.2	Interest and penalty receivable not recognized on-balance or derecognized during last 3 month	-312,935	-519,620	-832,555	118,449	865,887	984,335
7.3	Principal of receivables derecognized during 5 years month (including last 3 month)	1,474,127	0	1,474,127	662,405	0	662,405
7.4	Interest and penalty receivable not recognized on-balance or derecognized during last 5 years (including last 3 month)	1,119,475	3,474,526	4,594,001	364,622	3,943,690	4,308,312
8	Non-cancelable operating lease	0	0	0	0	0	0
8.1	Through indefinit term agreement			0			0
8.2	Within one year			0			0
8.3	From 1 to 2 years			0			0
8.4	From 2 to 3 years			0			0
8.5	From 3 to 4 years			0			0
8.6	From 4 to 5 years			0			0
8.7	More than 5 years			0			0
9	Capital expenditure commitment			0			0

TABLE 5

Date: 31/12/2021

RISK WEIGHTED ASSETS

						in Lari
N		4Q 2021	3Q 2021	2Q 2021	1Q 2021	4Q 2020
1	Risk Weighted Assets for Credit Risk	420,416,310	408,896,276	397,624,044	454,932,913	465,140,021
1.1	Balance sheet items *	403,563,014	388,901,880	376,228,699	431,595,907	438,451,285
1.1.1	Including: amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-	-	-
1.2	Off-balance sheet items	15,405,027	17,855,652	19,400,660	21,019,211	23,747,861
1.3	Counterparty credit risk	1,448,269	2,138,743	1,994,685	2,317,795	2,940,875
2	Risk Weighted Assets for Market Risk	10,816,669	1,190,115	5,610,520	6,614,036	5,169,737
3	Risk Weighted Assets for Operational Risk	44,358,159	41,604,452	41,604,452	41,604,452	41,604,452
4	Total Risk Weighted Assets	475,591,138	451,690,843	444,839,017	503,151,401	511,914,211
* COVID 19 related provisions are deducted from balance sheet items after applying relevant risks weights and mitigation						

TABLE 6

Date: 31/12/2021

INFORMATION ABOUT SUPERVISORY BOARD, DIRECTORATE, BENEFICIARY OWNERS AND SHAREHOLDERS

MEMBERS OF SUPERVISORY BOARD		INDEPENDENCE STATUS
1	Shahin Mammadov	Member of PASHA Bank Supervisory Board
2	George Glonti	Senior Independent Member of PASHA Bank Supervisory Board
3	Ebru Ogan Knottnerus	Independent Member of PASHA Bank Supervisory Board
4	Jalal Gasimov	Member of PASHA Bank Supervisory Board
5	Farid Mammadov	Chairman of PASHA Bank Supervisory Board
MEMBERS OF BOARD OF DIRECTORS		POSITION/SUBORDINATED BUSINESS UNITS
1	Nikoloz Shurghaia	Chairman of Board of Directors, CEO
2	Selim Berent	Member of the Board of Directors, CFO
3	Levan Aladashvili	Member of the Board of Directors, Chief Risk Officer
4	George Chanadiri	Member of the Board of Directors - Chief Information Officer/Chief Operating Officer
LIST OF SHAREHOLDERS OWNING 1% AND MORE OF ISSUED CAPITAL, INDICATING SHARES		
1	PASHA Bank OJSC	100%
LIST OF BANK BENEFICIARIES INDICATING NAMES OF DIRECT OR INDIRECT HOLDERS OF 5% OR MORE OF SHARES		
1	Mr. Arif Pashayev	19.49%
2	Mrs. Arzu Aliyeva	34.91%
3	Mrs. Leyla Aliyeva	34.91%
4	Mr. Mir Jamal Pashayev	10.69%

TABLE 7

Date: 31/12/2021

LINKAGES BETWEEN FINANCIAL STATEMENT ASSETS AND BALANCE SHEET ITEMS SUBJECT TO CREDIT RISK WEIGHTING

		A	B	C
ACCOUNT NAME OF STANDARDZADZED SUPERVISORY BALANCE SHEET ITEM		CARRYING VALUES AS REPORTED IN PUBLISHED STAND- ALONE FINANCIAL STATEMENTS PER LOCAL ACCOUNTING RULES	CARRYING VALUES OF ITEMS	
			NOT SUBJECT TO CAPITAL REQUIREMENTS OR SUBJECT TO DEDUCTION FROM CAPITAL	SUBJECT TO CREDIT RISK WEIGHTING
1	Cash	4,747,280		4,747,280
2	Due from NBG	47,731,213		47,731,213
3	Due from Banks	40,564,766		40,564,766
4	Dealing Securities	-		0
5	Investment Securities	40,672,995		40,672,995
6.1	Loans	306,516,389		306,516,389
6.2	Less: Loan Loss Reserves	(20,584,152)		-20,584,152
6	Net Loans	285,932,237		285,932,237
7	Accrued Interest and Dividends Receivable	2,666,252		2,666,252
8	Other Real Estate Owned & Reposessed Assets	232,301		232,301
9	Equity Investments	-		0
10	Fixed Assets and Intangible Assets	14,102,196	4,862,986	9,239,209
11	Other Assets	2,084,735		2,084,735
	Total exposures subject to credit risk weighting before adjustments	438,733,975	4,862,986	433,870,989

TABLE 8

Date: 31/12/2021

DIFFERENCES BETWEEN CARRYING VALUES PER STANDARDIZED BALANCE SHEET USED FOR REGULATORY REPORTING PURPOSES AND THE EXPOSURE AMOUNTS USED FOR CAPITAL ADEQUACY CALCULATION PURPOSES

		in Lari
1	TOTAL CARRYING VALUE OF BALANCE SHEET ITEMS SUBJECT TO CREDIT RISK WEIGHTING BEFORE ADJUSTMENTS	433,870,989
2.1	Nominal values of off-balance sheet items subject to credit risk weighting	52,090,869
2.2	Nominal values of off-balance sheet items subject to counterparty credit risk weighting	72,413,472
3	TOTAL NOMINAL VALUES OF ON-BALANCE AND OFF-BALANCE SHEET ITEMS BEFORE ANY ADJUSTMENTS USED FOR CREDIT RISK WEIGHTING PURPOSES	558,375,330
4	Effect of provisioning rules used for capital adequacy purposes	5,474,090
5.1	Effect of credit conversion factor of off-balance sheet items related to credit risk framework	-36,685,842
5.2	Effect of credit conversion factor of off-balance sheet items related to counterparty credit risk framework (table CCR)	-70,965,203
6	Effect of other adjustments *	
7	TOTAL EXPOSURES SUBJECT TO CREDIT RISK WEIGHTING	456,198,376

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

TABLE 9

Date: 31/12/2021

REGULATORY CAPITAL

	in Lari
1 COMMON EQUITY TIER 1 CAPITAL BEFORE REGULATORY ADJUSTMENTS	69,864,404
2 Common shares that comply with the criteria for Common Equity Tier 1	103,000,000
3 Stock surplus (share premium) of common share that meets the criteria of Common Equity Tier 1	
4 Accumulated other comprehensive income	
5 Other disclosed reserves	
6 Retained earnings (loss)	-33,135,596
7 REGULATORY ADJUSTMENTS OF COMMON EQUITY TIER 1 CAPITAL	4,862,986
8 Revaluation reserves on assets	
9 Accumulated unrealized revaluation gains on assets through profit and loss to the extent that they exceed accumulated unrealized revaluation losses through profit and loss	
10 Intangible assets	4,862,986
11 Shortfall of the stock of provisions to the provisions based on the Asset Classification	
12 Investments in own shares	
13 Reciprocal cross holdings in the capital of commercial banks, insurance entities and other financial institutions	
14 Cash flow hedge reserve	
15 Deferred tax assets not subject to the threshold deduction (net of related tax liability)	
16 Significant investments in the common equity tier 1 capital (that are not common shares) of commercial banks, insurance entities and other financial institutions that are outside the scope of regulatory consolidation	
17 Holdings of equity and other participations constituting more than 10% of the share capital of other commercial entities	
18 Significant investments in the common shares of commercial banks, insurance entities and other financial institutions (amount above 10% limit)	
19 Investments in the capital of commercial banks, insurance entities and other financial institutions where the bank does not own more than 10% of the issued share capital (amount above 10% limit)	
20 Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	
21 The amount of significant Investments and Deferred Tax Assets which exceed 15% of common equity tier 1	
22 Regulatory adjustments applied to Common Equity Tier 1 resulting from shortfall of Tier 1 and Tier 2 capital to deduct investments	
23 COMMON EQUITY TIER 1	65,001,418
24 Additional tier 1 capital before regulatory adjustments	0
25 Instruments that comply with the criteria for Additional tier 1 capital	0
26 Including: instruments classified as equity under the relevant accounting standards	
27 Including: instruments classified as liabilities under the relevant accounting standards	
28 Stock surplus (share premium) that meet the criteria for Additional Tier 1 capital	
29 REGULATORY ADJUSTMENTS OF ADDITIONAL TIER 1 CAPITAL	0
30 Investments in own Additional Tier 1 instruments	
31 Reciprocal cross-holdings in Additional Tier 1 instruments	
32 Significant investments in the Additional Tier 1 capital (that are not common shares) of commercial banks, insurance entities and other financial institutions	
33 Investments in the capital of commercial banks, insurance entities and other financial institutions where the bank does not own more than 10% of the issued share capital (amount above 10% limit)	
34 Regulatory adjustments applied to Additional Tier 1 resulting from shortfall of Tier 2 capital to deduct investments	
35 ADDITIONAL TIER 1 CAPITAL	0
36 Tier 2 capital before regulatory adjustments	23,847,589
37 Instruments that comply with the criteria for Tier 2 capital	18,592,386
38 Stock surplus (share premium) that meet the criteria for Tier 2 capital	
39 General reserves, limited to a maximum of 1.25% of the bank's credit risk-weighted exposures	5,255,204
40 REGULATORY ADJUSTMENTS OF TIER 2 CAPITAL	0
41 Investments in own shares that meet the criteria for Tier 2 capital	
42 Reciprocal cross-holdings in Tier 2 capital	
43 Significant investments in the Tier 2 capital (that are not common shares) of commercial banks, insurance entities and other financial institutions	
44 Investments in the capital of commercial banks, insurance entities and other financial institutions where the bank does not own more than 10% of the issued share capital (amount above 10% limit)	
45 TIER 2 CAPITAL	23,847,589

TABLE 9.1

Date: 31/12/2021

CAPITAL ADEQUACY REQUIREMENTS

	MINIMUM REQUIREMENTS	RATIOS	AMOUNTS (GEL)
1	PILLAR 1 REQUIREMENTS		
1.1	Minimum CET1 Requirement	4.50%	21,401,601
1.2	Minimum Tier 1 Requirement	6.00%	28,535,468
1.3	Minimum Regulatory Capital Requirement	8.00%	38,047,291
2	COMBINED BUFFER		
2.1	Capital Conservation Buffer *	0.00%	-
2.2	Countercyclical Buffer	0.00%	-
2.3	Systemic Risk Buffer		-
3	PILLAR 2 REQUIREMENTS		
3.1	CET1 Pillar 2 Requirement	2.33%	11,074,299
3.2	Tier 1 Pillar2 Requirement	3.11%	14,778,221
3.3	Regulatory capital Pillar 2 Requirement	7.08%	33,667,231
	TOTAL REQUIREMENTS		
4	CET1	6.83%	32,475,900
5	Tier 1	9.11%	43,313,689
6	Total regulatory Capital	15.08%	71,714,522

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

TABLE 10

Date: 31/12/2021

RECONCILIATION OF BALANCE SHEET TO REGULATORY CAPITAL

			in Lari
N	ON-BALANCE SHEET ITEMS PER STANDARDIZED REGULATORY REPORT	CARRYING VALUES AS REPORTED IN PUBLISHED STAND-ALONE FINANCIAL STATEMENTS PER LOCAL ACCOUNTING RULES	LINKAGE TO CAPITAL TABLE
1	Cash	4,747,280	
2	Due from NBG	47,731,213	
3	Due from Banks	40,564,766	
4	Dealing Securities		
5	Investment Securities	40,672,995	
6.1	Loans	306,516,389	
6.2	Less: Loan Loss Reserves	-20,584,152	
6.2.1	Of which: General Reserves	4,754,716	
6.2.2	Of which: COVID-19 Related Reserves		
6	Net Loans	285,932,237	
7	Accrued Interest and Dividends Receivable	2,666,252	
8	Other Real Estate Owned & Repossessed Assets	232,301	
9	Equity Investments		
9.1	Of which above 10% equity holdings in financial institutions		
9.2	Of which significant investments subject to limited recognition		
9.3	Of which below 10% equity holdings subject to limited recognition		
10	Fixed Assets and Intangible Assets	14,102,196	
10.1	Of which intangible assets	4,862,986	table 9 (Capital), N10
11	Other Assets	2,084,735	
12	TOTAL ASSETS	438,733,975	
13	Due to Banks	61,893,211	
14	Current (Accounts) Deposits	46,396,733	
15	Demand Deposits	4,292,655	
16	Time Deposits	160,872,408	
17	Own Debt Securities		
18	Borrowings	43,729,034	
19	Accrued Interest and Dividends Payable	8,021,251	
20	Other Liabilities	12,688,278	
20.1	Of which general reserves on other liabilities	500,488	
21	Subordinated Debentures	30,976,000	
21.1	Of which tier 2 capital qualifying instruments	18,592,386	
22	TOTAL LIABILITIES	368,869,571	
23	Common Stock	103,000,000	
24	Preferred Stock		
25	Less: Repurchased Shares		
26	Share Premium		
27	General Reserves		
28	Retained Earnings	-33,135,596	
29	Asset Revaluation Reserves		
30	TOTAL EQUITY CAPITAL	69,864,404	

TABLE 11 Date: 31/12/2021

CREDIT RISK WEIGHTED EXPOSURES (ON-BALANCE ITEMS AND OFF-BALANCE ITEMS AFTER CREDIT CONVERSION FACTOR)

Risk weights Exposure classes		A	B	C	D	E	F
		0%		20%		35%	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount
1	Claims or contingent claims on central governments or central banks	5,624,099		-		-	
2	Claims or contingent claims on regional governments or local authorities	-		-		-	
3	Claims or contingent claims on public sector entities	-		-		-	
4	Claims or contingent claims on multilateral development banks	-		-		-	
5	Claims or contingent claims on international organizations/ institutions	-		-		-	
6	Claims or contingent claims on commercial banks	-		16,384,255		-	
7	Claims or contingent claims on corporates	-		-		-	
8	Retail claims or contingent retail claims	-		-		-	
9	Claims or contingent claims secured by mortgages on residential property	-		-		-	
10	Past due items	-		-		-	
11	Items belonging to regulatory high-risk categories	-		-		-	
12	Short-term claims on commercial banks and corporates	-		-		-	
13	Claims in the form of collective investment undertakings ('CIU')	-		-		-	
14	Other items	4,747,280		-		-	
TOTAL		10,371,379	-	16,384,255	-	-	-

