Bank of Georgia Group PLC

2nd quarter and half-year 2020 results

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www.bankofgeorgiagroup.com

ABOUT BANK OF GEORGIA GROUP PLC

The Group: Bank of Georgia Group PLC ("**Bank of Georgia Group**" or the "**Group**" – LSE: **BGEO LN**) is a UK incorporated holding company, which comprises: a) retail banking and payment services; and b) corporate and investment banking and wealth management operations in Georgia; and c) banking operations in Belarus ("**BNB**"). JSC Bank of Georgia ("**Bank of Georgia**", "**BOG**" or the "**Bank**"), the leading universal bank in Georgia, is the core entity of the Group. In the medium to long-term, the Group targets to benefit from superior growth of the Georgian economy through both its retail banking and corporate and investment banking services and aims to deliver on its strategy, which is based on at least 20% ROAE and c.15% growth of its loan book.

2Q20 AND 1H20 RESULTS CONFERENCE CALL DETAILS

Bank of Georgia Group PLC announces the Group's consolidated financial results for the second quarter and the first half of 2020. Unless otherwise noted, numbers in this announcement are for 2Q20 and comparisons are with 2Q19. The results are based on International Financial Reporting Standards ("**IFRS**") as adopted by the European Union, are unaudited and derived from management accounts. This results announcement is also available on the Group's website at www.bankofgeorgiagroup.com.

An investor/analyst conference call, organised by the Bank of Georgia Group, will be held on 20 August 2020, at 14:00 UK / 15:00 CEST / 09:00 U.S Eastern Time.

Webinar instructions:

Please click the link to join the webinar: https://bankofgeorgia.zoom.us/j/95526745568
Webinar ID: **955 2674 5568**

Or use the following international dial-in numbers available at: https://bankofgeorgia.zoom.us/u/acFso2de3t
Webinar ID: **955 2674 5568#**

Participants, who will be joining through the webinar, can use the "raise hand" feature at the bottom of the screen to ask questions. Participants, who will be joining through the international dial-in number, can dial *9 to raise hand and ask questions.

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FORWARD LOOKING STATEMENTS

IMPACT OF COVID-19 GLOBAL PANDEMIC

The impact of the COVID-19 global pandemic over the last few months has significantly tested the resilience and character of Bank of Georgia, together with that of all of our colleagues and customers. Our performance during the second quarter of 2020 was therefore, significantly impacted by a number of factors:

- Three very different economic realities in each different month in the second quarter, with signs of recovery in May and June
- Extraordinary environment and measures implemented by the Georgian Government to address the COVID-19 crisis
- Actions implemented by the Group to address the COVID-19 crisis

The Georgian Government took significant early actions to reduce the spread of the virus, which included flight bans, and school and business closures, which were essential to what has, so far, been an extremely well-managed response to the pandemic throughout the country. From a macroeconomic perspective, there was clearly a significant negative impact in all areas of the economy, resulting in a reduction of economic activity in April and May on the back of the lockdown restrictions put in force. However, the Government's immediate and successful response to the evolving COVID-19 pandemic enabled the domestic economy to reopen much faster than any other economy in the region, and we already saw a rebound in economic activity in June, after the release of restrictions and reopening of domestic tourism throughout the country. This was further followed by the announcement of the Government's anti-crisis stimulus plan, which includes a social assistance package for individuals, as well as tax exemptions and various funding mechanisms for businesses, and stimulus plans for various sectors of economy.

Local currency funding has experienced a significant pressure, resulting in an increase in interest rates in April and May, however, this impact was subsequently stabilised to more normal levels as a result of the new local currency funding instruments introduced by the National Bank of Georgia (the "NBG") to the market in order to support the GEL liquidity.

We are now experiencing a better than expected recovery in business activity, improving significantly in many key economic areas to close to pre-COVID-19 levels: remittances improved in May and grew significantly by 17.8% y-o-y in June; consumer demand improved in June based on banking card payment activities; and VAT turnover statistics (down 32.8% y-o-y in April, down 22.2% y-o-y in May, and down 6.2% y-o-y in June) also demonstrated a recovery in business activity, mostly in trade, construction, real estate and manufacturing sectors.

During the second quarter of 2020, the Georgian Lari has performed very well and appreciated by 7.0% against the US Dollar, mostly supported by the NBG's interventions, external funding support and strong remittance flows. There has been some careful reopening of international borders, but we do not expect to see any significant levels of international tourism during the remainder of 2020. As a result, we now expect to see the Georgian economy contract by 5.1% during 2020, followed by the GDP growth of c.5.0-5.5% in 2021, based on the estimates of our brokerage and investment arm, Galt and Taggart.

In order to respond to the pandemic outbreak, the Group has introduced a number of resilience protocols and a comprehensive Business Continuity Plan aimed at curbing the spread of COVID-19 in Georgia and mitigating the negative impact on our business and the community. We have put in place a number of initiatives to reduce physical interaction and prevent the spread of coronavirus, whilst maintaining the full banking capability required to support and assist our customers. This included additional safety measures and protocols introduced in our everyday working environment, fully moving back office staff to working from home in just two weeks, significantly enhancing the capacity of the call centre, temporarily closing the customer service support areas of express branches (mostly re-opened in June), with only the self-service terminals and ATM areas remaining open, implementing a three-month grace period on principal and interest payments on all retail loans to significantly reduce the requirement for customers to physically visit branches, applying more stringent risk assessment procedures during the lending process, incentivising the offloading of customer activity to digital channels through temporary removal of fees on transactions executed through our mobile and internet banking platforms since mid-March 2020, for a two-month period, among others.

The Bank maintained excess liquidity in the second quarter, primarily for 1) risk mitigation purposes, on the back of the ongoing COVID-19 crisis; and 2) the repayment of local currency Eurobonds due at the beginning of June 2020.

Our second quarter results therefore have been significantly impacted by the environment in which we operate and the measures we have put in place to manage the crisis. This quarter has been unprecedented and characterised by three different periods on the back of the changing environment in April, May and June, as described above. The largest impact was felt in the Retail Banking business, which was impacted by the slow-down of economic activity on the back of the Government's lock-down restrictions, temporary closure of the express branches (mostly re-opened in June), temporary removal of fees on transactions through digital channels, slower lending activity, three-months grace periods on loans, more expensive local currency funding, among others.

- **Net fee and commission income** was down only 9.9% y-o-y in June 2020 following bigger decreases of 42.5% y-o-y in April, and 21.2% in May. This demonstrates strong recovery dynamics in our fee income generation since May, on the back of improved remittances in May and June, increased consumer demand in June as measured by banking card payment activities, and the recovery in VAT turnover statistics of local business
- **Client deposits** increased significantly by 6.9% during the quarter (the growth on a constant-currency basis was 11.9% q-o-q), which demonstrates that the immediate outflow of customer funds in March 2020, was a temporary response to the COVID-19 outbreak shock, which quickly stabilised

We next outline the Group's second quarter and the first half of 2020 results highlights, a summary of those highlights and then the Chief Executive Officer's letter before going into the details.