G	H	I	J	K	L	M	N	O	P	Q
50%		75%		100%		150%		250%		RISK WEIGHTED EXPOSURES BEFORE CREDIT RISK MITIGATION
On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	
-		-		47,575,846		-		-		47,575,846
-		-		-		-		-		-
-		-		-		-		-		-
-		-		-		-		-		-
-		-		-		-		-		-
24,606,563		-		-	147,000	-		-		15,727,133
-		-		284,339,943	3,984,652	-		-		298,324,595
-		-		23,958,714	1,273,375	-		-		25,232,089
-		-		-		-		-		-
-		-		21,022,373		-		-		21,022,373
-		-		-		-		-		-
-		-		-		-		-		-
-		-		11,086,005		-		-		11,086,005
4,606,563	-	-	-	387,982,881	15,405,027	-	-	-	-	418,968,041

TABLE 12

Date: 31/12/2021

CREDIT RISK MITIGATION

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

TABLE 13

Date: 31/12/2021

STANDARDIZED APPROACH - EFFECT OF CREDIT RISK MITIGATION

	ASSET CLASSES	A	B	C	D	E	F
		ON-BALANCE SHEET EXPOSURES	OFF-BALANCE SHEET EXPOSURES		RWA BEFORE CREDIT RISK MITIGATION	RWA POST CREDIT RISK MITIGATION	RWA DENSITY F=E/(A+C)
			OFF-BALANCE SHEET EXPOSURES - NOMINAL VALUE	OFF-BALANCE SHEET EXPOSURES POST CCF			
1	Claims or contingent claims on central governments or central banks	53,199,946			47,575,846	47,575,846	89%
2	Claims or contingent claims on regional governments or local authorities				-	-	0%
3	Claims or contingent claims on public sector entities				-	-	0%
4	Claims or contingent claims on multilateral development banks				-	-	0%
5	Claims or contingent claims on international organizations/ institutions				-	-	0%
6	Claims or contingent claims on commercial banks	40,990,819	294,000	147,000	15,727,133	15,727,133	38%
7	Claims or contingent claims on corporates	284,339,943	30,756,172	13,984,652	298,324,595	298,324,595	100%
8	Retail claims or contingent retail claims	23,958,714	21,040,697	1,273,375	25,232,089	25,232,089	100%
9	Claims or contingent claims secured by mortgages on residential property				-	-	0%
10	Past due items	21,022,373			21,022,373	21,022,373	100%
11	Items belonging to regulatory high-risk categories				-	-	0%
12	Short-term claims on commercial banks and corporates				-	-	0%
13	Claims in the form of collective investment undertakings ('CIU')				-	-	0%
14	Other items	15,833,285			11,086,005	11,086,005	70%
	Total	439,345,079	52,090,869	15,405,027	418,968,041	418,968,041	92%

TABLE 14

Date: 31/12/2021

LIQUIDITY COVERAGE RATIO

		TOTAL UNWEIGHTED VALUE (DAILY AVERAGE)			TOTAL WEIGHTED VALUES ACCORDING TO NBG'S METHODOLOGY* (DAILY AVERAGE)			TOTAL WEIGHTED VALUES ACCORDING TO BASEL METHODOLOGY (DAILY AVERAGE)		
		GEL	FX	TOTAL	GEL	FX	TOTAL	GEL	FX	TOTAL
HIGH-QUALITY LIQUID ASSETS										
1	Total HQLA				5,833,125	8,447,872	04,280,998	6,939,746	0,686,300	57,626,046
CASH OUTFLOWS										
2	Retail deposits	5,586,486	30,161,947	35,748,433	403,148	5,084,830	5,487,978	105,254	1,146,101	1,251,355
3	Unsecured wholesale funding	44,000,852	231,524,110	75,524,962	15,575,807	19,880,244	35,456,052	15,024,365	17,150,162	32,174,528
4	Secured wholesale funding	18,260,870	-	18,260,870	-	-	-	-	-	-
5	Outflows related to off-balance sheet obligations and net short position of derivative exposures	32,922,012	20,369,953	53,291,965	6,273,012	3,474,838	9,747,850	2,079,540	1,440,703	3,520,244
6	Other contractual funding obligations	-	-	-	-	-	-	-	-	-
7	Other contingent funding obligations	2,888,612	16,074,997	18,963,609	2,257,711	1,289,661	3,547,372	2,252,203	1,178,861	3,431,063
8	TOTAL CASH OUTFLOWS	103,658,831	298,131,008	401,789,839	24,509,679	29,729,573	54,239,252	19,461,362	20,915,828	40,377,190
CASH INFLOWS										
9	Secured lending (eg reverse repos)	-	-	-	-	-	-	-	-	-
10	Inflows from fully performing exposures	93,671,630	174,709,491	268,381,120	8,362,964	2,332,896	10,695,860	17,387,564	44,832,134	62,219,697
11	Other cash inflows	5,818,402	13,302,837	19,121,239	446,867	52,399	499,266	447,234	51,996	499,229
12	TOTAL CASH INFLOWS	99,490,032	188,012,328	287,502,359	8,809,831	2,385,295	11,195,126	17,834,797	44,884,129	62,718,927
					TOTAL VALUE ACCORDING TO NBG'S METHODOLOGY* (WITH LIMITS)			TOTAL VALUE ACCORDING TO BASEL METHODOLOGY (WITH LIMITS)		
13	Total HQLA				15,833,125	88,447,872	104,280,998	6,939,746	50,686,300	57,626,046
14	Net cash outflow				15,699,848	27,344,279	43,044,126	4,865,341	5,228,957	10,094,297
15	Liquidity coverage ratio (%)				102.02%	328.25%	246.01%	116.89%	953.77%	559.53%

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

TABLE 15

Date: 31/12/2021

COUNTERPARTY CREDIT RISK

		A	B	C	D	E	F	G	H	I	J	K	L
		NOMINAL AMOUNT	PERCENTAGE	EXPOSURE VALUE	0%	20%	35%	50%	75%	100%	150%	250%	COUNTERPARTY CREDIT RISK WEIGHTED EXPOSURES
1	FX contracts	72,413,472		1,448,269	0	0	0	0	0	1,448,269	0	0	1,448,269
1.1	Maturity less than 1 year	72,413,472	2.0%	1,448,269						1,448,269			1,448,269
1.2	Maturity from 1 year up to 2 years	0	5.0%	0									0
1.3	Maturity from 2 years up to 3 years	0	8.0%	0									0
1.4	Maturity from 3 years up to 4 years	0	11.0%	0									0
1.5	Maturity from 4 years up to 5 years	0	14.0%	0									0
1.6	Maturity over 5 years	0											0
2	Interest rate contracts	0		0	0	0	0	0	0	0	0	0	0
2.1	Maturity less than 1 year		0.5%	0									0
2.2	Maturity from 1 year up to 2 years		1.0%	0									0
2.3	Maturity from 2 years up to 3 years		2.0%	0									0
2.4	Maturity from 3 years up to 4 years		3.0%	0									0
2.5	Maturity from 4 years up to 5 years		4.0%	0									0
2.6	Maturity over 5 years												0
	Total	72,413,472		1,448,269	0	0	0	0	0	1,448,269	0	0	1,448,269

TABLE 15.1

Date: 31/12/2021

LEVERAGE RATIO

ON-BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES AND SFTS)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral) *	444,208,065
2	(Asset amounts deducted in determining Tier 1 capital)	(4,862,986)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	439,345,079
DERIVATIVE EXPOSURES		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	
EU-5a	Exposure determined under Original Exposure Method	1,448,269
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	
8	(Exempted CCP leg of client-cleared trade exposures)	
9	Adjusted effective notional amount of written credit derivatives	
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	
11	Total derivative exposures (sum of lines 4 to 10)	1,448,269
SECURITIES FINANCING TRANSACTION EXPOSURES		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
14	Counterparty credit risk exposure for SFT assets	
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	
15	Agent transaction exposures	
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	-
OTHER OFF-BALANCE SHEET EXPOSURES		
17	Off-balance sheet exposures at gross notional amount	52,090,869
18	(Adjustments for conversion to credit equivalent amounts)	(34,732,757)
19	Other off-balance sheet exposures (sum of lines 17 to 18)	17,358,113
EXEMPTED EXPOSURES IN ACCORDANCE WITH CRR ARTICLE 429 (7) AND (14) (ON AND OFF BALANCE SHEET)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	
CAPITAL AND TOTAL EXPOSURES		
20	Tier 1 capital	65,001,418
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	458,151,461
LEVERAGE RATIO		
22	Leverage ratio	14.19%
CHOICE ON TRANSITIONAL ARRANGEMENTS AND AMOUNT OF DERECOGNISED FIDUCIARY ITEMS		
EU-23	Choice on transitional arrangements for the definition of the capital measure	
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	
	*COVID 19 related provisions are deducted from balance sheet items	

TABLE 16

Date: 31/12/2021

NET STABLE FUNDING RATIO

		UNWEIGHTED VALUE BY RESIDUAL MATURITY				WEIGHTED VALUE
		NO MATURITY	< 6 MONTH	6 MONTH TO <1YR	>= 1 YR	
AVAILABLE STABLE FUNDING						
1	Capital:	83,593,804	-	-	120,888,592	204,482,395
2	Regulatory capital	83,593,804			-	83,593,804
3	Other non-redeemable capital instruments and liabilities with remaining maturity more than 1 year				120,888,592	120,888,592
4	Redeemable retail deposits or non-redeemable retail deposits with residual maturity of less than one year	8,618,983	5,859,069	12,617,155	670,445	19,453,592
5	Residents' deposits	1,865,623	4,981,884	5,221,475	310,497	11,760,506
6	Non-residents' deposits	6,753,360	877,185	7,395,680	359,947	7,693,086
7	Wholesale funding	42,109,215	35,625,285	101,939,872	1,239,040	74,873,552
8	Redeemable funding or non-redeemable funding with residual maturity of less than one year, provided by the government or enterprises controlled by the government, international financial institutions and legal entities, excluding representatives of financial sector	35,212,924	12,594,309	22,970,988	-	35,389,110
9	Redeemable funding or non-redeemable funding with residual maturity of less than one year, provided by the central banks and other financial institutions	6,896,292	23,030,976	78,968,884	1,239,040	39,484,442
10	Liabilities with matching interdependent assets					
11	Other liabilities:	-	24,668,211	-	-	-
12	Liabilities related to derivatives		331,716	-	-	
13	All other liabilities and equity not included in the above categories	-	24,336,495	-	-	
14	Total available stable funding					298,809,539
REQUIRED STABLE FUNDING						
15	Total high-quality liquid assets (HQLA)	89,215,428	20,805,600	-	-	2,877,127
16	Performing loans and securities:	4,230,231	39,152,274	34,112,249	183,436,231	194,593,726
17	Loans and deposits to financial institutions secured by Level 1 HQLA	-	-	-	-	-
18	Loans and deposits to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	4,230,231	4,080,801	8,313,846	18,896,090	24,299,667
19	Loans to non-financial institutions and retail customers, of which:	-	34,720,473	25,168,403	149,153,746	156,725,123
20	With a risk weight of less than or equal to 35%					
21	Residential mortgages, of which:					
22	With a risk weight of less than or equal to 35%					
23	Securities that do not qualify as HQLA	-	351,000	630,000	15,386,395	13,568,936
24	Assets with matching interdependent liabilities					
25	Other assets:	9,239,209	1,804,212	334,882	50,840,595	61,242,424
26	Assets related to derivatives		186,147	-	-	186,147
27	All other assets not included in the above categories	9,239,209	1,618,065	334,882	50,840,595	61,056,277
28	Off-balance sheet items	-	35,800,909	12,794,313	2,995,160	3,985,728
29	Total required stable funding					262,699,005
30	Net stable funding ratio					113.75%

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

TABLE 17

Date: 31/12/2021

DISTRIBUTION BY RESIDUAL MATURITY RISK CLASSES		EXPOSURES OF ON-BALANCE ITEMS					
		ON DEMAND	≤ 1 YEAR	> 1 YEAR ≤ 5 YEAR	> 5 YEAR	NO STATED MATURITY	TOTAL
1	Claims or contingent claims on central governments or central banks	47,730,546			5,469,400		53,199,946
2	Claims or contingent claims on regional governments or local authorities						-
3	Claims or contingent claims on public sector entities						-
4	Claims or contingent claims on multilateral development banks						-
5	Claims or contingent claims on international organizations/ institutions						-
6	Claims or contingent claims on commercial banks	34,369,823	6,620,996				40,990,819
7	Claims or contingent claims on corporates		78,023,537	129,189,586	97,434,142		304,647,266
8	Retail claims or contingent retail claims		660,800	24,012,964			24,673,764
9	Claims or contingent claims secured by mortgages on residential property						-
10	Past due items*		3,956,047	9,880,776	7,185,550		21,022,373
11	Items belonging to regulatory high-risk categories						-
12	Short-term claims on commercial banks and corporates						-
13	Claims in the form of collective investment undertakings ('CIU')						-
14	Other items	4,747,280	1,846,796			9,239,209	15,833,285
15	Total	86,847,649	87,152,128	153,202,550	102,903,542	9,239,209	439,345,079

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

TABLE 18

Date: 31/12/2021

ON BALANCE ASSETS RISK CLASSES		A	B	C	D	E	F	G
		GROSS CARRYING VALUES		SPECIAL RESERVE	GENERAL RESERVE	ADDITIONAL GENERAL RESERVE	ACCUMULATED WRITE-OFF, DURING THE REPORTING PERIOD	BOOK VALUE (A+B-C-D-E)
		OF WHICH: LOANS AND OTHER ASSETS - NON-PERFORMING	OF WHICH: LOANS AND OTHER ASSETS - OTHER THAN NON-PERFORMING					
1	Claims or contingent claims on central governments or central banks		53,199,946					53,199,946
2	Claims or contingent claims on regional governments or local authorities							-
3	Claims or contingent claims on public sector entities							-
4	Claims or contingent claims on multilateral development banks							-
5	Claims or contingent claims on international organizations/institutions							-
6	Claims or contingent claims on commercial banks		40,990,819					40,990,819
7	Claims or contingent claims on corporates	38,066,939	281,761,637	15,181,310	4,996,458			299,650,808
8	Retail claims or contingent retail claims	942,037	24,415,476	683,750	477,632		296,281	24,196,132
9	Claims or contingent claims secured by mortgages on residential property							-
10	Past due items*	18,375,994	9,229,592	6,583,214	40,358			20,982,015
11	Items belonging to regulatory high-risk categories							-
12	Short-term claims on commercial banks and corporates							-
13	Claims in the form of collective investment undertakings ('CIU')							-
14	Other items	371,930	20,463,970	139,629				20,696,271
15	Total	39,380,906	420,831,848	16,004,689	5,474,090	-	296,281	438,733,975
16	Of which: loans	69,205,675	238,939,833	15,833,163	4,750,989		296,281	287,561,355
17	Of which: securities		42,401,328		723,101			41,678,227

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

TABLE 19

Date: 31/12/2021

ON BALANCE ASSETS SECTOR OF REPAYMENT SOURCE / COUNTERPARTY TYPE		A	B	C	D	E	F	G
		GROSS CARRYING VALUES		SPECIAL RESERVE	GENERAL RESERVE	ADDITIONAL GENERAL RESERVE	ACCUMULATED WRITE-OFF, DURING THE REPORTING PERIOD	BOOK VALUE (A+B-C-D-E)
		OF WHICH: LOANS AND OTHER ASSETS - NON-PERFORMING	OF WHICH: LOANS AND OTHER ASSETS - OTHER THAN NON-PERFORMING					
1	State, state organizations	177,017	6,887,601	136,608	135,518	-	42,282	6,792,492
2	Financial Institutions	12,338	141,076,330	7,588	931,790	-	5,207	140,149,290
3	Pawn-shops	2,780	4,317	2,780	85	-	-	4,232
4	Construction Development, Real Estate Development and other Land Loans	3,575,973	33,612,240	1,073,391	671,152	-	-	35,443,669
5	Real Estate Management	1,404,801	36,412,296	522,641	702,275	-	-	36,592,181
6	Construction Companies	145,436	4,651,490	242,046	63,869	-	35,393	4,491,010
7	Production and Trade of Construction Materials	2,891,430	807,366	892,338	15,980	-	997	2,790,479
8	Trade of Consumer Foods and Goods	558,432	9,188,661	191,514	177,768	-	-	9,377,811
9	Production of Consumer Foods and Goods	158,694	2,213,927	49,708	44,021	-	1,185	2,278,892
10	Production and Trade of Durable Goods	-	587,962	21,680	7,400	-	-	558,883
11	Production and Trade of Clothes, Shoes and Textiles	2,381	4,443,965	428,004	422	-	-	4,017,920
12	Trade (Other)	125,962	9,894,843	88,944	195,248	-	82,839	9,736,613
13	Other Production	92,515	1,737,966	84,084	34,285	-	10,692	1,712,111
14	Hotels, Tourism	16,131,974	31,914,345	6,319,233	499,119	-	-	41,227,967
15	Restaurants	8,105,702	4,267,431	2,634,808	44,217	-	4,823	9,694,109
16	Industry	-	11,607		230	-	-	11,377
17	Oil Importers, Filling stations, gas stations and Retailers	1,135,696	16,002,839	805,349	226,756	-	-	16,106,431
18	Energy	1,528	44,857,519	786	886,686	-	2,000	43,971,575
19	Auto Dealers	2,999	8,788,091	900	173,224	-	-	8,616,967
20	HealthCare	38,733	4,888,412	17,810	93,233	-	4,325	4,816,103
21	Pharmacy	661	279,889	661	5,567	-	-	274,322
22	Telecommunication	7,034	267,212	4,572	5,274	-	5,000	264,401
23	Service	3,775,414	22,784,628	1,276,544	426,615	-	27,956	24,856,882
24	Agriculture	479,756	2,808,282	143,927	55,818	-	-	3,088,294
25	Other	181,716	11,959,892	918,857	77,218	-	73,583	11,145,534
26	Assets on which the Sector of repayment source is not accounted for	2	18,765	286	321	-	-	18,160
27	Other assets	371,930	20,463,970	139,629	-	-	-	20,696,271
28	Total	39,380,906	420,831,848	16,004,689	5,474,090	-	296,281	438,733,975

TABLE 20

Date: 31/12/2021

CHANGES IN RESERVE FOR LOANS AND CORPORATE DEBT SECURITIES		CHANGE IN RESERVES FOR LOANS DURING THE REPORTING PERIOD	CHANGE IN RESERVES FOR CORPORATE DEBT SECURITIES DURING THE REPORTING PERIOD
1	Opening balance	17,980,066	663,192
2	An increase in the reserve for possible losses on assets	7,607,630	62,000
2.1	As a result of the origination of the new assets	4,511,778	62,000
2.2	As a result of classification of assets as a low quality	3,095,852	-
2.3	Increase reserve of foreign currency assets as a result of currency exchange rate changes	-	-
2.4	As a result of an increase in "additional general reserves"	-	-
3	Decrease in reserve for possible losses on assets	5,003,544	2,092
3.1	As a result of write-off of assets	262,248	-
3.2	As a result of partial or total payment of standard assets	1,037,456	-
3.3	As a result of partial or total payment of adversely classified assets	3,325,889	-
3.4	As a result of classification of assets as a high quality	-	-
3.5	Decrease reserve of foreign currency assets as a result of currency exchange rate changes	377,951	2,092
3.6	As a result of an decrease in "additional general reserves"	-	-
4	Closing balance	20,584,152	723,101

TABLE 21

Date: 31/12/2021

CHANGES IN THE STOCK OF NON-PERFORMING LOANS OVER THE PERIOD		GROSS CARRYING VALUE OF NON-PERFORMING LOANS	NET ACCUMULATED RECOVERIES RELATED TO DECREASE OF NON-PERFORMING LOANS
1	Opening balance	31,723,948	
2	Inflows to non-performing portfolios	18,764,551	
3	Inflows to non-performing portfolios, as a result of currency exchange rate changes	-	
4	Outflows from non-performing portfolios	11,561,835	
5	Outflow to stadrat loan portfolio		
6	Outflow to watch loan portfolio		
7	Outflow due to loan repayment, partial or total	10,586,285	
8	Outflow due to taking possession of collateral	41,398	
9	Outflow due to sale of portfolios		
10	Outflows due to write-offs		
11	Outflow due to other situations	296,281	
12	Outflows from non-performing portfolios, as a result of currency exchange rate changes	637,870	
13	Closing balance	38,926,665	

TABLE 22

Date: 31/12/2021

DISTRIBUTION OF LOANS, DEBT SECURITIES AND OFF-BALANCE-SHEET ITEMS ACCORDING TO RISK CLASSIFICATION AND PAST DUE DAYS

DISTRIBUTION OF LOANS, DEBT SECURITIES AND OFF-BALANCE-SHEET ITEMS ACCORDING TO RISK CLASSIFICATION AND PAST DUE DAYS		GROSS CARRYING VALUE OF LOANS AND DEBT SECURITIES, NOMINAL VALUE OF OFF-BALANCE-SHEET ITEMS																		
		TOTAL	CLASSIFIED IN STANDARD CATEGORY			CLASSIFIED IN WATCH CATEGORY						CLASSIFIED IN NON-PERFORMING CATEGORY								
				PAST DUE ≤ 30 DAYS	PAST DUE > 30 DAYS		PAST DUE ≤ 30 DAYS	PAST DUE > 30 DAYS < 60 DAYS	PAST DUE ≥ 60 DAYS < 90 DAYS	PAST DUE ≥ 90 DAYS		PAST DUE < 60 DAYS	PAST DUE ≥ 60 DAYS < 90 DAYS	PAST DUE ≥ 90 DAYS < 180 DAYS	PAST DUE ≥ 180 DAYS < 1 YEAR	PAST DUE ≥ 1 YEAR < 2 YEAR	PAST DUE ≥ 2 YEAR < 5 YEAR	PAST DUE ≥ 5 YEAR < 7 YEAR	PAST DUE ≥ 7 YEAR	OF WHICH: CLASSIFIED IN LOSS CATEGORY
1	Loans	306,516,389	237,549,412	2,017,879	70	30,040,311	6,805,565	137,687	222,471	3,437	38,926,665	3,145,953	95,332	1,836,869	10,407,184	2,800,245	8,100	-	339	1,581,445
1.1	Central banks																			
1.2	General governments																			
1.3	Credit institutions																			
1.4	Other financial corporations	29,723,521	29,723,521	185,856	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.5	Non-financial corporations	251,013,542	183,666,900	1,569,563	-	29,695,076	6,757,544	-	211,649	-	37,651,566	3,084,719	-	1,536,542	9,996,139	2,800,245	-	-	-	1,130,624
1.6	Households	25,779,325	24,158,991	262,460	70	345,235	48,020	137,687	10,822	3,437	1,275,099	61,234	95,332	300,327	411,045	-	8,100	-	339	450,821
2	Debt Securities	41,396,096	41,396,096	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1	Central banks																			
2.2	General governments	5,248,000	5,248,000																	
2.3	Credit institutions																			
2.4	Other financial corporations	14,000,000	14,000,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.5	Non-financial corporations	22,148,096	22,148,096	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.6	Households																			
3	Off-balance-sheet items	52,192,523	25,024,376	-	-	551,898	-	-	-	-	154,880	-	-	-	-	-	-	-	-	-
3.1	Central banks																			
3.2	General governments																			
3.3	Credit institutions	300,000	300,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.4	Other financial corporations	2,551,274	1,239,040	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.5	Non-financial corporations	49,341,249	23,485,336	-	-	551,898	-	-	-	-	154,880	-	-	-	-	-	-	-	-	-
3.6	Households																			

TABLE 23

Date: 31/12/2021

LOANS DISTRIBUTED ACCORDING TO LTV RATIO, LOAN RESERVES, VALUE OF COLLATERAL FOR LOANS AND LOANS SECURED BY GUARANTEES ACCORDING TO RISK CLASSIFICATION AND PAST DUE DAYS

Loans Distributed according to LTV ratio, Loan reserves, Value of collateral for loans and loans secured by guarantees according to Risk classification and past due days		Gross carrying value of Loans																	
		Total	Loans Classified in standard category			Loans Classified in watch category					Loans Classified in Non-Performing category								
				Past due ≤ 30 days	Past due > 30 days		Past due ≤ 30 days	Past due > 30 days < 60 days	Past due ≥ 60 days < 90 days	Past due ≥ 90 days		Past due < 60 days	Past due ≥ 60 days < 90 days	Past due ≥ 90 days < 180 days	Past due ≥ 180 days < 1 year	Past due ≥ 1 year <2 year	Past due ≥ 2 year <5 year	Past due ≥ 5 year <7 year	Past due ≥ 7 year
1	Loans	306,516,389	237,549,412	2,017,879	70	30,040,311	6,805,565	137,687	222,471	3,437	38,926,665	3,145,953	95,332	1,836,869	10,407,184	2,800,245	8,100	-	339
1.1	Secured Loans	273,924,416	206,234,420	1,755,419		29,695,076	6,757,544		211,649		37,994,919	3,084,719		1,536,542	9,996,139	2,800,245	-		
1.1.1	Loans Secured by Immovable property	235,977,351	170,262,349	1,569,563		28,850,706	6,757,544		211,649		36,864,295	3,084,719		1,536,542	9,996,139	2,800,245			
1.1.1.1	LTV ≤70%	148,656,420	117,861,817	541,011		17,273,292	1,832,323				13,521,311	1,404,801		366,000	5,229,149	2,604,867			
1.1.1.2	LTV >70% ≤85%	31,676,539	18,310,189			5,266,561			211,649		8,099,789				3,889,440				
1.1.1.3	LTV >85% ≤100%	15,733,728	9,102,821			5,299,832	4,925,221				1,331,074					195,378			
1.1.1.4	LTV >100%	39,910,663	24,987,522	1,028,552		1,011,021					13,912,121	1,679,918		1,170,542	877,550				
1.2	Reserves on Secured Loans	19,284,109	4,124,688	35,108		2,969,508	675,754		21,165		12,189,913	925,416		460,963	2,998,842	840,074			
1.3	Value of Pledged collateral																		
1.3.1	Of which value capped at the Loan value	225,019,040	159,646,918	1,569,563		28,486,665	6,757,544		211,649		36,885,457	2,908,537		1,378,106	9,979,931	2,800,245			
1.3.1.1	Of which immovable property	218,919,346	154,749,192	1,390,857		28,486,665	6,757,544		211,649		35,683,489	2,908,537		1,378,106	9,979,931	2,800,245			
1.3.2	Of which value above the cap	993,714,805	956,177,998	1,400,457		17,015,147	1,907,055		67,135		20,521,660	1,352,063		680,989	8,470,680	1,119,390			
1.3.2.1	Of which immovable property	897,370,578	863,048,728	332,512		17,015,144	1,907,055		67,135		17,306,706	1,352,063		680,989	8,470,680	1,119,390			
1.4	Loans secured by the state and state institutions																		
1.5	Loans secured by bank and /or financial institutions																		

TABLE 24

Date: 31/12/2021

SECTOR OF REPAYMENT SOURCE		GROSS CARRYING VALUE						GENERAL AND SPECIAL RESERVES						ADDITIONAL GENERAL RESERVE
			STANDARD	WATCH	SUB-STANDARD	DOUBTFUL	LOSS		STANDARD	WATCH	SUB-STANDARD	DOUBTFUL	LOSS	
1	State, state organizations	7,018,662	6,787,890	55,564	39,826	36,175	99,206	270,556	135,758	5,556	11,948	18,088	99,206	
2	Financial Institutions	32,620,848	32,603,322	5,455	2,583	6,975	2,513	659,387	652,066	545	775	3,488	2,513	
3	Pawn-shops	7,023	4,243	-	-	-	2,780	2,865	85	-	-	-	2,780	
4	Construction Development, Real Estate Development and other Land Loans	37,133,591	33,557,618	-	3,572,975	2,998	-	1,744,544	671,152	-	1,071,892	1,499	-	
5	Real Estate Management	37,530,573	35,113,767	1,012,005	1,404,801	-	-	1,224,916	702,275	101,201	421,440	-	-	
6	Construction Companies	4,757,685	3,193,442	1,420,079	38,840	36,418	68,907	304,644	63,869	142,008	11,652	18,209	68,907	
7	Production and Trade of Construction Materials	3,685,415	798,985	-	2,847,403	4,821	34,207	906,817	15,980	-	854,221	2,410	34,207	
8	Trade of Consumer Foods and Goods	6,544,635	5,788,405	212,350	537,605	3,286	2,988	302,916	115,768	21,235	161,281	1,643	2,988	
9	Production of Consumer Foods and Goods	2,359,765	2,201,071	-	155,694	-	3,000	93,730	44,021	-	46,708	-	3,000	
10	Production and Trade of Durable Goods	593,535	376,737	216,797	-	-	-	29,214	7,535	21,680	-	-	-	
11	Production and Trade of Clothes, Shoes and Textiles	4,296,395	21,116	4,272,897	2,381	-	-	428,426	422	427,290	714	-	-	
12	Trade (Other)	9,950,946	9,764,284	61,958	31,400	42,469	50,834	282,970	195,286	6,196	9,420	21,234	50,834	
13	Other Production	1,812,622	1,699,169	24,241	11,854	5,115	72,242	114,764	33,983	2,424	3,556	2,557	72,242	
14	Hotels, Tourism	47,894,114	24,955,951	6,848,656	14,953,583	743	1,135,181	6,805,612	499,119	684,866	4,486,075	372	1,135,181	
15	Restaurants	12,342,502	2,210,826	2,030,974	8,100,702	-	-	2,677,525	44,217	203,097	2,430,211	-	-	
16	Industry	11,510	11,510	-	-	-	-	230	230	-	-	-	-	
17	Oil Importers, Filling stations, gas stations and Retailers	17,134,241	11,352,145	4,646,400	1,135,696	-	-	1,032,392	227,043	464,640	340,709	-	-	
18	Energy	33,029,394	33,028,065	-	390	938	-	661,148	660,561	-	117	469	-	
19	Auto Dealers	8,664,179	8,661,180	-	2,999	-	-	174,123	173,224	-	900	-	-	
20	HealthCare	1,206,764	1,161,635	6,780	18,252	17,650	2,447	40,658	23,233	678	5,476	8,825	2,447	
21	Pharmacy	279,031	278,370	-	-	-	661	6,229	5,567	-	-	-	661	
22	Telecommunication	272,425	263,687	1,804	3,061	1,000	2,874	9,746	5,274	180	918	500	2,874	
23	Service	22,121,938	17,166,902	1,185,012	3,720,720	18,166	31,139	1,618,277	343,338	118,501	1,116,216	9,083	31,139	
24	Agriculture	3,270,637	2,790,881	-	479,756	-	-	199,744	55,818	-	143,927	-	-	
25	Other	11,959,081	3,742,175	8,036,496	64,098	43,848	72,463	992,110	74,844	803,650	19,229	21,924	72,463	
26	Assets on which the Sector of repayment source is not accounted for	18,879	16,036	2,840			2	607	321	284			2	
27	Total	306,516,389	237,549,412	30,040,311	37,124,619	220,602	1,581,445	20,584,152	4,750,989	3,004,031	11,137,386	110,301	1,581,445	