2Q20 AND 1H20 RESULTS HIGHLIGHTS

GEL thousands	2Q20	2Q19	Change y-o-y	1Q20	Change q-o-q	1H20	1H19	Change y-o-y
INCOME STATEMENT HIGHLIGHTS[1]								
Net interest income	174,936	191,354	-8.6%	197,080	-11.2%	372,017	381,335	-2.4%
Net fee and commission income	32,901	43,267	-24.0%	40,112	-18.0%	73,013	85,447	-14.6%
Net foreign currency gain	22,743	26,968	-15.7%	30,661	-25.8%	53,404	49,952	6.9%
Net other income / (expense)	9,081	(4,260)	NMF	6,627	37.0%	15,707	(691)	NMF
Operating income	**239,661**	**257,329**	**-6.9%**	**274,480**	**-12.7%**	**514,141**	**516,043**	**-0.4%**
Operating expenses	**(105,158)**	**(98,558)**	**6.7%**	**(106,008)**	**-0.8%**	**(211,167)**	**(190,485)**	**10.9%**
Profit from associates	113	254	-55.5%	301	-62.5%	414	442	-6.3%
Operating income before cost of risk	**134,616**	**159,025**	**-15.3%**	**168,773**	**-20.2%**	**303,388**	**326,000**	**-6.9%**
Cost of risk	(10,221)	(35,476)	-71.2%	(241,403)	-95.8%	(251,623)	(78,129)	NMF
Net operating income / (loss) before non-recurring items	**124,395**	**123,549**	**0.7%**	**(72,630)**	**NMF**	**51,765**	**247,871**	**-79.1%**
Net non-recurring items	(1,241)	(2,538)	-51.1%	(40,345)	-96.9%	(41,586)	(4,112)	NMF
Profit / (loss) before income tax and one-off costs	**123,154**	**121,011**	**1.8%**	**(112,975)**	**NMF**	**10,179**	**243,759**	**-95.8%**
Income tax (expense) / benefit	(8,470)	(9,871)	-14.2%	13,030	NMF	4,560	(20,407)	NMF
Profit / (loss) adjusted for one-off costs	**114,684**	**111,140**	**3.2%**	**(99,945)**	**NMF**	**14,739**	**223,352**	**-93.4%**
One-off termination costs of former CEO and executive management (after tax)	-	(3,996)	NMF	-	-	-	(14,236)	NMF
Profit / (loss)	**114,684**	**107,144**	**7.0%**	**(99,945)**	**NMF**	**14,739**	**209,116**	**-93.0%**

GEL thousands	Jun-20	Jun-19	Change y-o-y	Mar-20	Change q-o-q
BALANCE SHEET HIGHLIGHTS					
Liquid assets	5,447,730	4,537,545	20.1%	5,379,132	1.3%
Cash and cash equivalents	1,633,755	936,106	74.5%	1,507,142	8.4%
Amounts due from credit institutions	1,700,075	1,704,701	-0.3%	1,954,218	-13.0%
Investment securities	2,113,900	1,896,738	11.4%	1,917,772	10.2%
Loans to customers and finance lease receivables[2]	12,599,092	10,579,710	19.1%	13,144,429	-4.1%
Property and equipment	396,272	358,921	10.4%	380,580	4.1%
Total assets	**19,183,966**	**16,134,000**	**18.9%**	**19,663,693**	**-2.4%**
Client deposits and notes	11,583,139	8,855,616	30.8%	10,835,918	6.9%
Amounts owed to credit institutions	3,521,860	2,960,519	19.0%	4,144,701	-15.0%
Borrowings from DFIs	1,755,656	1,253,921	40.0%	1,689,610	3.9%
Short-term loans from central banks	847,213	1,001,496	-15.4%	1,677,339	-49.5%
Loans and deposits from commercial banks	918,991	705,102	30.3%	777,752	18.2%
Debt securities issued	1,561,933	2,137,239	-26.9%	2,294,431	-31.9%
Total liabilities	**16,984,167**	**14,215,780**	**19.5%**	**17,616,438**	**-3.6%**
Total equity	**2,199,799**	**1,918,220**	**14.7%**	**2,047,255**	**7.5%**

KEY RATIOS	2Q20	2Q19	1Q20	1H20	1H19
ROAA[1]	2.4%	2.9%	-2.1%	0.2%	3.0%
ROAE[1]	21.8%	22.9%	-18.6%	1.4%	23.7%
Net interest margin	4.2%	5.7%	5.0%	4.6%	5.8%
Liquid assets yield	3.4%	3.4%	3.9%	3.7%	3.6%
Loan yield	10.2%	11.8%	10.8%	10.6%	12.0%
Cost of funds	4.8%	4.5%	4.7%	4.8%	4.6%
Cost / income[3]	43.9%	38.3%	38.6%	41.1%	36.9%
NPLs to Gross loans to clients	2.7%	3.2%	2.1%	2.7%	3.2%
NPL coverage ratio	115.7%	88.1%	147.2%	115.7%	88.1%
NPL coverage ratio, adjusted for discounted value of collateral	166.3%	131.5%	194.9%	166.3%	131.5%
Cost of credit risk ratio	-0.2%	1.3%	7.4%	3.5%	1.5%
NBG (Basel III) CET1 capital adequacy ratio	9.9%	11.0%	8.3%	9.9%	11.0%
NBG (Basel III) Tier I capital adequacy ratio	12.0%	13.3%	10.6%	12.0%	13.3%
NBG (Basel III) Total capital adequacy ratio	17.4%	16.7%	15.3%	17.4%	16.7%

[1] The income statement adjusted profit excludes GEL 4.0mln in 2Q19 and GEL 14.2mln in 1H19 one-off employee costs (net of income tax) related to former CEO and executive management termination benefits. The amount in 2Q19 is comprised of GEL 4.6mln (gross of income tax) excluded from salaries and other employee benefits and GEL 0.6mln tax benefit excluded from income tax expense. The amount in 1H19 is comprised of GEL 12.4mln (gross of income tax) excluded from salaries and other employee benefits, GEL 4.0mln (gross of income tax) excluded from non-recurring items and GEL 2.2mln tax benefit excluded from income tax expense. 2Q19 and 1H19 ROAE and ROAA have been adjusted accordingly. Full IFRS income statement is presented on *page 20*. Management believes that one-off costs do not relate to underlying performance of the Group, and hence, adjusted results provide the best representation of the Group's performance during second quarter and first half of 2019

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

[3] Cost/income ratio adjusted for GEL 4.6mln in 2Q19 and GEL 12.4mln in 1H19 one-off employee costs (gross of income tax) related to termination benefits of the former executive management