TABLE 25

Date: 31/12/2021

GROSS CARRYING VALUE/NOMINAL VALUE - DISTRIBUTION ACCORDING TO COLLATERAL TYPE		A	B	C	D	E	F	G	H	I
LOANS, CORPORATE DEBT SECURITIES AND OFF-BALANCE-SHEET ITEMS		SECURED BY DEPOSIT	SECURED BY THE STATE AND STATE INSTITUTIONS	SECURED BY BANK AND /OR FINANCIAL INSTITUTIONS	SECURED BY GOLD / GOLD JEWELRY	SECURED BY IMMOVABLE PROPERTY	SECURED BY SHARES / STOCKS AND OTHER SECURITIES	SECURED BY OTHER COLLATERAL	SECURED BY ANOTHER THIRD PARTY GUARANTEE	UNSECURED AMOUNT
1	Loans	1,263,663				218,919,346		34,346,602	1,746,917	50,239,860
2	Corporate debt securities					3,500,000		14,000,000		18,648,096
3	Off-balance-sheet itmes	3,922,611	-	19,359,356	-	5,518,453	-	1,830,514	265,905	21,295,684
4	Of which: Non-Performing Loans					35,683,489		1,201,968	1,109,462	931,746
5	Of which: Non-Performing Corporate debt securities									
6	Of which: Non-Performing Off-balance-sheet itmes					1,624,520	-	-	191,062	35,528

TABLE 26

Date: 31/12/2021

RETAIL PRODUCTS		GROSS CARRYING VALUE OF LOANS						RESERVES						NUMBER OF LOANS	WEIGHTED AVERAGE NOMINAL INTEREST RATE ON QUARTERLY DISBURSED LOANS	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE ON QUARTERLY DISBURSED LOANS	WEIGHTED AVERAGE NOMINAL INTEREST RATE (ON GROSS CARRYING VALUE OF LOANS)	WEIGHTED AVERAGE MATURITY OF LOANS ACCORDING TO THE REMAINING MATURITY (MONTHS)
			STANDARD	WATCH	SUB-STANDARD	DOUBTFUL	LOSS		STANDARD	WATCH	SUB-STANDARD	DOUBTFUL	LOSS					
1	Auto loans																	
2	Consumer Loans	14,764,687	13,979,989	186,938	161,589	114,929	321,241	725,477	279,600	18,694	48,477	57,465	321,241	1,835	15%	17%	16%	37
3	Pay Day Loans													-				
4	Momental Installments													-				
5	Overdrafts	27,173	23,397	3,437	58	67	214	1,077	468	344	17	34	214	44	14%	15%	15%	6
6	Credit Cards	10,644,113	10,155,605	154,860	98,677	105,606	129,365	430,370	203,113	15,486	29,603	52,803	129,365	13,017	36%	39%	36%	40
7	Mortgages																	
7.1	Mortgages - Purchase of completed real estate																	
7.2	Mortgages - Construction, the purchase of real estate under construction																	
7.3	Mortgages - For Real Estate Renovation																	
8	Retail Pawnshop loans																	
9	Student loans																	
10	Total Retail Products	25,435,973	24,158,991	345,235	260,324	220,602	450,821	1,156,924	483,181	34,524	78,097	110,301	450,821	14,896	65%	71%	67%	83
10.1	Between them: Loans issued on the basis of income from a pension or other state social disbursement																	

DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY SCOPES OF CONSOLIDATION																	
a	b	c	d	e	f												
Assets (as reported in published IFRS financial statements)	Carrying Values as reported in published IFRS financial statements	Carrying Values per IFRS under scope of regulatory consolidation (stand-alone)	Carrying values as reported in published stand-alone financial statements per local accounting rules (stand-alone)	Notes	Reconciliation with standardized regulatory reporting format												
					1	2	3	4	5	6.1	6.2	6	7	8	9	10	11
					Cash	Due from NBG	Due from Banks	Dealing Securities	Investment Securities	Total Loans	Less: Loan Loss Reserves	Net Loans	Accrued Interest and Dividends Receivable	Other Real Estate Owned & Repossessed Assets	Equity Investments	Fixed Assets and Intangible Assets	Other Assets
Cash and cash equivalents	42,379,545	42,379,545	42,382,635		4,747,280.02	167,845.75	37,467,165.61						343.64				42,382,635
Amounts due from credit institutions	50,662,032	50,662,032	50,666,035			47,563,367.69	3,097,600.00						5,067.25				50,666,035
Loans to customers	294,973,308	294,973,308	287,561,355							306,516,388.94	(20,584,152.12)	285,932,236.82	1,629,118.42				287,561,355
Investment securities	42,059,079	42,059,079	41,678,227						40,672,995.25				1,005,232.08				41,678,227
Property and equipment	3,827,323.63	3,827,323.63	3,827,324													3,827,323.63	3,827,324
Right of use assets	5,411,885.82	5,411,885.82	5,411,886													5,411,885.82	5,411,886
Intangible assets	4,862,986	4,862,986	4,862,986													4,862,986.08	4,862,986
Income tax asset	0	0	0														0
Deferred income tax assets	0	0	0														0
Other assets	1819091	1819091	2,343,527										26,490.90	232,301.00		2,084,735.12	2,343,527
																	0
Total assets	445,995,250	445,995,250	438,733,975	0	4,747,280	47,731,213	40,564,766	0	40,672,995	306,516,389	-20,584,152	285,932,237	2,666,252	232,301	0	14,102,196	438,733,975
a	b	c	d	e	f												
Liabilities (as reported in published IFRS financial statements)	Carrying Values as reported in published IFRS financial statements	Carrying Values per IFRS under scope of regulatory consolidation (stand-alone)	Carrying Values per local accounting rules under scope of regulatory consolidation (stand-alone)	Notes	Reconciliation with standardized regulatory reporting format												
					13	14	15	16	17	18	19	20	21	22			
					Due to Banks	Current (Accounts) Deposits	Demand Deposits	Time Deposits	Own Debt Securities	Borrowings	Accrued Interest and Dividends Payable	Other Liabilities	Subordinated Debentures	Total Liabilities			
Amounts due to credit institutions	123,134,922	123,134,922	123,134,922		61,893,211			10,248,000		43,729,034	7,264,676			123,134,922			
Amounts due to customers	201,986,682	201,986,682	201,990,200			46,396,733	4,292,655	150,624,408			676,405			201,990,200			
Provisions for guarantees and letters of credit	240,389	240,389	634,038									634,038		634,038			
Deferred income tax liability	0	0	0											0			
Lease Liabilities	6,146,658	6,146,658	6,146,658								28,544	6,118,115		6,146,658			
Other liabilities	5,187,549	5,187,549	5,936,125									5,936,125		5,936,125			
Subordinated debt	30,222,258	30,222,258	31,027,627								51,627		30,976,000	31,027,627			
														0			
Total liabilities	366,918,459	366,918,459	368,869,571	0	61,893,211	46,396,733	4,292,655	160,872,408	0	43,729,034	8,021,251	12,688,278	30,976,000	368,869,571			
a	b	c	d	e	f												
Equity (as reported in published IFRS financial statements)	Carrying Values as reported in published IFRS financial statements	Carrying Values per IFRS under scope of regulatory consolidation (stand-alone)	Carrying Values per local accounting rules under scope of regulatory consolidation (stand-alone)	Notes	Reconciliation with standardized regulatory reporting format												
					23	24	25	26	27	28	29	30					
					Common Stock	Preferred Stock	Less: Repurchased Shares	Share Premium	General Reserves	Retained Earnings	Asset Revaluation Reserves	Total Equity Capital					
Share capital	103,000,000	103,000,000	103,000,000		103,000,000							103,000,000					
Additional paid-in capital	1,154,911	1,154,911															
Retained earnings	-25,078,119	-25,078,119	-25,078,119							-33,135,596		-33,135,596					
Other reserves												0					
												0					
												0					
												0					
												0					
												0					
Total equity	79,076,791	79,076,791	77,921,881	0	103,000,000	0	0	0	0	-33,135,596	0	69,864,404					
* დამგვალეებიდან გამომდინარე სხვა აქტივები , სხვა ვალდებულებები და გაუნაწილებელი მოგება მყირედით არ ემთხვევა გამოქვეყნებულ ფასს დინანსურ ანგარიშგებაში მოცემული საბალანსო ღირებულებებს																	

Table 21 Consolidation by entities							
	Name of Entity	Method of Accounting consolidation	Method of regulatory consolidation				Description
			Full Consolidation	Proportional Consolidation	Neither consolidated nor deducted	Deducted	
1	XXX	Full Consolidation					
2	XXX	Proportional Consolidation					
3	XXX	Not consolidated					

Table 22 Information about historical operational losses				
		T-2021	T-2020	T-2019
1	Total amount of losses	0	5,000	0
2	Total amount of losses, exceeding GEL 10,000			
3	Number of events with losses exceeding GEL 10,000			
4	Total amount of 5 biggest losses	0	5,000	0

Table 23 Operational risks - basic indicator approach						
		a	b	c	d	e
		T-2022	T-2021	T-2020	Average of sums of net interest and net non-interest income during last three years	Risk Weighted asset (RWA)
1	Net interest income	18,739,916	16,605,960	18,266,981		
2	Total Non-Interest Income	4,244,244	6,643,437	4,877,017		
3	less: income (loss) from selling property	-803,084	-150,304	-639,670		
4	Total income (1+2-3)	23,787,243	23,399,702	23,783,668	23,656,871	44,356,634

Table 24 Remuneration awarded during the reporting period					
			Board of Directors	Supervisory Board	Other material risk takers
1	Fixed remuneration	Number of employees	6	3	
2		Total fixed remuneration (3+5+7)	1,496,857	479,349	0
3		Of which cash-based	1,367,968	479,349	
4		Of which: deferred			
5		Of which: shares or other share-linked instruments			
6		Of which deferred			
7		Of which other forms	128,889		
8		Of which deferred			
9	Variable remuneration	Number of employees	6		
10		Total variable remuneration (11+13+15)	541,138	0	0
11		Of which cash-based	530,896		
12		Of which: deferred			
13		Of which shares or other share-linked instruments			
14		Of which deferred			
15		Of which other forms	10,243		
16		Of which deferred			
17	Total remuneration		2,037,996	479,349	0

TABLE 25	SPECIAL PAYMENTS	Board of Directors	Supervisory Board	Other material risk takers
Guaranteed bonuses	Number of employees			
	Total amount			
Sign-on awards	Number of employees			
	Total amount:	0	0	0
	Of which cash-based			
	Of which shares			
	Of which share-linked instruments			
	Of which other instruments			
Severance payments	Number of employees			
	Total amount:	0	0	0
	Of which cash-based			
	Of which shares			
	Of which share-linked instruments			
	Of which other instruments			

TABLE 26	INFORMATION ABOUT DEFERRED AND RETAINED REMUNERATION					
		a	b	c	d	e
		Total amount of outstanding deferred remuneration	Of which Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of reduction during the year due to ex post explicit adjustments	Total amount of reduction during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
1	Board of Directors	0	0	0	0	0
2	Cash					
3	Shares					
4	Share-linked instruments					
5	Other					
6	Supervisory Board	0	0	0	0	0
7	Cash					
8	Shares					
9	Share-linked instruments					
10	Other					
11	Other material risk takers	0	0	0	0	0
12	Cash					
13	Shares					
14	Share-linked instruments					
15	Other					
16	Total	0	0	0	0	0

TABLE 27		SHARES OWNED BY SENIOR MANAGEMENT												
		a	b	c	d	e	f	g	h	i	j	k	l	m
		Amount of shares at the beginning of the reporting period			Changes during the reporting period							Amount of shares at the end of the reporting period		
		Unvested	Vested	Total (a+b)	Awarded during the period		Vesting	Reduction during the period		Other Changes		Unvested (a+d-f-g)	Vested (b+e+f-h+i-j)	Total(k+l)
					Of which: Unvested	Of which: Vested		Unvested	Vested	Purchase	Sell			
	Senior management													
1	Total amount:	0	0	0	0	0	0	0	0	0	0	0	0	0
1.1				0								0	0	0
1.2				0								0	0	0
1.3				0								0	0	0
1.4				0								0	0	0
1.5				0								0	0	0
1.6				0								0	0	0
.....				0								0	0	0
	Other material risk takers													
2	Total amount:											0	0	0

Annex 1

Financial Statements



EY LLC
Kote Abkhazi Street, 44
Tbilisi, 0105, Georgia
Tel: +995 (32) 215 8811
Fax: +995 (32) 215 8822
www.ey.com/ge

შპს იუაი
საქართველო, 0105 თბილისი
კოტე აფხაზის ქუჩა 44
ტელ: +995 (32) 215 8811
ფაქსი: +995 (32) 215 8822

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of JSC PASHA Bank Georgia

Report on the audit of the financial statements

Opinion

We have audited the financial statements of JSC PASHA Bank Georgia (the "Bank"), which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2021 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Emphasis of matter paragraph

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

Other information included in the Bank's 2021 Annual Report

Other information consists of the information included in The Bank's 2021 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2021 Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evi-

dence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Marchello Gelashvili

On behalf of EY LLC

Tbilisi, Georgia

24 February 2022

JSC PASHA Bank Georgia

Financial statements

Year ended 31 December 2021
together with independent auditor’s report

Contents

Independent auditor’s report

Statement of financial position 1
Statement of comprehensive income..... 2
Statement of changes in equity..... 3
Statement of cash flows..... 4

Selected explanatory notes to the financial statements

1. Principal activities 5
2. Basis of preparation..... 5
3. Summary of accounting policies 5
4. Significant accounting judgments and estimates 14
5. Cash and cash equivalents 15
6. Amounts due from credit institutions..... 15
7. Loans to customers 16
8. Investment securities 20
9. Property and equipment 21
10. Right of use assets 22
11. Intangible assets..... 23
12. Other assets and liabilities..... 23
13. Amounts due to credit institutions 24
14. Amounts due to customers 24
15. Subordinated debt 25
16. Taxation..... 25
17. Equity 27
18. Commitments and contingencies..... 27
19. Net fee and commission income..... 29
20. Personnel, general and administrative expenses 30
21. Risk management..... 30
22. Fair value measurements 39
23. Maturity analysis of assets and liabilities 41
24. Related party disclosures 42
25. Capital adequacy..... 43

JSC PASHA Bank Georgia

Financial statements

Statement of financial position**As at 31 December 2021***(Amounts in tables are in thousands of Georgian lari)*

	Notes	2021	2020
Assets			
Cash and cash equivalents	5	42,380	39,118
Amounts due from credit institutions	6	50,662	46,518
Loans to customers	7	294,973	320,118
Investment securities	8	42,059	46,223
Property and equipment	9	3,827	6,738
Right of use assets	10	5,412	8,921
Intangible assets	11	4,863	4,241
Other assets	12	1,819	1,527
Total assets		445,995	473,404
Liabilities			
Amounts due to credit institutions	13	123,135	131,091
Amounts due to customers	14	201,987	210,222
Provisions	18	240	395
Deferred income tax liability	16	-	226
Lease liabilities	10	6,147	10,528
Subordinated debt	15	30,222	31,742
Other liabilities	12	5,186	6,116
Total liabilities		366,917	390,320
Equity			
Share capital	17	103,000	103,000
Additional paid-in capital	17	1,155	1,155
Accumulated deficit		(25,077)	(21,071)
Total equity		79,078	83,084
Total equity and liabilities		445,995	473,404

Signed on behalf of the Board of Directors of the Bank on 24 February 2022:

Nikoloz Shurgaia

Chairman of the Board of Directors

Selim Berent

Chief Financial Officer,
Member of the Board of Directors

The accompanying selected explanatory notes on pages 5 to 44 are an integral part of these financial statements.