KEY RESULTS HIGHLIGHTS

- **Solid quarterly and half year performance notwithstanding the COVID-19 pandemic impact.** The Group delivered resilient operating income before cost of risk of GEL 134.6mln during the second quarter of 2020 and GEL 303.4mln in the first half of 2020
- **Net interest margin**. NIM was significantly down in the second quarter and the first half of 2020, primarily driven by decline during April and May, as a result of the significant reduction in retail lending activity and high levels of liquidity during the quarter
- **Net fee and commission income.** The y-o-y and q-o-q decrease was mainly driven by decline in net fee and commission income from settlement and cash operations, as a result of slower customer activity due to COVID-19 pandemic, the temporary closure of our express branches and the temporary removal of fees on transactions executed through our mobile and internet banking platforms since mid-March 2020, for a two-month period, in order to reduce customer visits to branches and incentivise the transfer of customers' activity to digital channels. The decline was partially offset by the strong net fee generation from guarantees and letters of credit issued by our Corporate and Investment Banking business. In June, we have already seen strong recovery dynamics, as remittances improved in May and grew significantly by 17.8% y-o-y in June, and consumer demand improved in June as measured by banking card payment activities. VAT turnover statistics have also demonstrated a recovery in business activity, mostly in the trade, construction, real estate and manufacturing sectors. We therefore expect fee generation to improve going forward
- **Operating expenses** increased by 6.7% y-o-y and were down 0.8% q-o-q in 2Q20, and increased by 10.9% y-o-y in 1H20 due to increased investment in IT and marketing, as well as some one-off spend related to COVID-19 mitigation measures. In the second quarter of 2020, we have initiated cost optimisation measures, the impact of which has not yet been reflected in the first half of 2020 results, therefore, we expect improvement in our cost to income ratio in the second half of the year
- **Net one-off loss on modification of financial assets.** We recorded a GEL 38.7mln and GEL 1.0mln one-off net loss on modification of financial assets in March and April of 2020 in relation to the three-month payment holidays on principal and interest offered to our retail banking clients, as an immediate response to COVID-19 pandemic outbreak, in order to reduce the requirement for customers to physically visit Bank branches and reduce the risk of the virus spread. The net loss incurred as a result of these modifications has been classified as a non-recurring item in the income statement during the first half of 2020. For the accounting treatment rationale, see *page 11* of this announcement
- **Loan book increased by 19.1% y-o-y and was down 4.1% q-o-q at 30 June 2020.** Growth on a constant-currency basis was 14.7% y-o-y and 0.2% q-o-q. The y-o-y loan book growth reflected continued strong loan origination levels in Corporate, MSME and the mortgage segments during the pre-COVID-19 period, while the q-o-q trend reflects the slow-down of economic activity since March 2020 as a result of the COVID-19 pandemic outbreak
- **Client deposits and notes increased by 30.8% y-o-y and by 6.9% q-o-q at 30 June 2020.** On a constant-currency basis, client deposits and notes grew by 25.8% y-o-y and by 11.9% q-o-q. Both y-o-y and q-o-q increase in deposit balances reflects a gradual increase in monthly deposit balances of both our individual and business customers since May 2020
- **Asset quality.** The cost of credit risk was a net gain of 0.2% in 2Q20 (versus losses of 1.3% in 2Q19 and 7.4% in 1Q20) and was 3.5% 1H20 (1.5% in 1H19). The y-o-y increase in cost of credit risk ratio during the first half of 2020 was primary driven by the significant ECL provisions on loans to customers and finance lease receivables created for the full economic cycle during the first quarter of 2020, related to adverse macro-economic environment and expected negative impact on creditworthiness of borrowers as a result of the COVID-19 pandemic. These assumptions were further revisited during the second quarter to reflect the better visibility and the macro-economic forecast scenarios published by the National Bank of Georgia in May 2020. See details on assumptions used on *page 10*. The net gain of 0.2% of cost of risk ratio in 2Q20 was mainly related to a small reversal of provisions on the back of strengthening of local currency and amortisation of the loan portfolio in 2Q20
- The NPLs to gross loans increased to 2.7% at 30 June 2020 (3.2% at 30 June 2019 and 2.1% at 31 March 2020). The NPL coverage ratio was 115.7% at 30 June 2020 (88.1% at 30 June 2019 and 147.2% at 31 March 2020) and the NPL coverage ratio adjusted for the discounted value of collateral was 166.3% at 30 June 2020 (131.5% at 30 June 2019 and 194.9% at 31 March 2020). The q-o-q dynamic was driven by the increase in non-performing borrowers during 2Q20, on the back of COVID-19 crisis, while the ECL provisions for the full economic cycle on loan portfolio were created already in the first quarter of 2020
- **Solid capital adequacy position.** The Bank's capital adequacy ratios have been strong, and remain comfortably above minimum regulatory requirements. The Bank's Basel III Common Equity Tier 1, Tier 1 and Total capital adequacy ratios stood at 9.9%, 12.0% and 17.4%, respectively, all well above the minimum required levels of 6.9%, 8.7% and 13.3%, respectively, at 30 June 2020. The y-o-y decline in capital ratios was primarily due to a GEL 400mln general provision created in March 2020 under the local regulatory accounting basis in agreement with the NBG (and consistent with NBG's guidance for the Georgian banking sector in general) that covers its current expectation of estimated credit losses on the Bank's lending book for the whole economic cycle
- **Strong liquidity and funding position.** The Bank's liquidity and funding positions have remained strong. As at 30 June 2020, the Bank's liquidity coverage ratio stood at 135.4% and net stable funding ratio at 136.6%, compared to the 100% minimum required level. The Bank maintained excess liquidity in 2Q20, primarily for 1) risk mitigation purposes, on the back of the ongoing COVID-19 crisis; and 2) the repayment of local currency Eurobonds due and repaid at the beginning of June 2020. The Bank has strong support from International Financial Institutions. It has already attracted a number of new long-term borrowings both in local and foreign currencies during the past few months of more than US$200 million, part of which has already been drawn-down in the first half of 2020. Furthermore, we are actively working with our partner financial institutions and expect to sign new long-term facilities of around US$400 million over the next few months, which will further improve our liquidity position and enable us to support our customers and the economy in which we operate during these unprecedented times

CHIEF EXECUTIVE OFFICER'S STATEMENT

The impact of the COVID-19 global pandemic over the last six months has significantly tested the resilience and character of Bank of Georgia Group, together with that of all of our colleagues and customers. Over the last six months, however, I am delighted with the way the Group has responded by supporting the Georgian economy, our customers and our colleagues.

From a macro-economic perspective, there was a significant reduction in economic activity in April and May this year on the back of the lockdown restrictions in force. The Georgian Government's immediate and successful response to the evolving COVID-19 pandemic enabled the domestic economy to reopen much faster than any other economy in the region. As a result, we are now experiencing a better than expected recovery, with business activity starting to improve significantly in June. During the second quarter of 2020, the Georgian Lari has performed very well and appreciated by 7.0% against the US Dollar, partly supported by the NBG's interventions, external funding support and stronger than expected remittance flows.

There has been some careful reopening of international borders, but we do not expect to see any significant levels of international tourism during the remainder of 2020. As a result, we now expect to see the Georgian economy contract by 5.1% during 2020, followed by the GDP growth of c.5.0-5.5% in 2021, based on the estimates of our brokerage and investment arm, Galt and Taggart.

Bank of Georgia Group's performance has been very robust throughout the first half of the year, having taken a significant ECL provision in the first quarter that we continue to expect to cover all expected credit losses through the full economic cycle, relating to the COVID-19 impact. Our performance during the second quarter of 2020 has been extremely resilient, delivering strong profitability during a time when the Georgian economy has experienced its worst reduction in economic activity for more than a few decades:

- **The balance sheet has remained strong and stable.** On a constant currency basis, our customer lending has remained broadly flat q-o-q, as expected, and client deposits increased significantly by 11.9% during the quarter. Bank of Georgia is now the clear market leader in retail deposits
- **Operating income has been very resilient**. Despite an extensive economic lockdown, operating income remained robust with operating income down 12.7% q-o-q in 2Q20, but broadly flat y-o-y on a six months basis in the first half of 2020
- **Net interest margin is now increasing.** Having reduced significantly during April and May, as a result of the significant reduction in retail lending and high levels of liquidity, our net interest margin in July and August so far has been running c.30 basis points higher than the 4.2% margin in the second quarter of 2020
- **Our lending portfolios are performing better than expected.** Asset quality is robust, and the significant ECL provision made in the first quarter is proving to be sufficient, despite the expected GDP contraction being slightly worse than initially anticipated. Our corporate, SME and Solo portfolios have all performed better than our initial expectations
- **Our capital ratios have improved significantly.** During the second quarter of 2020, our capital ratios increased significantly, to levels well above our required minimum regulatory requirements
- **Our Return on Average Equity returned to more normal levels.** In the second quarter of 2020, we delivered an annualised ROAE of 21.8%

Our mission and our strategy remain unchanged and we have actively continued the further development of our fully integrated digital strategy, an important focus for us, as we seek to digitise our full banking platforms. The use of our mobile banking and digital platforms has substantially increased throughout the period of the economic lockdown, and our market leading digital and mobile banking presence has become a significant source of competitive advantage.

Bank of Georgia has two clear strategic targets over the medium to long-term: to achieve at least 20% return on average equity, and to deliver c.15% growth in the loan book. Given our clear Georgia focus, our performance during 2020 will inevitably be affected by the local COVID-19 impact, but we have already resumed the delivery of our targeted profitability. Our performance and balance sheet is demonstrating strong robustness, asset quality is resilient and we remain comfortable, given our economic scenario stress-testing assumptions, with the adequacy of the significant ECL provision created in the first quarter. The Group is very well positioned for the future, with an outstanding team, coupled with strong funding and liquidity, and capital resources.

Archil Gachechiladze,
CEO, Bank of Georgia Group PLC
19 August 2020

DISCUSSION OF RESULTS

*The Group's business is composed of three segments. (1) **Retail Banking** operations in Georgia principally provides consumer loans, mortgage loans, overdrafts, credit cards and other credit facilities, funds transfer and settlement services, and handling customers' deposits for both individuals as well as legal entities. Retail Banking targets the emerging and mass retail and mass affluent segments, together with small and medium enterprises and micro businesses. (2) **Corporate and Investment Banking** comprises Corporate Banking and Investment Management operations in Georgia. Corporate Banking principally provides loans and other credit facilities, funds transfers and settlement services, trade finance services, documentary operations support and handles saving and term deposits for corporate and institutional customers. The Investment Management business principally provides private banking services to high net worth clients. (3) **BNB**, comprising JSC Belarusky Narodny Bank, principally provides retail and corporate banking services to clients in Belarus.*

OPERATING INCOME

GEL thousands, unless otherwise noted	2Q20	2Q19	Change y-o-y	1Q20	Change q-o-q	1H20	1H19	Change y-o-y
Interest income	379,038	342,224	10.8%	388,326	-2.4%	767,364	676,959	13.4%
Interest expense	(204,102)	(150,870)	35.3%	(191,246)	6.7%	(395,347)	(295,624)	33.7%
Net interest income	**174,936**	**191,354**	**-8.6%**	**197,080**	**-11.2%**	**372,017**	**381,335**	**-2.4%**
Fee and commission income	54,389	68,025	-20.0%	70,894	-23.3%	125,284	130,556	-4.0%
Fee and commission expense	(21,488)	(24,758)	-13.2%	(30,782)	-30.2%	(52,271)	(45,109)	15.9%
Net fee and commission income	**32,901**	**43,267**	**-24.0%**	**40,112**	**-18.0%**	**73,013**	**85,447**	**-14.6%**
Net foreign currency gain	22,743	26,968	-15.7%	30,661	-25.8%	53,404	49,952	6.9%
Net other income / (expense)	9,081	(4,260)	NMF	6,627	37.0%	15,707	(691)	NMF
Operating income	**239,661**	**257,329**	**-6.9%**	**274,480**	**-12.7%**	**514,141**	**516,043**	**-0.4%**
Net interest margin	4.2%	5.7%		5.0%		4.6%	5.8%	
Average interest earning assets	16,668,289	13,504,120	23.4%	15,827,796	5.3%	16,138,601	13,159,460	22.6%
Average interest bearing liabilities	16,957,795	13,378,168	26.8%	16,339,697	3.8%	16,544,278	13,095,239	26.3%
Average net loans and finance lease receivables, currency blended	12,862,536	10,004,743	28.6%	12,274,814	4.8%	12,486,425	9,751,614	28.0%
Average net loans and finance lease receivables, GEL	4,984,078	3,977,481	25.3%	4,988,497	-0.1%	4,987,437	3,825,608	30.4%
Average net loans and finance lease receivables, FC	7,878,458	6,027,262	30.7%	7,286,317	8.1%	7,498,988	5,926,006	26.5%
Average client deposits and notes, currency blended	11,115,351	8,673,526	28.2%	10,473,930	6.1%	10,788,743	8,487,934	27.1%
Average client deposits and notes, GEL	3,602,387	2,860,563	25.9%	3,298,908	9.2%	3,516,911	2,793,175	25.9%
Average client deposits and notes, FC	7,512,964	5,812,963	29.2%	7,175,022	4.7%	7,271,832	5,694,759	27.7%
Average liquid assets, currency blended	5,297,130	4,528,508	17.0%	5,322,430	-0.5%	5,299,872	4,461,800	18.8%
Average liquid assets, GEL	2,341,763	2,049,163	14.3%	2,208,730	6.0%	2,280,286	2,065,576	10.4%
Average liquid assets, FC	2,955,367	2,479,345	19.2%	3,113,700	-5.1%	3,019,586	2,396,224	26.0%
Liquid assets yield, currency blended	3.4%	3.4%		3.9%		3.7%	3.6%	
Liquid assets yield, GEL	7.5%	6.1%		8.0%		7.8%	6.5%	
Liquid assets yield, FC	0.1%	1.1%		1.0%		0.6%	1.1%	
Loan yield, currency blended	10.2%	11.8%		10.8%		10.6%	12.0%	
Loan yield, GEL	14.7%	17.3%		15.6%		15.2%	17.8%	
Loan yield, FC	7.3%	8.2%		7.5%		7.5%	8.2%	
Cost of funds, currency blended	4.8%	4.5%		4.7%		4.8%	4.6%	
Cost of funds, GEL	8.3%	6.8%		7.9%		8.1%	6.9%	
Cost of funds, FC	3.0%	3.2%		2.9%		2.9%	3.2%	
Cost / income [4]	43.9%	38.3%		38.6%		41.1%	36.9%	

Performance highlights

- **The Group generated operating income of GEL 239.7mln in 2Q20 (down 6.9% y-o-y and down 12.7% q-o-q), ending six months of 2020 with operating income of GEL 514.1mln (largely flat y-o-y).** The y-o-y and q-o-q decline in operating income in all periods presented was primarily driven by the decrease in net interest income and net fee and commission income, on the back of slow-down of economic activity due to COVID-19 pandemic outbreak in March 2020
- **Our NIM was 4.2% in 2Q20 and 4.6% in 1H20.** NIM was down 150bps y-o-y and 80bps q-o-q in 2Q20, and was down 120bps y-o-y in 1H20, primarily driven by decline in currency blended loan yields (down 160bps y-o-y and down 60bps q-o-q in 2Q20, and down 140bps y-o-y in 1H20) on the back of slower lending activity due to pandemic, coupled with increase in cost of funds (up 30bps y-o-y and up 10bps q-o-q in 2Q20, and up 20bps y-o-y in 1H20)
- **Loan yield.** Currency blended loan yield was 10.2% in 2Q20 (down 160bps y-o-y and down 60bps q-o-q) and 10.6% in the first half of 2020 (down 140bps y-o-y). Y-o-y and q-o-q decline in loan yield during the second quarter of 2020 and the first half of 2020, was driven by the decline in both local and foreign currency loan yields, on the back of slow-down of lending activity due to COVID-19 pandemic
- **Liquid assets yield.** Currency blended liquid assets yield was 3.4% in 2Q20 (flat y-o-y and down 50bps q-o-q) and 3.7% in 1H20 (up 10bps y-o-y). On y-o-y basis both in 2Q20 and 1H20, liquid assets yield level was driven by increase in local

[4] The cost/income ratio is adjusted for GEL 4.6mln in 2Q19 and GEL 12.4mln in 1H19 one-off employee costs (gross of income tax) related to termination benefits of the former executive management

currency denominated liquid assets yield, offset/partially offset by the decrease in foreign currency denominated liquid assets yield. Q-o-q decline in liquid assets yield in 2Q20 was due to decrease in both local and foreign currency denominated liquid assets yields. The local currency denominated liquid assets yield movement (up 140bps y-o-y and down 50bps q-o-q in 2Q20, and up 130bps y-o-y in 1H20) directly reflected the NBG's monetary policy rate movements (NBG increased monetary policy rate by cumulative of 250bps since September 2019, and reduced the policy rate twice by cumulative of 75bps in the second quarter of 2020). As for the foreign currency denominated liquid assets yield (down 100bps y-o-y and down 90bps q-o-q in 2Q20, and down 50bps y-o-y in 1H20), it largely reflected the cut in US Fed rate in March 2020 (NBG accrues interest rate on US Dollar obligatory reserves of the banks at US Fed rate upper bound minus 50bps)