1

JSC PASHA Bank Georgia

Financial statements

Statement of comprehensive income**For the year ended 31 December 2021***(Amounts in tables are in thousands of Georgian lari)*

	Notes	2021	2020
Interest income calculated using effective interest rate			
Loans to customers		28,931	28,444
Investment securities		4,296	4,575
Amounts due from credit institutions		603	992
		33,830	34,011
Interest expense			
Amounts due to customers		(6,737)	(7,714)
Amounts due to credit institutions		(6,705)	(5,764)
Subordinated debt		(1,633)	(1,581)
Lease liabilities		(405)	(600)
		(15,480)	(15,659)
Net interest income		18,350	18,352
Credit reversal/(loss) on interest bearing assets	5, 6, 7, 8, 18	3,078	(12,305)
Net interest income after impairment losses		21,428	6,047
Net (losses)/gains from foreign currencies			
- dealing		9,946	(9,196)
- translation differences		(7,483)	14,225
Net fee and commission income	19	56	835
Other operating income		604	500
Non-interest income		3,123	6,364
Personnel expenses	20	(15,391)	(16,597)
General and administrative expenses	20	(6,541)	(7,976)
Depreciation and amortisation	9, 10, 11	(5,815)	(6,504)
Net losses on modification of financial assets measured at amortised cost	7	(55)	(261)
Provisions		(39)	(3)
Other operating expenses		(942)	(161)
Non-interest expenses		(28,783)	(31,502)
Loss before income tax		(4,232)	(19,091)
Income tax benefit/(expense)	16	226	(162)
Net loss for the year		(4,006)	(19,253)
Other comprehensive income/(loss)			
Other comprehensive income to be reclassified to profit or loss in subsequent periods		-	-
Total comprehensive loss for the year		(4,006)	(19,253)

The accompanying selected explanatory notes on pages 5 to 44 are an integral part of these financial statements.

2

JSC PASHA Bank Georgia

Financial statements

Statement of changes in equity**For the year ended 31 December 2021***(Amounts in tables are in thousands of Georgian lari)*

	Share capital	Additional paid-in capital	(Accumulated deficit) retained earnings	Total equity
1 January 2020	103,000	1,155	(1,818)	102,337
Total comprehensive loss or the year	–	–	(19,253)	(19,253)
31 December 2020	103,000	1,155	(21,071)	83,084
Total comprehensive loss for the year	–	–	(4,006)	(4,006)
31 December 2021	103,000	1,155	(25,077)	79,078

The accompanying selected explanatory notes on pages 5 to 44 are an integral part of these financial statements.

3

JSC PASHA Bank Georgia

Financial statements

Statement of cash flows**For the year ended 31 December 2021***(Amounts in tables are in thousands of Georgian lari)*

	Notes	2021	2020
Cash flows from operating activities			
Interest received		36,784	30,676
Interest paid		(12,402)	(12,113)
Fees and commissions received		1,716	1,715
Fees and commissions paid		(1,685)	(947)
Realised gains/(losses) from dealing in foreign currencies		9,946	(9,196)
Personnel expenses paid		(15,411)	(16,523)
General and administrative expenses paid		(7,399)	(8,329)
Other income received		3	7
Cash flows from / (used in) operating activities before changes in operating assets and liabilities		11,552	(14,710)
<i>Net (increase)/decrease in operating assets</i>			
Amounts due from credit institutions		(6,562)	18,731
Loans to customers		8,134	5,111
Other assets		(236)	(86)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to credit institutions		(6,422)	6,468
Amounts due to customers		1,730	(56,598)
Other liabilities		(129)	1,561
Net cash from / (used in) operating activities before income tax		8,067	(39,523)
Income tax paid		–	–
Net cash from / (used in) operating activities after income tax		8,067	(39,523)
Cash flows from investing activities			
Purchase of investment securities	8	(3,100)	(30,484)
Proceeds from redemption of investment securities	8	6,500	12,250
Purchase of property and equipment		(481)	(371)
Proceeds from sale of property and equipment		466	38
Purchase of intangible assets		(1,964)	(960)
Net cash from / (used in) investing activities		1,421	(19,527)
Cash flows from financing activities			
Principal repayments of lease liability		(2,891)	(3,232)
Net cash (used in) financing activities		(2,891)	(3,232)
Effect of exchange rates changes on cash and cash equivalents		(3,360)	12,468
Effect of expected credit losses on cash and cash equivalents		25	(19)
Net increase/(decrease) in cash and cash equivalents		3,262	(49,833)
Cash and cash equivalents, beginning	5	39,118	88,951
Cash and cash equivalents, ending	5	42,380	39,118

The accompanying selected explanatory notes on pages 5 to 44 are an integral part of these financial statements.

4

JSC PASHA Bank Georgia

Notes to the financial statements for 2021

(Amounts in tables are in thousands of Georgian lari)

1. Principal activities

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

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

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

The Bank has four service offices in Georgia as of 31 December 2021. The Bank's registered legal address is 37M, Iliia Chavchavadze Avenue, 0179, Tbilisi, Georgia.

As at 31 December 2021 and 2020, the Bank's 100% owner was OJSC PASHA Bank (the "Parent"), the Republic of Azerbaijan. As at 31 December 2021 and 2020 the Bank is ultimately owned by Mrs. Leyla Aliyeva, Mrs. Arzu Aliyeva and Mr. Arif Pashayev, who exercise joint control over the Bank.

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

2. Basis of preparation**General**

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

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

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

3. Summary of accounting policies**Effect of COVID-19 pandemic**

Following the rapid spread of COVID-19 pandemic in 2020, which continued in 2021, many governments, including the Georgian Government, have introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of business and other venues and lockdown of certain areas. These measures have affected the global supply chain, demand for goods and services, as well as scale of business activity. It is expected that pandemic itself as well as the related public health and social measures may influence the business of the entities in a wide range of industries.

Support measures were introduced by the Government and the National Bank of Georgia to counter the economic downturn caused by the COVID-19 pandemic. These measures include, among others, subsidized lending to affected industries and individuals, payment holidays and easing of certain regulatory restrictions to help the financial sector maintain its capabilities to provide resources and to help customers avoid liquidity shortages as a result of the COVID-19 containment measures.

The Bank continues to assess the effect of the pandemic and changing economic conditions on its activities, financial position and financial results.

Changes in accounting policies

The Bank applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2021. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

JSC PASHA Bank Georgia

Notes to the financial statements for 2021

(Amounts in tables are in thousands of Georgian lari)

3. Summary of accounting policies (continued)**Changes in accounting policies (continued)**

Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (IBOR reform Phase 2)

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- ▶ A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- ▶ Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued;
- ▶ Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

The Bank applied the practical expedients provided by the amendments. Please see details in Note 21.

COVID-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

On 28 May 2020, the IASB issued *COVID-19-Related Rent Concessions* – amendment to IFRS 16 *Leases*. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the COVID-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021. However, the Bank has not received COVID-19-related rent concessions, but plans to apply the practical expedient if it becomes applicable within allowed period of application.

Fair value measurement

Fair values of financial instruments measured at amortised cost are disclosed in Note 22. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- ▶ In the principal market for the asset or liability; or
- ▶ In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- ▶ Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- ▶ Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- ▶ Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

3. Summary of accounting policies (continued)

Financial assets and liabilities

Initial recognition

Date of recognition

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

Initial measurement

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

Measurement categories of financial assets and liabilities

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

- ▶ Amortised cost;
- ▶ FVOCI;
- ▶ FVPL.

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

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

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

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

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

The details of these conditions are outlined below:

Business model assessment

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

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

- ▶ How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- ▶ The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- ▶ How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- ▶ The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

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

The SPPI test

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

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

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

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

Letters of credit and undrawn loan commitments

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

Performance guarantees

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

Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank changes the business model for managing financial assets. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets and liabilities in 2021.

Renegotiated loans

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

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

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

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

3. Summary of accounting policies (continued)

Renegotiated loans (continued)

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

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- ▶ The rights to receive cash flows from the asset have expired;
- ▶ The Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material Delay to a third party under a “pass-through” arrangement; and
- ▶ The Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Write-off

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

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Cash and cash equivalents

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

Mandatory reserve deposit with the NBG

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

3. Summary of accounting policies (continued)

Leases

Bank as a lessee

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

Right-of-use assets

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

Lease liabilities

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

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

Short-term leases and leases of low-value assets

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

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

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

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

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

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

3. Summary of accounting policies (continued)

Taxation

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

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (applicable to undistributed profits) and tax laws, that have been enacted or substantively enacted by the end of the reporting period.

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

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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

	Years
Furniture and fixtures	4
Computers and equipment	3-4
Motor vehicles	4
Other equipment	4-5
Leasehold improvements	2-5

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

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

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

3. Summary of accounting policies (continued)

Contingencies

Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Recognition of income and expenses

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

Interest and similar income and expense

The Bank calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

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

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

Fee and commission income

The Bank earns fee and commission income from several types of services it provides to its customers. Fee income can be divided into the following categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income on guarantees and letters of credit. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Fee income earned at a point in time

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

Fee income from providing transaction services

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

JSC PASHA Bank Georgia

Notes to the financial statements for 2021

(Amounts in tables are in thousands of Georgian lari)

3. Summary of accounting policies (continued)

Foreign currency translation

The financial statements are presented in Georgian lari ("GEL"), which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of profit or loss as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBG exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official GEL exchange rates at 31 December 2021 and 2020 were 3.0976 GEL and 3.2766 GEL to 1 USD, respectively, 3.5040 GEL and 4.0233 GEL to 1 EUR, respectively and 1.8222 GEL and 1.9288 GEL to 1 AZN, respectively.

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

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

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

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Bank is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued *Property, Plant and Equipment – Proceeds before Intended Use*, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Bank.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Bank will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual period in which it will first apply the amendment and does not expect this will result in a material impact on its financial statements.

13

JSC PASHA Bank Georgia

Notes to the financial statements for 2021

(Amounts in tables are in thousands of Georgian lari)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

Definition of Accounting Estimates – Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Bank.

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS *Practice Statement 2 Making Materiality Judgements*, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

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

4. Significant accounting judgments and estimates

Estimation uncertainty

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

Impairment losses on financial assets

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

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

For the purposes of ECL estimation as of 31 December 2021 the Bank removed the post model adjustments and sectoral overlays that had been applied on the prior year reporting to reflect the COVID-19 related uncertainties. The amount of allowance for loans to customers, investment securities and credit related commitments recognized in the statement of financial position at 31 December 2021 was GEL 13,864 thousand (2020: GEL 17,489 thousand), GEL 342 thousand (2020: GEL 415 thousand) and GEL 195 thousand (2020: GEL 395 thousand) respectively. Refer to Note 7, Note 8 and Note 18.

14

JSC PASHA Bank Georgia

Notes to the financial statements for 2021

(Amounts in tables are in thousands of Georgian lari)

4. Significant accounting judgments and estimates (continued)**Estimation uncertainty (continued)***Fair value of financial instruments*

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

Leases – estimating the incremental borrowing rate

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

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

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2021	2020
Cash on hand	4,747	5,452
Current accounts with the NBG	168	2,776
Current accounts with other credit institutions	12,300	15,608
Time deposits with credit institutions up to 90 days	25,168	15,310
Less: allowance for impairment	(3)	(28)
Cash and cash equivalents	42,380	39,118

As at 31 December 2021, current accounts and time deposit accounts with credit institutions denominated in GEL, EUR and USD represent 40.41%, 30.33% and 26.62% of total current and time deposit accounts respectively (31 December 2020: GEL 19.52%, EUR 58.09%, USD 18.41%).

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

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2021	2020
Mandatory reserve with the NBG	47,563	46,518
Time deposits for more than 90 days	3,103	–
Less: allowance for impairment	(4)	–
Amounts due from credit institutions	50,662	46,518

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

15

JSC PASHA Bank Georgia

Notes to the financial statements for 2021

(Amounts in tables are in thousands of Georgian lari)

6. Amounts due from credit institutions (continued)

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

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

An analysis of changes in the gross carrying value and corresponding ECL in relation to time deposits for more than 90 days during the year ended 31 December 2020 is as follows:

	Gross carrying value	ECL
As at 1 January 2020	–	–
New assets originated	13,160	(81)
Assets repaid	(14,329)	79
Foreign exchange and other movements	1,169	2
At 31 December 2020	–	–

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

7. Loans to customers

Loans to customers comprise:

	2021	2020
Corporate	154,437	159,634
Commercial	128,918	168,018
Consumer	25,482	9,955
Loans to customers	308,837	337,607
Less – allowance for impairment	(13,864)	(17,489)
Loans to customers	294,973	320,118

Commercial loans include loans to medium sized companies.