- **Cost of funds.** Cost of funds stood at 4.8% both in 2Q20 (up 30bps y-o-y and up 10bps q-o-q) and in 1H20 (up 20bps y-o-y). Increase in cost of funds in all periods presented was primarily driven by increase in cost of client deposits and notes (up 40bps y-o-y and q-o-q in 2Q20, and up 20bps y-o-y in 1H20), coupled with 40bps y-o-y increase in cost of amounts owed to credit institutions in 2Q20 and 1H20, partially offset by 30bps decrease in cost of amounts owed to credit institutions q-o-q in 2Q20 (NBG increased monetary policy rate by cumulative of 250bps since September 2019, and decreased policy rate twice by cumulative of 75bps in the second quarter of 2020). In addition, 20bps y-o-y increase in cost of debt securities issued also contributed to increase in cost of funds during the first half of 2020, as a result of the issuance of inaugural US$ 100 million Additional Tier 1 capital perpetual subordinated notes at the end of March 2019
- **Net fee and commission income.** Net fee and commission income was GEL 32.9mln in 2Q20 (down 24.0% y-o-y and down 18.0% q-o-q) and GEL 73.0mln in the first half of 2020 (down 14.6% y-o-y). Both y-o-y and q-o-q decline in all periods presented was mainly driven by decrease in net fee and commission income from settlement and cash operations, as a result of slower customer activity due to COVID-19 pandemic and temporary removal of fees on transactions executed through our mobile and internet banking platforms since mid-March 2020, for a two-month period, in order to decrease the customer visits to branches and incentivise the transfer of customers' activity to digital channels. This decline was partially offset by the strong net fees and commission income generation from guarantees and letters of credit issued by our Corporate and Investment Banking business both in 2Q20 and in the first half of 2020. That said, we already see strong recovery dynamics since May 2020 (net fee and commission income was down 42.5% y-o-y in April, down 21.2% in May and down only 9.9% in June 2020), as remittances improved in May and June, and consumer demand improved in June as measured by banking card payment activities. VAT turnover statistics also demonstrated a recovery in business activity, mostly in trade, construction, real estate and manufacturing sectors. As such, we expect the fee generation to stabilise going forward
- **Net foreign currency gain.** Net foreign currency gain was down by 15.7% y-o-y and by 25.8% q-o-q in 2Q20, primarily due to lower currency volatility and client-driven flows during the second quarter of 2020. On the other hand, the Group benefited from the high level of currency volatility in the first quarter of 2020, which contributed to a 6.9% y-o-y increase in net foreign currency gain during the first half of 2020
- **Net other income.** Significant y-o-y increase in net other income in the second quarter and the first half of 2020, was primarily driven by higher net real estate gains on the back of higher income from operating leases in 2020. Furthermore, the Group recorded GEL 2.4mln gain from revaluation of investment property in the second quarter of 2020 (impact of changes in fair value on certain investment properties due to the lapse of the repurchase option granted to the former borrower), contributing to the increase of net other income in 2Q20 and 1H20

NET OPERATING INCOME BEFORE NON-RECURRING ITEMS; COST OF RISK; PROFIT / (LOSS)

GEL thousands, unless otherwise noted [5]	2Q20	2Q19	Change y-o-y	1Q20	Change q-o-q	1H20	1H19	Change y-o-y
Salaries and other employee benefits	(60,656)	(57,982)	4.6%	(56,538)	7.3%	(117,194)	(110,399)	6.2%
Administrative expenses	(22,450)	(22,033)	1.9%	(27,021)	-16.9%	(49,470)	(44,774)	10.5%
Depreciation, amortisation and impairment	(21,139)	(17,295)	22.2%	(21,390)	-1.2%	(42,529)	(32,983)	28.9%
Other operating expenses	(913)	(1,248)	-26.8%	(1,059)	-13.8%	(1,974)	(2,329)	-15.2%
Operating expenses	**(105,158)**	**(98,558)**	**6.7%**	**(106,008)**	**-0.8%**	**(211,167)**	**(190,485)**	**10.9%**
Profit from associate	113	254	-55.5%	301	-62.5%	414	442	-6.3%
Operating income before cost of risk	**134,616**	**159,025**	**-15.3%**	**168,773**	**-20.2%**	**303,388**	**326,000**	**-6.9%**
Expected credit loss on loans to customers	11,621	(32,436)	NMF	(228,189)	NMF	(216,568)	(72,553)	NMF
Expected credit loss on finance lease receivables	(3,387)	(557)	NMF	(1,885)	79.7%	(5,273)	(1,003)	NMF
Other expected credit loss on other assets and provisions	(18,455)	(2,483)	NMF	(11,329)	62.9%	(29,782)	(4,573)	NMF
Cost of risk	**(10,221)**	**(35,476)**	**-71.2%**	**(241,403)**	**-95.8%**	**(251,623)**	**(78,129)**	**NMF**
Net operating income / (loss) before non-recurring items	**124,395**	**123,549**	**0.7%**	**(72,630)**	**NMF**	**51,765**	**247,871**	**-79.1%**
Net non-recurring items	(1,241)	(2,538)	-51.1%	(40,345)	-96.9%	(41,586)	(4,112)	NMF
Profit / (loss) before income tax and one-off costs	**123,154**	**121,011**	**1.8%**	**(112,975)**	**NMF**	**10,179**	**243,759**	**-95.8%**
Income tax (expense) / benefit	(8,470)	(9,871)	-14.2%	13,030	NMF	4,560	(20,407)	NMF
Profit / (loss) adjusted for one-off costs	**114,684**	**111,140**	**3.2%**	**(99,945)**	**NMF**	**14,739**	**223,352**	**-93.4%**
One-off termination costs of former CEO and executive management (after tax)	-	(3,996)	NMF	-	-	-	(14,236)	NMF
Profit / (loss)	**114,684**	**107,144**	**7.0%**	**(99,945)**	**NMF**	**14,739**	**209,116**	**-93.0%**

[5] The adjusted profit in the table excludes GEL 4.0mln in 2Q19 and GEL 14.2mln in 1H19 one-off employee costs (gross of income tax) related to the former CEO and executive management termination benefits. The amount in 2Q19 is comprised of GEL 4.6mln (gross of income tax) excluded from salaries and other employee benefits and GEL 0.6mln tax benefit excluded from income tax expense. The amount in 1H19 is comprised of GEL 12.4mln (gross of income tax) excluded from salaries and other employee benefits, GEL 4.0mln (gross of income tax) excluded from non-recurring items and GEL 2.2mln tax benefit excluded from income tax expense

- **Operating expenses** amounted to GEL 105.2mln in 2Q20, up 6.7% y-o-y and down 0.8% q-o-q, and GEL 211.2mln in 1H20, up by 10.9% y-o-y. The y-o-y increase both in 2Q20 and the first half of 2020 was primarily driven by increased investments in IT related resources as part of the Agile transformation process, focus on digitalisation and investments in marketing. In addition, we incurred extraordinary expenses during the first half of 2020 in relation to the safety measures implemented as a response to COVID-19 outbreak
- **Asset quality.** The cost of credit risk ratio stood at net gain of 0.2% in 2Q20 (compared to losses of 1.3% in 2Q19 and 7.4% in 1Q20) and was 3.5% in the first half of 2020 (compared to 1.5% in 1H19). The significant increase in cost of credit risk ratio in 1H20 was driven by the reserve builds, created for the full economic cycle in both Retail and Corporate and Investment Banking segments in the first quarter of 2020, primarily related to deterioration of macro-economic environment and expected creditworthiness of borrowers as a result of the COVID-19 pandemic impact. This reflected additional reserves for retail customers, as well as borrowers operating across multiple sectors of the economy, with the largest impacts in tourism, trade, transportation, construction and real estate industries (see Group's 1Q20 results announcement for details of assumptions used to estimate the amount of reserves required for the whole economic cycle in the first quarter of 2020). As a result of these assumptions, we created additional reserves of GEL 220.2mln in the first quarter of 2020

  In the second quarter of 2020, management revisited the assumptions used to estimate the amount of ECL provision in the first quarter to reflect the better visibility and the macro-economic forecast scenarios published by the NBG in May 2020. The following assumptions were used during the analysis in the second quarter:

  - We used macro parameters based on the National Bank of Georgia's forecast scenarios – three scenarios (Baseline, Downside and Upside) with macro parameters for a three-year horizon with assigned respective probabilities. The weighted average of these scenario results were further considered in estimating expected credit losses (ECL):

	Baseline (50% probability)			Downside (25% probability)			Upside (25% probability)		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
Real GDP growth	-4.0%	4.5%	5.0%	-9.0%	2.5%	4.0%	-3.0%	6.0%	5.0%
CPI Inflation	4.5%	1.5%	2.5%	7.0%	2.0%	2.5%	5.5%	4.0%	3.0%
GEL/US$ rate	3.20	3.20	3.20	3.52	3.70	3.51	3.04	2.89	2.89

  - Given the unprecedented nature of the COVID-19 pandemic and the uncertainties associated with it, we re-considered the existing impairment model and applied management overlays to the methodology to reflect a COVID-19 effect in ECL. In particular, granting three-month payment holidays to borrowers was not automatically considered as a SICR event (i.e. a trigger to transfer the exposures from Stage 1 to Stage 2). We performed a more in depth analysis of the loan portfolio and identified pools of exposures (tourism and hospitality sectors, among others, as well as some of the retail customers) that are most likely to suffer from pandemic consequences in the short to medium term, and transferred these exposures to Stage 2. The same treatment was used for borrowers who lost their job and income due to COVID-19 pandemic outbreak and who were included on the list for Government compensation programme
  - Further, to estimate the ECL for the above mentioned borrowers, in the downside scenario we assigned them Probability of Default (PD) of 1 and the ECL was calculated as a weighted average of the scenario results
  - We also applied a 5% haircut in Baseline and 15% haircut in Downside scenarios to real estate collateral values in GEL to reflect the NBG's forecast on real estate prices and adjusted Cure and Recovery rates downwards

  Based on these assumptions, the Group concluded that the additional reserve of GEL 220.2mln, already created in the first quarter of 2020, was sufficient. That said, the GEL 8.2mln net reversal of ECL on loans to customers and finance lease receivables in 2Q20, was primarily related to strengthening of local currency and the amortisation of the loan portfolio in the second quarter of 2020

  As for the cost of risk of GEL 10.2mln recorded in 2Q20, the reversal of ECL on loan portfolio, was offset by ECL charges on other assets and provisions, driven by additional reserves recorded by the Group in respect of guarantees issued and other financial assets, and expenses accrued for certain legal fees in 2Q20

  Given that we are operating in a rapidly changing environment with a high level of uncertainty with regards to both the length and the severity of the COVID-19 impact, we are monitoring the new facts and circumstances on a continuous basis and will be updating the market on any significant changes in our assessments in the coming months
- **Quality of our loan book** is closely monitored by the below presented metrics. The q-o-q increase in NPLs to gross loans and decrease in NPL coverage ratios at 30 June 2020, was mainly driven by the increase in non-performing borrowers during the second quarter of 2020 on the back of COVID-19 pandemic outbreak, while the ECL provisions for the full economic cycle on loan portfolio were created already in the first quarter of 2020:

GEL thousands, unless otherwise noted	Jun-20	Jun-19	Change y-o-y	Mar-20	Change q-o-q
NON-PERFORMING LOANS					
NPLs	355,260	347,285	2.3%	284,038	25.1%
NPLs to gross loans	2.7%	3.2%		2.1%	
NPLs to gross loans, RB	1.9%	2.1%		1.5%	
NPLs to gross loans, CIB	4.1%	5.3%		2.9%	
NPL coverage ratio	115.7%	88.1%		147.2%	
NPL coverage ratio adjusted for the discounted value of collateral	166.3%	131.5%		194.9%	

- **BNB – the Group's banking subsidiary in Belarus - continues to remain strongly capitalised**, with capital adequacy ratios well above the requirements of the National Bank of the Republic of Belarus ("**NBRB**"). At 30 June 2020, total capital adequacy ratio was 14.9%, well above the 12.5% minimum requirement, while Tier I capital adequacy ratio was 10.0%, again above the NBRB's 7.0% minimum requirement. ROAE was 12.2% in 2Q20 (9.8% in 2Q19 and negative 0.6% in 1Q20) and 5.9% in 1H20 (10.8% in 1H19), reflecting the COVID-19 pandemic impact in the first quarter of 2020. *For financial results highlights of BNB, see page 22*. We note the political unrest that is currently occurring in Belarus. There has so far been no material impact on the performance of our business in Belarus, which is profitable and well-capitalised, but we will continue to monitor the situation closely

- **Net non-recurring items.** Significant y-o-y increase in net non-recurring items during the first half of 2020 was primarily attributable to GEL 38.7mln and GEL 1.0mln one-off net loss on modification of financial assets in March and April of 2020, respectively, in relation to the three-month payment holidays on principal and interest offered to our retail banking clients, in order to reduce the requirement for customers to physically visit Bank branches and reduce the risk of COVID-19 virus spread. Interest continued to accrue on the outstanding principal of the loans and was distributed over the remaining period of each loan. The modification terms did not compound three-month accrued interest, and had therefore, under IFRS accounting, resulted in a one-off net loss on modification of loans to customers. This type of restructuring offered to our customers reflected the impact of the Bank's immediate social response to COVID-19 in Georgia, which management does not expect to recur. The net loss incurred as a result of these modifications has been classified as a non-recurring item in the income statement. In addition, in 1Q20, the Bank incurred GEL 1.2mln one-off costs to finance and donate 20,000 COVID-19 laboratory tests, 10 respirators, 50,000 face masks and 60,000 gloves to the Ministry of Health of Georgia, to support the battle to prevent the virus spread. These costs are also classified as non-recurring items

- **Overall, the Group recorded profit** of GEL 114.7mln in 2Q20 (compared to profit adjusted for one-off costs of GEL 111.1mln[6] in 2Q19 and a loss of GEL 99.9mln in 1Q20) and a profit of GEL 14.7mln in the first half of 2020 (compared to profit adjusted for one-off costs of GEL 223.4mln[6] in 1H19). As such, the Group's ROAE was 21.8% in 2Q20 (22.9%[6] in 2Q19 and negative profitability in 1Q20) and 1.4% in the first half of 2020 (23.7%[6] in 1H19)

BALANCE SHEET HIGHLIGHTS

GEL thousands, unless otherwise noted	Jun-20	Jun-19	Change y-o-y	Mar-20	Change q-o-q
Liquid assets	5,447,730	4,537,545	20.1%	5,379,132	1.3%
Liquid assets, GEL	2,461,639	2,094,928	17.5%	2,240,367	9.9%
Liquid assets, FC	2,986,091	2,442,617	22.2%	3,138,765	-4.9%
Net loans and finance lease receivables	12,599,092	10,579,710	19.1%	13,144,429	-4.1%
Net loans and finance lease receivables, GEL	5,001,418	4,217,713	18.6%	4,978,238	0.5%
Net loans and finance lease receivables, FC	7,597,674	6,361,997	19.4%	8,166,191	-7.0%
Client deposits and notes	11,583,139	8,855,616	30.8%	10,835,918	6.9%
Amounts owed to credit institutions	3,521,860	2,960,519	19.0%	4,144,701	-15.0%
Borrowings from DFIs	1,755,656	1,253,921	40.0%	1,689,610	3.9%
Short-term loans from central banks	847,213	1,001,496	-15.4%	1,677,339	-49.5%
Loans and deposits from commercial banks	918,991	705,102	30.3%	777,752	18.2%
Debt securities issued	1,561,933	2,137,239	-26.9%	2,294,431	-31.9%
LIQUIDITY AND CAPITAL ADEQUACY RATIOS					
Net loans / client deposits and notes	108.8%	119.5%		121.3%	
Net loans / client deposits and notes + DFIs	94.5%	104.7%		104.9%	
Liquid assets / total assets	28.4%	28.1%		27.4%	
Liquid assets / total liabilities	32.1%	31.9%		30.5%	
NBG liquidity coverage ratio	135.4%	114.3%		121.2%	
NBG (Basel III) CET1 capital adequacy ratio	9.9%	10.6%		8.3%	
NBG (Basel III) Tier I capital adequacy ratio	12.0%	13.3%		10.6%	
NBG (Basel III) Total capital adequacy ratio	17.4%	16.7%		15.3%	

Our balance sheet remains highly liquid (NBG liquidity coverage ratio of 135.4%) **and strongly capitalised** (NBG Basel III Tier I capital adequacy ratio of 12.0%) **with a well-diversified funding base** (client deposits and notes to total liabilities of 68.2%) at 30 June 2020.