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

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

16

JSC PASHA Bank Georgia

Notes to the financial statements for 2021

(Amounts in tables are in thousands of Georgian lari)

7. Loans to customers (continued)**Corporate loans at amortized cost, allowance for ECL**

	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2021	(1,298)	(3,622)	-	(4,920)
New assets originated	(1,368)	(226)	-	(1,594)
Assets repaid	452	795	-	1,247
Transfers to Stage 1	(111)	111	-	-
Transfers to Stage 2	196	(196)	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange and other movements	753	2,315	-	3,068
At 31 December 2021	(1,376)	(823)	-	(2,199)

Commercial loans at amortized cost, gross

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

Commercial loans at amortized cost, allowance for ECL

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

Consumer loans at amortized cost, gross

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

Consumer loans at amortized cost, allowance for ECL

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

17

JSC PASHA Bank Georgia

Notes to the financial statements for 2021

(Amounts in tables are in thousands of Georgian lari)

7. Loans to customers (continued)

An analysis of changes gross carrying value in relation to loans to customers during the year ended 31 December 2020 is as follows:

Corporate loans at amortized cost, gross

	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2020	158,010	-	840	158,850
New assets originated	130,286	48	-	130,334
Assets repaid	(143,551)	(930)	(249)	(144,730)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(34,943)	34,943	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	(591)	(591)
Foreign exchange and other movements	12,442	3,329	-	15,771
At 31 December 2020	122,244	37,390	-	159,634

Corporate loans at amortized cost, allowance for ECL

	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2020	(1,790)	-	(705)	(2,495)
New assets originated	(1,206)	(1)	-	(1,207)
Assets repaid	504	22	59	585
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	4,652	(4,652)	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	591	591
Foreign exchange and other movements	(3,458)	1,009	55	(2,394)
At 31 December 2020	(1,298)	(3,622)	-	(4,920)

Commercial loans at amortized cost, gross

	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2020	141,304	1,808	-	143,112
New assets originated	97,745	1,479	-	99,224
Assets repaid	(92,545)	(3,233)	(3,238)	(99,016)
Transfers to Stage 1	3,138	(3,138)	-	-
Transfers to Stage 2	(43,752)	43,752	-	-
Transfers to Stage 3	(3,843)	(3,205)	7,048	-
Amounts written off	-	-	-	-
Foreign exchange and other movements	18,440	5,864	394	24,698
At 31 December 2020	120,487	43,327	4,204	168,018

Commercial loans at amortized cost, allowance for ECL

	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2020	(2,954)	(218)	-	(3,172)
New assets originated	(3,300)	(32)	-	(3,332)
Assets repaid	1,344	43	114	1,501
Transfers to Stage 1	(90)	90	-	-
Transfers to Stage 2	5,065	(5,065)	-	-
Transfers to Stage 3	1,660	1,292	(2,952)	-
Amounts written off	-	-	-	-
Foreign exchange and other movements	(4,914)	(3,320)	1,278	(6,956)
At 31 December 2020	(3,189)	(7,210)	(1,560)	(11,959)

18

JSC PASHA Bank Georgia

Notes to the financial statements for 2021

(Amounts in tables are in thousands of Georgian lari)

7. Loans to customers (continued)

<i>Consumer loans at amortized cost, gross</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at 1 January 2020	1,523	83	9	1,615
New assets originated	19,888	70	-	19,958
Assets repaid	(11,805)	(12)	-	(11,817)
Transfers to Stage 1	3	(3)	-	-
Transfers to Stage 2	(529)	529	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange and other movements	83	116	-	199
At 31 December 2020	9,163	783	9	9,955

<i>Consumer loans at amortized cost, allowance for ECL</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL as at 1 January 2020	(98)	(18)	(9)	(125)
New assets originated	(79)	-	-	(79)
Assets repaid	18	-	-	18
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	93	(93)	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange and other movements	(418)	(6)	-	(424)
At 31 December 2020	(484)	(117)	(9)	(610)

Modified and restructured loans

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

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

During 2021, the Bank has modified the terms and conditions of certain corporate and commercial loans, including introduction of payment holidays, as part of the measures introduced by the Government related to consequences of COVID-19 pandemic. The Bank considered these modifications to be non-substantial.

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

<i>Loans modified during the period</i>	<i>2021</i>	<i>2020</i>
Amortised cost before modification	56,105	151,074
Net modification loss	(55)	(261)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The types of collateral normally obtained are charges over real estate properties, also cash covers and guarantees, provided by borrowers or third parties, including the Parent.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

19

JSC PASHA Bank Georgia

Notes to the financial statements for 2021

(Amounts in tables are in thousands of Georgian lari)

7. Loans to customers (continued)**Concentration of loans to customers**

As at 31 December 2021, the Bank had a concentration of loans due from three major groups of related borrowers in the total amount of GEL 53,514 thousand which represented 17.33% of the total gross loan portfolio (31 December 2020: GEL 62,181 thousands, 18.42% of the gross loan portfolio). Allowance of GEL 756 thousand was recognised against these loans (31 December 2020: GEL 1,310 thousand).

Loans are made within Georgia in the following industry sectors:

	<i>2021</i>	<i>2020</i>
Trade and services	145,424	164,561
Real estate management	56,038	79,530
Construction	29,792	35,296
Non-banking credit organizations	28,878	34,113
Individuals	25,482	9,955
Energy	18,565	8,547
Agro	4,359	4,869
Mining	-	136
Other	299	600
	308,837	337,607

8. Investment securities

As at 31 December 2021, investment securities comprised of bonds of financial institutions and other companies and Treasury bonds of the Ministry of Finance of Georgia:

Investment securities comprise:

	<i>2021</i>	<i>2020</i>
Debt securities at amortised cost		
Corporate bonds	22,875	20,449
Bonds of Financial institutions	14,057	20,720
Treasury bonds of the Ministry of Finance of Georgia	5,469	5,469
	42,401	46,638
Less: allowance for impairment	(342)	(415)
Total debt securities	42,059	46,223

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

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

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

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

20

JSC PASHA Bank Georgia

Notes to the financial statements for 2021

(Amounts in tables are in thousands of Georgian lari)

8. Investment securities (continued)

An analysis of changes in the gross carrying value in relation to investment securities during the year ended 31 December 2020 is as follows:

	Corporate bonds	Bonds of financial institutions	Treasury bonds of the Ministry of Finance of Georgia	Total
Gross carrying value as at 1 January 2020	20,221	6,656	-	26,877
New assets originated	11,232	14,004	5,248	30,484
Assets repaid	(12,250)	-	-	(12,250)
Foreign exchange and other movements	1,246	60	221	1,527
At 31 December 2020	20,449	20,720	5,469	46,638

An analysis of changes in the ECL allowances during the year ended 31 December 2020 is as follows:

	Corporate bonds	Bonds of financial institutions	Treasury bonds of the Ministry of Finance of Georgia	Total
ECL as at 1 January 2020	(183)	(214)	-	(397)
New assets originated	(161)	(95)	-	(256)
Assets repaid	98	-	-	98
Foreign exchange and other movements	(9)	149	-	140
At 31 December 2020	(255)	(160)	-	(415)

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

9. Property and equipment

The movements in property and equipment were as follows:

	Furniture and fixtures	Computers and equipment	Motor vehicles	Other equipment	Leasehold improvements	Total
Cost						
1 January 2020	2,949	4,734	542	713	4,753	13,691
Internal transfer	-	187	-	-	(187)	-
Additions	70	235	19	30	50	404
Disposals and write-offs	(25)	(19)	-	(55)	(211)	(310)
31 December 2020	2,994	5,137	561	688	4,405	13,785
Additions	3	476	-	2	-	481
Disposals and write-offs	(831)	(881)	(215)	(155)	(800)	(2,882)
31 December 2021	2,166	4,732	346	535	3,605	11,384
Accumulated depreciation						
1 January 2020	(1,067)	(2,812)	(350)	(247)	(339)	(4,815)
Internal transfer	-	(24)	-	-	24	-
Depreciation charge	(461)	(719)	(92)	(100)	(977)	(2,349)
Disposals and write-offs	13	10	-	9	85	117
31 December 2020	(1,515)	(3,545)	(442)	(338)	(1,207)	(7,047)
Depreciation charge	(438)	(714)	(74)	(89)	(829)	(2,144)
Disposals and write-offs	391	669	204	68	302	1,634
31 December 2021	(1,562)	(3,590)	(312)	(359)	(1,734)	(7,557)
Net book value						
1 January 2020	1,882	1,922	192	466	4,414	8,876
31 December 2020	1,479	1,592	119	350	3,198	6,738
31 December 2021	604	1,142	34	176	1,871	3,827

As of 31 December 2021 fully depreciated items amounted 3,225 GEL (2020: 3,326 GEL).

21

JSC PASHA Bank Georgia

Notes to the financial statements for 2021

(Amounts in tables are in thousands of Georgian lari)

10. Right of use assets

The movements in right of use assets were as follows:

	Right-of-use assets
1 January 2020	6,560
Additions	7,796
Disposals and write-offs	(1,985)
31 December 2020	12,371
Additions	-
Disposals and write-offs	(2,496)
31 December 2021	9,875
Accumulated depreciation	
1 January 2020	(1,320)
Depreciation charge	(2,828)
Disposals and write-offs	698
31 December 2020	(3,450)
Depreciation charge	(2,331)
Disposals and write-offs	1,318
31 December 2021	(4,463)
Net book value	
1 January 2020	5,240
31 December 2020	8,921
31 December 2021	5,412

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

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

The Bank recognised rent expense from short-term leases of GEL 785 thousand for the period ended 31 December 2021.

The movement in right-of-use assets and lease liabilities during the year ended 31 December 2020 were as follows:

	Right-of-use assets			Lease liabilities
	Buildings	Motor vehicles	Total	
As at 1 January 2020	4,937	303	5,240	5,575
Additions	7,796	-	7,796	7,793
Disposals and write offs	(1,608)	(377)	(1,985)	(1,604)
Depreciation expense	(2,790)	(38)	(2,828)	-
Disposals and write-offs	586	112	698	-
Interest expense	-	-	-	600
Payments	-	-	-	(3,232)
Rent concessions	-	-	-	(148)
Foreign currency translation difference	-	-	-	1,544
As at 31 December 2020	8,921	-	8,921	10,528

The Bank recognised rent expense from short-term leases of GEL 854 thousand for the period ended 31 December 2020.

22

JSC PASHA Bank Georgia

Notes to the financial statements for 2021

(Amounts in tables are in thousands of Georgian lari)

11. Intangible assets

The movements in intangible assets were as follows:

	<i>Licenses</i>	<i>Computer software</i>	<i>Total</i>
Cost			
1 January 2020	151	5,945	6,096
Additions	–	961	961
Disposals and write offs	(2)	(557)	(559)
31 December 2020	149	6,349	6,498
Additions	55	1,909	1,964
Disposals and write offs	–	(848)	(848)
31 December 2021	204	7,410	7,614
Accumulated amortization			
1 January 2020	(92)	(1,397)	(1,489)
Amortisation charge	(15)	(1,312)	(1,327)
Disposals and write offs	2	557	559
31 December 2020	(105)	(2,152)	(2,257)
Amortisation charge	(20)	(1,320)	(1,340)
Disposals and write offs	–	846	846
31 December 2021	(125)	(2,626)	(2,751)
Net book value			
1 January 2020	59	4,548	4,607
31 December 2020	44	4,197	4,241
31 December 2021	79	4,784	4,863

12. Other assets and liabilities

Other assets comprise:

	<i>2021</i>	<i>2020</i>
Other non-financial assets		
Prepaid expenses	583	624
Repossessed collateral	372	140
Inventory	228	192
Prepayments for operating lease	78	29
Prepaid taxes other than income tax	54	10
Prepayments for acquisition of property and equipment and intangible assets	–	2
	1,315	997
Other financial assets		
Derivative financial assets	186	302
Funds in settlement	133	147
Accrued commission receivable on guarantees and letters of credit	28	41
Other	157	40
	504	530
Total other assets	1,819	1,527

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

	<i>2021</i>			<i>2020</i>		
	<i>Notional amount</i>	<i>Fair values</i>		<i>Notional amount</i>	<i>Fair value</i>	
		<i>Asset</i>	<i>Liability</i>		<i>Asset</i>	<i>Liability</i>
Forwards/Swaps – foreign	48,246	53	7	106,617	45	–
Forwards/Swaps – domestic	24,313	133	325	40,764	257	640
Total derivative assets/liabilities		186	332		302	640

23

JSC PASHA Bank Georgia

Notes to the financial statements for 2021

(Amounts in tables are in thousands of Georgian lari)

12. Other assets and liabilities (continued)

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

Other liabilities comprise:

	<i>2021</i>	<i>2020</i>
Other financial liabilities		
Funds in settlement	1,963	1,997
Payables and accrued expenses	452	984
Derivative financial liabilities	332	640
	2,747	3,621
Other non-financial liabilities		
Payable to employees	2,428	2,448
Deferred income	11	24
Taxes other than income tax	–	23
	2,439	2,495
Total other liabilities	5,186	6,116

13. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	<i>Note</i>	<i>2021</i>	<i>2020</i>
Time deposits and loans from non-resident commercial banks		81,331	87,600
Loan from the National Bank of Georgia		20,026	15,000
Deposits from the Ministry of Finance		10,497	10,996
Overdraft from the Parent	24	8,241	8,201
Time deposits from resident commercial banks	24	3,001	4,262
Current accounts of the Parent		39	117
Time deposits and loans from the Parent	24	–	4,915
		123,135	131,091

Amounts due to credit institutions

As at 31 December 2021 the time deposits and loans of non-resident commercial banks are comprised of USD denominated deposits and loans of entity under common control and other non-resident bank (2020: USD denominated deposits and loans of entity under common control and other non-resident bank).

As at 31 December 2020 time deposits of resident commercial banks comprise of deposit placed by one resident commercial bank, is denominated in GEL and matures in January 2022 (2020: time deposits of resident commercial banks comprise of deposit placed by one resident commercial bank, is denominated in USD and matures in January 2021).

Loans from the National Bank of Georgia represent short-term GEL refinancing facilities used by the Bank to uphold its liquidity needs in GEL. Deposits from the Ministry of Finance represent GEL 5,016 thousand of short-term funds attracted from the Ministry of Finance as a refinancing facility similar to that of the National Bank of Georgia and GEL 5,481 thousand of the long-term deposit placed by the Ministry as the liquidity support measure in return for the similar term treasury bonds purchased by the Bank.

14. Amounts due to customers

The amounts due to customers include the following:

	<i>2021</i>	<i>2020</i>
Current and demand accounts	50,690	71,000
Time deposits (including certificates of deposit)	151,297	139,222
Amounts due to customers	201,987	210,222
Held as security against guarantees issued (Note 18)	2,634	14,001

24

JSC PASHA Bank Georgia

Notes to the financial statements for 2021

(Amounts in tables are in thousands of Georgian lari)

14. Amounts due to customers (continued)

As at 31 December 2021, amounts due to customers included balances with three major customers of GEL 86,102 thousand that constituted 42.63% of the total of customer accounts (31 December 2020: 91,567 thousand that constituted 43.56% of the total of customer accounts).

An analysis of customer accounts by economic sector follows:

	2021	2020
Insurance	68,665	69,450
Trade and service	62,810	60,716
Individuals	36,487	42,077
Non-banking credit organizations	12,515	18,343
Energy	9,863	1,086
Construction	9,401	13,907
Mining	416	1,593
Real estate management	414	2,215
Agro	22	297
Other	1,394	538
Amounts due to customers	201,987	210,222

15. Subordinated debt

Subordinated loans consisted of the following:

	2021	2020
Subordinated loans	30,222	31,742
Subordinated loans	30,222	31,742

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

The amortised value of the subordinated loan qualified for the inclusion in the Tier 2 capital under the NBG Basel III requirements, was GEL 18,592 thousand (31 December 2020: GEL 32,551 thousand).

16. Taxation

In June 2016, amendments to the Georgian tax law in respect of corporate income tax became enacted. The amendments became effective from 1 January 2017 for all Georgian companies except the banks, insurance companies and microfinance organization, for which the effective date was initially set at January 2019. On 5 May 2018 amendment was made in tax code and the date was revised to January 2023. Therefore the bank had recognized those deferred tax asset and deferred tax liability which are estimated to be realised before 2023. Under the new regulation, corporate income tax will be levied on profit distributed as dividends, rather than on profit earned as under the current regulation. The amount of tax payable on a dividend distribution will be calculated as 15/85 of the amount of net distribution. The companies will be able to offset corporate income tax liability arising from dividend distributions out of profits earned in 2008-2016 by the amount of corporate income tax paid for the respective period under the current regulation. Dividends distributions between Georgian resident companies will not be subject to corporate income tax.