- **Liquidity.** Liquid assets stood at GEL 5,447.7mln at 30 June 2020, up 20.1% y-o-y and up 1.3% q-o-q. The notable increase over the year was in cash on hand, combined with excess liquidity deployed with credit institutions and in investment securities. The Bank maintained excess liquidity in 2020 primarily for 1) risk mitigation purposes on the back of the current COVID-19 crisis; and 2) the repayment of local currency Eurobonds due at the beginning of June 2020. The NBG Liquidity coverage ratio was 135.4% at 30 June 2020 (114.3% at 30 June 2019 and 121.2% at 31 March 2020), well above the 100% minimum requirement level

[6] Profit and ROAE exclude GEL 4.0mln in 2Q19 and GEL 14.2mln in 1H19 one-off employee costs (gross of income tax) related to the former CEO and executive management termination benefits

- **Loan book**. Our net loan book and finance lease receivables amounted GEL 12,599.1mln at 30 June 2020, up 19.1% y-o-y and down 4.1% q-o-q. As of 30 June 2020, the retail loan book represented 65.8% of the total loan portfolio (67.2% at 30 June 2019 and 64.3% at 31 March 2020). Both local and foreign currency portfolios experienced solid y-o-y growth of 18.6% and 19.4%, respectively. The local currency loan portfolio growth was partially driven by the Government's de-dollarisation initiatives and our goal to increase the share of local currency loans in our portfolio. On a q-o-q basis, local currency denominated loan portfolio was largely flat, primarily due to the slow-down of economic activity as a result of the COVID-19 pandemic outbreak in March 2020, while foreign currency denominated loan book decreased by 7.0% q-o-q, mostly reflecting strengthening of the local currency during the second quarter of 2020
- **Dollarisation of our loan book and client deposits.** The retail client loan book in foreign currency accounted for 45.6% of the total RB loan book at 30 June 2020 (45.9% at 30 June 2019 and 47.7% at 31 March 2020), while retail client foreign currency deposits comprised 67.8% of total RB deposits at 30 June 2020 (68.8% at 30 June 2019 and 71.5% at 31 March 2020). At 30 June 2020, 82.6% of CIB's loan book was denominated in foreign currency (83.6% at 30 June 2019 and 82.5% at 31 March 2020), while 51.9% of CIB deposits were denominated in foreign currency (63.2% at 30 June 2019 and 69.4% at 31 March 2020)
- **Net loans to customer funds and DFI ratio**. Our net loans to customer funds and DFI ratio, which is closely monitored by management, stood at 94.5% at 30 June 2020 (104.7% at 30 June 2019 and 104.9% at 31 March 2020)
- **Diversified funding base**. Debt securities issued decreased by 26.9% y-o-y and by 31.9% q-o-q at 30 June 2020. Both the y-o-y and q-o-q decrease was primarily driven by the repayment of GEL 500mln local currency Eurobonds at the beginning of June 2020. In addition, local currency strengthening in the second quarter of 2020 also contributed to the q-o-q decrease in debt securities issued at 30 June 2020
- **Solid capital position.** At 30 June 2020, following the measures put in place by the NBG as part of the COVID-19 supervisory plan in March 2020 (see details on *page 22* of the Group's 1Q20 results announcement), the Bank's Basel III Common Equity Tier 1, Tier 1 and Total capital adequacy ratios stood at 9.9%, 12.0% and 17.4%, respectively, all comfortably above the minimum required levels of 6.9%, 8.7% and 13.3%, respectively
  - **NBG supervisory plan – COVID-19 and related impact of the Bank's capital position.** The Bank's actual capital adequacy position at 30 June 2020 consider the additional general provision of GEL 400mln (approximately 3.3% of the Bank's lending portfolio subject to provision under the local regulatory accounting standards) booked in March 2020, under the Bank's local regulatory accounting basis, which is used for calculation of the Bank's capital ratios, reflecting NBG's expectation of estimated credit losses on the Bank's lending book for the whole economic cycle, given current economic expectations
  - **Internal capital generation and dividends.** The Group has a recent track record of strong profitability and capacity to generate high levels of internal capital. In March 2020, given the level of uncertainty with regard to the global impact of COVID-19 and the potential length of time of that impact, the Board of Directors decided not to recommend a dividend to shareholders at the 2020 Annual General Meeting, therefore, the Group will not be distributing 2019 dividends to shareholders this year
  - **Strengthening capital position through Tier 2 capital subordinated facility.** In December 2019, the Bank signed a ten-year US$ 107mln subordinated syndicated loan agreement arranged by FMO - Dutch entrepreneurial development bank in collaboration with other participating lenders (the Bank's existing and new partner financial institutions). Of the total facility, US$ 52mln was drawn-down by the Bank and the regulatory approval on classification as a Bank Tier 2 capital instrument under the Basel III framework was received in December 2019. The Bank drew-down the second tranche of the facility in the amount of US$55mln and received the regulatory approval on classification from NBG in April 2020, which further improved the overall capitalisation of the Bank
  - Below is presented **the movement in capital adequacy ratios** during the first half of 2020 considering the recent developments, as well as showing the potential impact of an additional 10% devaluation of GEL on different levels of capital:

	31 December 2019	**Business growth**	**1H20 profit (excl. NBG general provision)**	**NBG general provision – COVID-19 impact**	**GEL devaluation**	**New Tier 2 facility impact**	**Other**	**30 June 2020**	**Potential impact of additional 10% GEL devaluation**
CET1 capital adequacy ratio	11.5%	-0.1%	1.7%	-2.6%	-0.3%	-	-0.3%	9.9%	-0.6%
Tier I capital adequacy ratio	13.6%	-0.1%	1.7%	-2.6%	-0.3%	-	-0.3%	12.0%	-0.5%
Total capital adequacy ratio	18.1%	-0.1%	1.7%	-2.5%	-0.3%	0.8%	-0.3%	17.4%	-0.4%

DISCUSSION OF SEGMENT RESULTS

RETAIL BANKING (RB)

Retail Banking provides consumer loans, mortgage loans, overdrafts, credit card facilities and other credit facilities as well as funds transfer and settlement services and the handling of customer deposits for both individuals and legal entities (SME and micro businesses only). RB is represented by the following sub-segments: (1) the emerging and mass retail segment (through our Express and Bank of Georgia brands), (2) SME and micro businesses – MSME (through our Bank of Georgia brand), and (3) the mass affluent segment (through our SOLO brand).