The corporate income tax benefit/(expense) for the year ended 31 December 2021 and 2020 comprised:

	2021	2020
Current tax benefit/(expense)	-	-
Deferred tax benefit/(expense)	226	(162)
Income tax expense	226	(162)

25

JSC PASHA Bank Georgia

Notes to the financial statements for 2021

(Amounts in tables are in thousands of Georgian lari)

16. Taxation (continued)

In 2021 and 2020 the income tax rate applicable to the Bank's income is 15%. The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax benefit/ expense on statutory rates with actual is as follows:

	2021	2020
Loss before income tax	(4,232)	(19,091)
Statutory tax rate	15%	15%
Theoretical income tax benefit at the statutory rate	635	2,864
Tax exempt income	129	79
Non-deductible expenses	(164)	(52)
Unrecognised tax losses carried forward	(374)	(3,053)
Income tax benefit/(expense)	226	(162)

The Bank's accumulated tax losses at 31 December 2021 equals GEL 6,990 thousand on which the bank has tax loss carried forward GEL 1,049 thousand, out of which GEL 675 thousand was recognized.

Deferred tax liabilities as at 31 December 2021 and 31 December 2020 and their movements for the respective period:

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

	2019	Through statement of profit or loss	2020
Tax effect of deductible temporary differences			
Right of use assets	198	424	622
Property and equipment	-	52	52
Amounts due from credit institutions	-	4	4
Other assets	-	24	24
Subordinated debt	-	9	9
Other liabilities	248	(23)	225
Deferred tax asset	446	490	936
Tax effect of taxable temporary differences			
Investment securities	(53)	(39)	(92)
Property and equipment	(59)	59	-
Intangible assets	(126)	13	(113)
Loans to customers	(126)	(477)	(603)
Lease liabilities	(146)	(208)	(354)
Deferred tax liability	(510)	(652)	(1,162)
Deferred tax (liability)/asset	(64)	(162)	(226)

26

JSC PASHA Bank Georgia

Notes to the financial statements for 2021

(Amounts in tables are in thousands of Georgian lari)

17. Equity

As at 31 December 2021 and 2020, the Bank's authorized, issued and fully paid capital amounted to GEL 103,000 thousand comprising of 103,000,000 common shares with nominal value of GEL 1 each. Each share entitles one vote to the shareholder.

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

No dividends were declared or paid during the year ended 31 December 2021 and 2020.

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

18. Commitments and contingencies**Operating environment**

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

During the current reporting year, the government started to gradually lift numerous COVID-19 related restrictions imposed earlier. This has had a positive overall impact on the economy, allowing it to gain impressive momentum over the year, translating into the officially published estimated 10.6% GDP growth in 2021. Major contributing factors to the growth have been increase in domestic consumption and net exports. The latter, in turn, is driven by significant increase in exports alongside with the partial recovery of tourism. Based on the preliminary findings of IMF staff mission to Georgia, the 2021 growth is expected to reach 7.7%, a significant upgrade from the initial estimate.

There remains high level uncertainty in relation to potential for adverse COVID-19 developments. As of the date of signing of these financial statements the total share of fully vaccinated adult population of Georgia reached 43.3%, however as health authorities state more than 80% of population is already immune, including the number of infected people. New COVID-19 variants or vaccination delays could derail the recovery by requiring new lockdowns and reducing external demand.

The Bank continues to assess pandemic effect and changing micro- and macroeconomic conditions on its activities, financial position and financial results.

The level of inflation reached 13.9% year-on-year in December 2021, largely reflecting utility price increases, higher commodity prices and elevated input costs. NBG has increased its refinancing rate several times during the year ended 31 December 2021 to reach 10.5%. Inflation significantly exceeded the target and is expected to remain high in the short run. Together with the exhaustion of the one-off factors and strict monetary policy stance, inflation is forecasted to return to its target level in the second quarter of 2022.

The financial sector has proved resilient thanks to the NBG's prudent supervisory approach before the COVID-19 crisis and decisive actions afterwards. In the recent years banks' prudential requirements have been brought in line with the Basel III framework, retail lending regulations revised and excessive dollarization issues addressed. Fiscal support measures to households and businesses have helped cushion the impact of the pandemic on the financial sector.

JSC PASHA Bank Georgia

Notes to the financial statements for 2021

(Amounts in tables are in thousands of Georgian lari)

18. Commitments and contingencies (continued)**Operating environment (continued)**

In line with the overall developments in the Georgian banking sector, the Bank has also suffered from the effects of the economic downturn caused by COVID-19 with deterioration of the performance and credit risk of the borrowers operating in the vulnerable sectors. This has resulted in the number of restructured loans and significant increase in the ECL rates across all portfolio segments, compared to the average rates existing in the pre-pandemic periods. Nevertheless, the roll out of the vaccination program by the government, the positive economic outlook for 2021 and the ongoing modifications of the customer's loan facilities has allowed the Bank to obtain certain improvements on the quality of its portfolios and recognize reversal of provisions in the reporting period as described in notes 5, 6, 7 and 18 to these financial statements. Despite the negative effect of the pandemic the management maintains strong liquidity positions supported by the NBG's measures to strengthen banking sector resilience amidst the crisis, reasonable NPL levels due to timely restructuring actions and continued support from the Parent.

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

Taxation

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

Management believes that its interpretation of the relevant legislation as at 31 December 2021 is appropriate and that the Bank's tax, currency and customs positions will be sustained.

Legal

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

As at 31 December 2021 the Bank has had ongoing litigation where the Bank is jointly and severally liable defendant together with its employees. The amount of the claim equals GEL 690 thousand. The Bank's management believes that the probability of any losses resulting from either of the cases is low, therefore no provision has been recognized in relation to them.

Commitments and contingencies

As at 31 December 2021 and 2020, the Bank's commitments and contingencies comprised the following:

	2021	2020
Credit related commitments		
Unused credit lines	26,461	35,706
Letters of credit	–	181
	26,461	35,887
Operating lease commitments		
Not later than 1 year	195	139
More than 1 year but less than 5 years	4	38
	199	177
Performance guarantees issued		
Performance guarantees issued	25,731	34,872
	25,731	34,872
	(195)	(395)
Commitments and contingencies (before deducting collateral)	52,196	70,541
Less: deposits held as security against guarantees issued (Note 14)	(2,634)	(14,001)
Commitments and contingencies	49,562	56,540

JSC PASHA Bank Georgia

Notes to the financial statements for 2021

(Amounts in tables are in thousands of Georgian lari)

18. Commitments and contingencies (continued)**Legal (continued)**

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

	<i>Letters of credit</i>	<i>Unused credit lines</i>	<i>Total</i>
ECL as at 1 January 2021	-	(395)	(395)
New exposures	-	(1,900)	(1,900)
Matured exposures	-	1,594	1,594
Foreign exchange and other movements	-	506	506
At 31 December 2021	-	(195)	(195)

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

An analysis of changes in the ECL allowances during the year ended 31 December 2020 is, as follows:

	<i>Letters of credit</i>	<i>Unused credit lines</i>	<i>Total</i>
ECL as at 1 January 2020	(1)	(413)	(414)
New exposures	-	(235)	(235)
Matured exposures	1	654	655
Foreign exchange and other movements	-	(401)	(401)
At 31 December 2020	-	(395)	(395)

19. Net fee and commission income

Net fee and commission income comprise:

	<i>2021</i>	<i>2020</i>
Guarantees and letters of credits issued	756	1,041
Plastic card operations	473	219
Settlement operations	429	370
Cash operations	58	85
Fee and commission income	1,716	1,715
Plastic card operations	(1,021)	(380)
Settlement operations	(615)	(492)
Cash operations	(8)	(5)
Guarantees and letters of credits issued	-	(3)
Other	(16)	-
Fee and commission expense	(1,660)	(880)
Net fee and commission income	56	835

Revenue from contracts with customers

The Bank's revenue from contracts with customers is mostly represented by fee and commission income. Revenue from contracts with customers recognized in the statement of profit or loss for the year ended 31 December 2021 amounted to GEL 1,716 thousand (2020: GEL 1,715 thousand).

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

	<i>2021</i>	<i>2020</i>
Deferred income (presented within other liabilities)	11	24

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

The Bank recognised GEL 24 thousand revenue from contracts with customers in the current reporting period that relates to carried-forward contract liabilities included in deferred income as at 31 December 2020.

29

JSC PASHA Bank Georgia

Notes to the financial statements for 2021

(Amounts in tables are in thousands of Georgian lari)

20. Personnel, general and administrative expenses

Personnel, general and administrative expenses comprise:

	<i>2021</i>	<i>2020</i>
Salaries	12,847	13,635
Bonuses and other employee benefits	2,544	2,962
Personnel expenses	15,391	16,597
Professional services	3,008	3,268
Advertising costs	989	1,843
Operating leases	785	854
Communication	296	304
Insurance	195	131
Utilities	192	272
Personnel training	160	228
Office supplies	128	159
Membership fees	99	84
Corporate hospitality and entertainment	90	62
Maintenance and exploitation	62	57
Charity costs	58	21
Transportation and business trip expenses	56	95
Taxes other than income tax	55	78
Recruitment costs	31	203
Security expenses	29	65
Deposit insurance fee	18	13
Other	290	239
General and administrative expenses	6,541	7,976

Remuneration of the Bank's auditor, including under professional services fees, for the years ended 31 December 2021 and 2020 comprises (net of VAT):

	<i>2021</i>	<i>2020</i>
Fees for the audit of the Bank's annual financial statements for the year ended 31 December	130	138
Expenditures for other assurance services	56	55
Expenditures for other professional service	4	10
Total fees and expenditures	190	203

Fees and expenditures to other professional audit firms in respect of other professional services comprised GEL 28 thousand in 2021 (2020: GEL 34 thousand).

The average number of the Bank's employees during 2021 was 308, including average 4 top management employees, average 43 middle management employees, average 257 other full-time employees and average 4 employees under temporary service contracts (2020: 337, including average 3 top management employees, average 49 middle management employees, average 282 other full-time employees and average 3 employees under temporary service contracts).

21. Risk management**Introduction**

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

30

21. Risk management (continued)

Risk management structure

Supervisory Board

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

Risk Committee

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

Risk management

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

Asset and Liability Committee

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

Internal Audit

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

Audit Committee

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

Risk measurement and reporting systems

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

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

Credit risk

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

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

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

21. Risk management (continued)

Credit risk (continued)

Credit-related commitments risks

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

Impairment assessment

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

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

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

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1:	When loans are first recognised, the Bank recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
Stage 2:	When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
Stage 3:	Loans considered credit-impaired. The Bank records an allowance for the LTECL.
POCI:	Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Definition of default and cure

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

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

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

21. Risk management (continued)

Credit risk (continued)

Internal rating and PD estimation process

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

Treasury and interbank relationships

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

Corporate and commercial lending

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

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

Consumer lending

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

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

Internal rating Grade	Internal rating	PD	Internal rating description
Class 1	Aaa	0.0009%	High grade
Class 1	Aa1	0.0016%	High grade
Class 1	Aa2	0.0028%	High grade
Class 1	Aa3	0.0050%	High grade
Class 1	A1	0.0089%	High grade
Class 1	A2	0.0159%	High grade
Class 1	A3	0.0283%	High grade
Class 1	Baa1	0.0503%	Standard grade
Class 1	Baa2	0.0894%	Standard grade
Class 1	Baa3	0.1589%	Standard grade
Class 1	Ba1	0.2823%	Standard grade
Class 1	Ba2	0.5010%	Standard grade
Class 1	Ba3	0.8877%	Standard grade
Class 2	B1	1.5682%	Standard grade
Class 2	B2	2.7556%	Standard grade
Class 3	B3	4.7985%	Standard grade
Class 3	Caa1	8.2276%	Sub-standard grade
Class 3	Caa2	13.7533%	Sub-standard grade
Class 3	Caa3	22.0965%	Sub-standard grade
Class 3	Ca-C	33.5332%	Sub-standard grade
Class 3	Default	100.0000%	Impaired

21. Risk management (continued)

Credit risk (continued)

Exposure at default

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

Loss given default

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

Significant increase in credit risk

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

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

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

Grouping financial assets measured on a collective basis

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

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

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

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

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

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

Forward-looking information and multiple economic scenarios

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

- ▶ GDP growth;
- ▶ Inflation.

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

JSC PASHA Bank Georgia

Notes to the financial statements for 2021

(Amounts in tables are in thousands of Georgian lari)

21. Risk management (continued)**Credit risk (continued)**

The Bank obtains the forward-looking information from the sources published by the NBG, GeoStat, IMF, World and Regional Economic Outlooks, S&P Global Ratings and other. Experts of the Bank's Credit Risk Department determine the weights attributable to the multiple scenarios. The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations. The figures for "Subsequent years" represent a long-term average and so are the same for each scenario as at 31 December 2021:

Key drivers	ECL scenario	Assigned probabilities, %	2022	2023	2024	2021	2022	2023
GDP growth, %	Upside	25%	6.0%	5.0%	4.5%	5.5%	5.5%	5.0%
	Base case	50%	5.0%	4.0%	4.5%	4.5%	4.0%	4.5%
	Downside	25%	2.0%	4.0%	5.0%	2.5%	4.0%	4.5%
Inflation level	Upside	25%	5.5%	3.0%	3.0%	3.5%	3.0%	3.0%
	Base case	50%	7.0%	2.5%	3.0%	3.7%	3.0%	3.0%
	Downside	25%	8.0%	4.0%	3.0%	5.5%	4.0%	3.0%

Credit quality per class of financial asset

The credit quality of financial assets is managed by the Bank internal credit ratings, as described above. The table below shows the credit quality by class of financial assets as at 31 December 2021, based on the Bank's credit rating system updated:

	Note	High grade	Standard grade	Sub-standard grade	Impaired	Total
Cash and cash equivalents, except for cash on hand	5	739	36,897	–	–	37,636
Amounts due from credit institutions	6	–	50,666	–	–	50,666
Corporate loans	–	–	153,095	1,342	–	154,437
Commercial loans	–	–	76,453	36,833	15,632	128,918
Consumer loans	–	16,595	7,202	947	738	25,482
Debt investment securities at amortized cost	8	–	42,401	–	–	42,401
Unused credit lines	18	14,110	8,993	3,358	–	26,461
Letters of credit	18	–	–	–	–	–
Total		31,444	375,707	42,479	16,371	466,001

The table below shows the credit quality by class of financial assets at 31 December 2020:

	Note	High grade	Standard grade	Sub-standard grade	Impaired	Total
Cash and cash equivalents, except for cash on hand	5	9,866	23,828	–	–	33,694
Amounts due from credit institutions	6	–	46,518	–	–	46,518
Corporate loans	–	–	128,623	31,011	–	159,634
Commercial loans	–	–	45,882	117,932	4,204	168,018
Consumer loans	–	5,054	3,985	907	9	9,955
Debt investment securities at amortized cost	8	–	46,638	–	–	46,638
Unused credit lines	18	7,014	18,817	9,875	–	35,706
Letters of credit	18	–	–	181	–	181
Total		21,934	314,291	159,906	4,213	500,344

JSC PASHA Bank Georgia

Notes to the financial statements for 2021

(Amounts in tables are in thousands of Georgian lari)

21. Risk management (continued)**Credit risk (continued)**

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

	2021				2020			
	Georgia	OECD	Other Non-OECD	Total	Georgia	OECD	Other Non-OECD	Total
Assets								
Cash and cash equivalents	37,241	3,999	1,140	42,380	27,131	10,103	1,884	39,118
Amounts due from credit institutions	50,662	–	–	50,662	46,518	–	–	46,518
Loans to customers	294,695	–	278	294,973	320,084	–	34	320,118
Investment securities	42,059	–	–	42,059	46,223	–	–	46,223
Other assets	424	19	61	504	458	12	60	530
	<u>425,081</u>	<u>4,018</u>	<u>1,479</u>	<u>430,578</u>	<u>440,414</u>	<u>10,115</u>	<u>1,978</u>	<u>452,507</u>
Liabilities								
Amounts due to credit institutions	33,525	–	89,610	123,135	30,257	–	100,834	131,091
Amounts due to customers	114,038	232	87,717	201,987	111,160	166	98,896	210,222
Lease liabilities	6,147	–	–	6,147	10,528	–	–	10,528
Other liabilities	2,665	15	67	2,747	3,192	90	339	3,621
Subordinated debt	–	–	30,222	30,222	–	–	31,742	31,742
	<u>156,375</u>	<u>247</u>	<u>207,616</u>	<u>364,238</u>	<u>155,137</u>	<u>256</u>	<u>231,811</u>	<u>387,204</u>
Net assets/(liabilities)	<u>268,706</u>	<u>3,771</u>	<u>(206,137)</u>	<u>66,340</u>	<u>285,277</u>	<u>9,859</u>	<u>(229,833)</u>	<u>65,303</u>

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Funds attracted from the Parent provide sufficient sources for the Bank's operations in the foreseeable future. The Bank manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of corporate bonds that can be pledged to the NBG in the event of an unforeseen interruption of cash flow. In addition, the Bank maintains a cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on the certain liquidity ratios established by the NBG.

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

	2021, %	2020, %
GEL	161.8	97.5
Foreign currency	250.6	160.0
Combined	222.3	139.7

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

	2021, %	2020, %
NSFR	113.8	127.0

JSC PASHA Bank Georgia

Notes to the financial statements for 2021

(Amounts in tables are in thousands of Georgian lari)

21. Risk management (continued)**Liquidity risk and funding management (continued)**

The minimum required average liquidity ratio (LK), calculated as the ratio of the average volume of liquid assets over the average volume of liquid liabilities, has been removed from the NBG's liquidity requirements beginning 1 January 2021 but remains for monitoring purposes. At 31 December the Bank reported the following LK:

	2021, %	2020, %
Average liquidity ratio (LK)	47.2	39.3

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

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

As at 31 December 2020	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial liabilities					
Amounts due to credit institutions	38,387	260	96,085	6,324	141,056
Amounts due to customers	82,320	18,832	120,451	–	221,603
Lease liabilities	827	2,484	8,155	–	11,466
Other financial liabilities	3,621	–	–	–	3,621
Subordinated debt	–	1,661	39,415	–	41,076
Total undiscounted financial liabilities	125,155	23,237	264,106	6,324	418,822

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

	Note	Less than 3 months	1 to 5 years	Over 5 years	Total
2021	18	26,461	–	–	26,461
2020	18	35,887	–	–	35,887

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments. The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the table above. These balances are included in amounts due in less than three months in the tables above.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

37

JSC PASHA Bank Georgia

Notes to the financial statements for 2021

(Amounts in tables are in thousands of Georgian lari)

21. Risk management (continued)**Market risk (continued)****Currency risk**

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

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

Currency	Change in currency rate 2021	Effect on profit before tax 2021	Change in currency rate 2020	Effect on profit before tax 2020
USD	15%/(15%)	393/(393)	15%/(15%)	548/(548)
EUR	15%/(15%)	1,210/(1,210)	15%/(15%)	200/(200)

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected.

The effect on profit before tax for one year assuming 10% of repayable financial instruments were to prepay at the beginning of the year, with all other variables held constant, is as follows:

	Decrease of net interest income
2021	3,317
2020	3,103

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's statement of profit or loss.

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

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

Currency	Increase/(decrease) in basis points 2020	Sensitivity of net interest income 2020
GEL	100/(100)	1,042/(1,042)

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Bank stopped using IBORs for new loans disbursed. To manage the transition for any of its contracts that could be affected, the Bank will transfer existing IBOR exposures to RFRs in 2022.

38

JSC PASHA Bank Georgia

Notes to the financial statements for 2021

(Amounts in tables are in thousands of Georgian lari)

21. Risk management (continued)**Interest rate risk (continued)**

IBOR reform exposes the Bank to various risks, which the Bank is monitoring closely. These risks include but are not limited to the following:

- Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform;
- Financial risk to the Bank and its clients that markets are disrupted due to IBOR reform giving rise to financial losses;
- Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable;
- Operational risk arising from changes to the Bank's IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

22. Fair value measurements**Fair value hierarchy**

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

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

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

39

JSC PASHA Bank Georgia

Notes to the financial statements for 2021

(Amounts in tables are in thousands of Georgian lari)

22. Fair value measurements (continued)**Fair value hierarchy (continued)**

At 31 December 2020	Fair value measurement using			Total
	Level 1	Level 2	Level 3	
Assets for which fair values are disclosed				
Cash and cash equivalents	39,118	–	–	39,118
Amounts due from credit institutions	–	–	46,518	46,518
Loans to customers	–	–	320,118	320,118
Investment securities	–	5,547	41,437	46,984
Assets measured at fair value				
Other assets – derivative financial assets	–	302	–	302

At 31 December 2020	Fair value measurement using			Total
	Level 1	Level 2	Level 3	
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	–	131,091	131,091
Amounts due to customers	–	–	210,222	210,222
Lease liabilities	–	–	10,528	10,528
Subordinated Debt	–	–	31,742	31,742
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	–	640	–	640

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

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

	Carrying value 2021	Fair value 2021	Unrecognised gain(loss) 2021	Carrying value 2020	Fair value 2020	Unrecognised gain(loss) 2020
Financial assets						
Cash and cash equivalents	42,380	42,380	–	39,118	39,118	–
Amounts due from credit institutions	50,662	50,662	–	46,518	46,518	–
Loans to customers	294,973	294,973	–	320,118	320,118	–
Investment securities	42,059	42,876	817	46,223	46,984	761
Other financial assets	504	504	–	530	530	–
Financial liabilities						
Amounts due to credit institutions	123,135	123,135	–	131,091	131,091	–
Amounts due to customers	201,987	201,987	–	210,222	210,222	–
Other financial liabilities	2,747	2,747	–	3,621	3,621	–
Lease liabilities	6,147	6,147	–	10,528	10,528	–
Subordinated debt	30,222	30,222	–	31,742	31,742	–
Total unrecognised change in fair value			817			761

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets and liabilities for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. All of the Bank's financial assets excluding loans to customers and investment securities (i.e. cash and cash equivalents and amounts due from credit institutions) and financial liabilities (amounts due to customers) are either liquid or are maturing within 3 months from the reporting date.

40

JSC PASHA Bank Georgia

Notes to the financial statements for 2021

(Amounts in tables are in thousands of Georgian lari)

22. Fair value measurements (continued)**Valuation techniques and assumptions (continued)**

The fair values of the Bank's financial assets and liabilities are estimated by comparing their applicable market interest rates at initial recognition with current market rates on similar financial assets and liabilities. The contractual interest rates of the Bank's loan and investments securities portfolios issued and customer accounts and funding from financial institutions obtained during the reporting period remain at market interest rates and their carrying value approximates their fair value. The subordinated debt facility obtained by the bank at the end of reporting period ending 31 December 2019 had been recognized at fair value at initial recognition with nor further indicators suggesting significant fair value adjustment to its carrying value.

Forward foreign exchange contracts are derivatives valued using a valuation technique with market observable inputs. The applied valuation technique for such derivatives includes forward pricing models using present value calculations.

Investment securities

As at 31 December 2021 investment securities represent fixed and floating rated financial assets carried at amortized cost. The fair value for investment securities is derived by discounting the future cash flows using current market rates for similar financial assets.

23. Maturity analysis of assets and liabilities

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

	2021			2020		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Cash and cash equivalents	42,380	–	42,380	39,118	–	39,118
Amounts due from credit institutions	50,662	–	50,662	46,518	–	46,518
Loans to customers	109,574	185,399	294,973	127,244	192,874	320,118
Investment securities	6,463	35,596	42,059	6,602	39,621	46,223
Property and equipment	–	3,827	3,827	–	6,738	6,738
Right of use assets	–	5,412	5,412	–	8,921	8,921
Intangible assets	–	4,863	4,863	–	4,241	4,241
Other assets	1,408	411	1,819	1,350	177	1,527
Total	210,487	235,508	445,995	220,832	252,572	473,404
Amounts due to credit institutions	117,654	5,481	123,135	42,926	88,165	131,091
Amounts due to customers	106,210	95,777	201,987	96,205	114,017	210,222
Provisions	240	–	240	395	–	395
Deferred income tax liability	–	–	–	226	–	226
Lease liabilities	–	6,147	6,147	–	10,528	10,528
Other liabilities	5,186	–	5,186	6,116	–	6,116
Subordinated debt	–	30,222	30,222	–	31,742	31,742
Total	229,290	137,627	366,917	145,868	244,452	390,320
Net	(18,803)	97,881	79,078	74,964	8,120	83,084

As of 31 December 2021, total amount of funding obtained from the Parent and entities under common control amounted to GEL 141,962 (2020: GEL 159,693). Management believes that this level of funding will remain with the Bank for the foreseeable future and that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realise its liquid assets to enable repayment. Refer to Note 24.

Long-term loans are generally not available in Georgia. However, in the Georgian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above.

41

JSC PASHA Bank Georgia

Notes to the financial statements for 2021

(Amounts in tables are in thousands of Georgian lari)

24. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The outstanding balances of related party transactions are as follows:

	2021				2020			
	The Parent	Key management personnel	Entities under common control	Other	The Parent	Key management personnel	Entities under common control	Other
Cash and cash equivalents	284	–	3,946	–	270	–	961	–
Loans to customers	–	322	–	2	–	36	–	–
Other assets	–	–	–	–	–	2	–	9
Amounts due to credit institutions	(8,278)	–	(16,960)	–	(13,233)	–	(22,192)	–
Amounts due to customers	–	(9,066)	(86,502)	–	–	(9,766)	(92,526)	–
Other liabilities	–	–	(3)	(7)	–	–	(334)	–
Subordinated debt	(15,111)	–	(15,111)	–	(15,871)	–	(15,871)	–

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

	2021				2020			
	The Parent	Key management personnel	Entities under common control	Other	The Parent	Key management personnel	Entities under common control	Other
Fee and commission income	2	–	2	–	1	–	5	–
Fee and commission expense	(2)	–	(5)	–	(3)	–	(4)	–
Interest income on loans to customers	–	21	–	–	–	56	71	–
Interest income on amounts due from credit institutions	(2)	–	7	–	(2)	–	32	–
Interest expense on amounts due to credit institutions	(21)	–	(711)	–	(252)	–	(651)	–
Interest expense on amounts due to customers	–	(314)	(3,121)	–	–	(311)	(2,989)	–
Interest expense on subordinated debt	(816)	–	(816)	–	(790)	–	(790)	–
Professional fees	–	–	–	(18)	–	–	–	–

Compensation of key management personnel was comprised of the following:

	2021	2020
Salaries and other short-term benefits	2,275	2,264

Key management personnel as at 31 December 2021 comprised of 5 members of the Supervisory Board and 4 members of the Board of Directors of the Bank (2020: 5 members of the Supervisory Board and 3 members of the Board of Directors).

42

JSC PASHA Bank Georgia

Notes to the financial statements for 2021

(Amounts in tables are in thousands of Georgian lari)

25. Capital adequacy

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

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

During year ended 31 December 2021 the Bank followed externally imposed capital requirements as adjusted based on the NBG's special supervisory plan effected in response to COVID19 (described in the NBG special supervisory plan paragraph below).

As at 31 December 2021 the Bank was in breach of the single outsider ratio, single related party ratio and borrower group ratio. The Bank introduced the recovery plan to NBG and received the waiver that allows the Bank to become in compliance with the above mentioned ratios by the end of June 2022. These breaches do not lead to any regulatory punishment, because of the waivers granted by the NBG.

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

NBG capital adequacy ratio

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

Pillar 1

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

Pillar 2

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

NBG special supervisory plan

On 31 March 2020, NBG announced its supervisory plan to combat the negative effects of COVID-19. The plan alleviates the regulatory burden on commercial banks in the period of distress in order to enable them to carry on their businesses and continue lending to real economy. In particular, NBG has allowed commercial banks to use their capital buffers by eliminating the 2.5% conservation buffer and decreasing the foreign currency induced credit risk buffer by 2/3. NBG has also put in place a moratorium on any regulatory breaches of commercial banks caused by external factors such as additional credit losses, foreign exchange rate fluctuations and so on. With the early signs of the economic recovery, NBG expects the banking sector to report profit in 2021. The restoration of capital buffers is expected to be carried out gradually during the two years, starting 1 January 2022.

JSC PASHA Bank Georgia

Notes to the financial statements for 2021

(Amounts in tables are in thousands of Georgian lari)

25. Capital adequacy (continued)

The NBG requires the Bank to maintain a minimum total capital adequacy ratio of 15.08%, Tier 1 Capital ratio of 9.11% and Core Tier 1 Capital ratio of 6.83% of risk-weighted assets, computed based on Basel III requirements. As at 31 December 2021 the Bank's capital adequacy ratio on this basis was as follows:

	Notes	31 December 2021	Adjustments	31 December 2021 Per the NBG
Share capital	15	103,000	–	103,000
Retained earnings		(21,071)	(5,912)	(26,983)
Less: intangible assets, net	9	(4,863)	–	(4,863)
Current period loss		(4,006)	(2,147)	(6,153)
Core tier 1 capital		73,060	(8,059)	65,001
Tier 1 capital		73,060	(8,059)	65,001
Tier 2 capital		18,592	–	18,592
Supplementary capital		14,453	(9,197)	5,256
Total regulatory capital		106,105	(17,256)	88,849
Risk weighted assets				475,591
Capital adequacy ratio				18.68%
Core Tier 1 capital / Tier 1 capital adequacy ratio				13.67%

	Notes	31 December 2020	Adjustments	31 December 2020 Per the NBG
Share capital	15	103,000	–	103,000
Retained earnings		(1,818)	(1,971)	(3,789)
Less: intangible assets, net	9	(4,241)	–	(4,241)
Current period loss		(19,253)	(3,941)	(23,194)
Core tier 1 capital		77,688	(5,912)	71,776
Tier 1 capital		77,688	(5,912)	71,776
Tier 2 capital		32,551	–	32,551
Supplementary capital		18,327	(12,470)	5,857
Total regulatory capital		128,566	(18,382)	110,184
Risk weighted assets				511,914
Capital adequacy ratio				21.52%
Core Tier 1 capital / Tier 1 capital adequacy ratio				14.02%