GEL thousands, unless otherwise noted	2Q20	2Q19	Change y-o-y	1Q20	Change q-o-q	1H20	1H19	Change y-o-y
INCOME STATEMENT HIGHLIGHTS[7]								
Net interest income	102,667	133,494	-23.1%	118,266	-13.2%	220,934	268,659	-17.8%
Net fee and commission income	22,184	34,605	-35.9%	29,398	-24.5%	51,581	67,039	-23.1%
Net foreign currency gain	7,525	12,743	-40.9%	21,634	-65.2%	29,159	21,804	33.7%
Net other income / (expense)	4,085	(3,753)	NMF	1,906	114.3%	5,991	(1,582)	NMF
Operating income	**136,461**	**177,089**	**-22.9%**	**171,204**	**-20.3%**	**307,665**	**355,920**	**-13.6%**
Salaries and other employee benefits	(41,826)	(36,691)	14.0%	(40,568)	3.1%	(82,394)	(70,564)	16.8%
Administrative expenses	(16,898)	(14,992)	12.7%	(20,732)	-18.5%	(37,629)	(30,788)	22.2%
Depreciation, amortisation and impairment	(17,610)	(14,492)	21.5%	(17,889)	-1.6%	(35,499)	(27,779)	27.8%
Other operating expenses	(550)	(753)	-27.0%	(551)	-0.2%	(1,103)	(1,290)	-14.5%
Operating expenses	**(76,884)**	**(66,928)**	**14.9%**	**(79,740)**	**-3.6%**	**(156,625)**	**(130,421)**	**20.1%**
Profit from associate	113	254	-55.5%	301	-62.5%	414	442	-6.3%
Operating income before cost of risk	**59,690**	**110,415**	**-45.9%**	**91,765**	**-35.0%**	**151,454**	**225,941**	**-33.0%**
Cost of risk	(5,757)	(26,542)	-78.3%	(142,079)	-95.9%	(147,835)	(65,930)	124.2%
Net operating income / (loss) before non-recurring items	**53,933**	**83,873**	**-35.7%**	**(50,314)**	**NMF**	**3,619**	**160,011**	**-97.7%**
Net non-recurring items	(1,249)	(64)	NMF	(38,929)	-96.8%	(40,178)	(339)	NMF
Profit / (loss) before income tax and one-off costs	**52,684**	**83,809**	**-37.1%**	**(89,243)**	**NMF**	**(36,559)**	**159,672**	**NMF**
Income tax (expense) / benefit	(3,214)	(6,323)	-49.2%	11,215	NMF	8,000	(12,425)	NMF
Profit / (loss) adjusted for one-off costs	**49,470**	**77,486**	**-36.2%**	**(78,028)**	**NMF**	**(28,559)**	**147,247**	**NMF**
One-off termination costs of former CEO and executive management (after tax)	-	(3,067)	NMF	-	-	-	(10,142)	NMF
Profit / (loss)	**49,470**	**74,419**	**-33.5%**	**(78,028)**	**NMF**	**(28,559)**	**137,105**	**NMF**
BALANCE SHEET HIGHLIGHTS								
Net loans, currency blended	7,797,191	6,771,223	15.2%	7,950,477	-1.9%	7,797,191	6,771,223	15.2%
Net loans, GEL	4,241,765	3,661,673	15.8%	4,157,645	2.0%	4,241,765	3,661,673	15.8%
Net loans, FC	3,555,426	3,109,550	14.3%	3,792,832	-6.3%	3,555,426	3,109,550	14.3%
Client deposits, currency blended	5,962,044	4,987,611	19.5%	5,973,729	-0.2%	5,962,044	4,987,611	19.5%
Client deposits, GEL	1,921,108	1,553,653	23.7%	1,703,686	12.8%	1,921,108	1,553,653	23.7%
Client deposits, FC	4,040,936	3,433,958	17.7%	4,270,043	-5.4%	4,040,936	3,433,958	17.7%
of which:								
Time deposits, currency blended	3,574,598	2,866,525	24.7%	3,520,769	1.5%	3,574,598	2,866,525	24.7%
Time deposits, GEL	973,050	704,286	38.2%	865,443	12.4%	973,050	704,286	38.2%
Time deposits, FC	2,601,548	2,162,239	20.3%	2,655,326	-2.0%	2,601,548	2,162,239	20.3%
Current accounts and demand deposits, currency blended	2,387,446	2,121,086	12.6%	2,452,960	-2.7%	2,387,446	2,121,086	12.6%
Current accounts and demand deposits, GEL	948,058	849,367	11.6%	838,243	13.1%	948,058	849,367	11.6%
Current accounts and demand deposits, FC	1,439,388	1,271,719	13.2%	1,614,717	-10.9%	1,439,388	1,271,719	13.2%
KEY RATIOS								
ROAE[7]	16.4%	26.9%		-25.5%		-4.7%	26.2%	
Net interest margin, currency blended	4.0%	6.2%		4.9%		4.4%	6.4%	
Cost of credit risk ratio	0.2%	1.6%		7.4%		3.7%	2.0%	
Cost of funds, currency blended	5.9%	5.0%		5.8%		5.9%	5.2%	
Loan yield, currency blended	11.1%	12.9%		11.8%		11.5%	13.2%	
Loan yield, GEL	14.9%	17.7%		15.7%		15.3%	18.4%	
Loan yield, FC	6.6%	7.3%		6.8%		6.8%	7.5%	
Cost of deposits, currency blended	2.9%	2.7%		2.6%		2.8%	2.7%	
Cost of deposits, GEL	6.4%	5.2%		5.7%		6.0%	5.2%	
Cost of deposits, FC	1.4%	1.5%		1.3%		1.4%	1.6%	
Cost of time deposits, currency blended	4.3%	3.9%		3.9%		4.1%	3.9%	
Cost of time deposits, GEL	10.3%	8.7%		9.3%		9.8%	8.7%	
Cost of time deposits, FC	2.2%	2.3%		2.0%		2.1%	2.4%	
Current accounts and demand deposits, currency blended	0.9%	1.0%		0.9%		0.9%	1.0%	
Current accounts and demand deposits, GEL	2.3%	2.3%		2.3%		2.3%	2.2%	
Current accounts and demand deposits, FC	0.1%	0.2%		0.0%		0.1%	0.3%	
Cost / income ratio[8]	56.3%	37.8%		46.6%		50.9%	36.6%	

[7] The income statement adjusted profit excludes GEL 3.1mln in 2Q19 and GEL 10.1mln in 1H19 one-off employee costs (net-off income tax) related to the former CEO and executive management termination benefits. The amount in 2Q19 is comprised of GEL 3.5mln (gross of income tax) excluded from salaries and other employee benefits and GEL 0.4mln tax benefit excluded from income tax expense. The amount in 1H19 is comprised of GEL 8.6mln (gross of income tax) excluded from salaries and other employee benefits, GEL 2.9mln (gross of income tax) excluded from non-recurring items and GEL 1.4mln tax benefit excluded from income tax expense. The 2Q19 and 1H19 ROAE have been adjusted accordingly

[8] The cost/income ratio is adjusted for GEL 3.5mln in 2Q19 and GEL 8.6mln in 1H19 one-off employee costs (gross of income tax) related to termination benefits of the former executive management

Performance highlights

- **Retail Banking** generated operating income of GEL 136.5mln in 2Q20 (down 22.9% y-o-y and down 20.3% q-o-q) and GEL 307.7mln in 1H20 (down 13.6% y-o-y), reflecting the COVID-19 pandemic impact
- RB's net interest income was down 23.1% y-o-y and down 13.2% q-o-q in 2Q20 and down 17.8% y-o-y in 1H20, primarily reflecting the slow-down in economic activity on the back of COVID-19 pandemic outbreak in March 2020. Net interest income still benefited from the growth of the local currency loan portfolio during the pre-COVID-19 period, which generated 8.3ppts and 8.5ppts higher yields than the foreign currency loan portfolio in 2Q20 and in 1H20, respectively
- **Retail Banking net loan book reached GEL 7,797.2mln at 30 June 2020, up 15.2% y-o-y and down 1.9% q-o-q. On a constant currency basis, retail loan book increased by 11.9% y-o-y and by 1.4% q-o-q in 2Q20.** Local currency denominated loan book increased by 15.8% y-o-y and by 2.0% q-o-q, while the foreign currency denominated loan book grew by 14.3% y-o-y and was down by 6.3% q-o-q. As a result, the local currency denominated loan book accounted for 54.4% of the Retail Banking loan book at 30 June 2020 (54.1% at 30 June 2019 and 52.3% at 31 March 2020). Currently, the part of the Retail Banking loan portfolio which is most sensitive to foreign currency risk is largely de-dollarised
- **The loan portfolio composition reflects the shift towards a higher quality, lower margin product mix on the back of tighter lending conditions for unsecured consumer lending since 1 January 2019.** The y-o-y loan book growth reflected strong loan origination levels in MSME and mortgage segments, as well as secured consumer lending during the pre-COVID-19 period. The y-o-y and q-o-q decline in the loan originations is reflective of the slow-down of the economic activity since March 2020 as a result of COVID-19 pandemic outbreak:

RETAIL BANKING LOAN BOOK BY PRODUCTS

GEL million, unless otherwise noted	2Q20	2Q19	Change y-o-y	1Q20	Change q-o-q	1H20	1H19	Change y-o-y
Loan originations								
Consumer loans	143,060	425,972	-66.4%	363,843	-60.7%	506,903	746,933	-32.1%
Mortgage loans	63,195	452,764	-86.0%	259,310	-75.6%	322,505	662,278	-51.3%
Micro loans	75,397	323,445	-76.7%	277,241	-72.8%	352,639	610,483	-42.2%
SME loans	104,893	239,418	-56.2%	297,514	-64.7%	402,407	453,938	-11.4%
Outstanding balance								
Consumer loans	1,652,327	1,485,905	11.2%	1,631,298	1.3%	1,652,327	1,485,905	11.2%
Mortgage loans	3,237,302	2,814,827	15.0%	3,332,205	-2.8%	3,237,302	2,814,827	15.0%
Micro loans	1,586,847	1,408,359	12.7%	1,600,263	-0.8%	1,586,847	1,408,359	12.7%
SME loans	1,166,933	795,699	46.7%	1,233,054	-5.4%	1,166,933	795,699	46.7%

- **Retail Banking client deposits increased to GEL 5,962.0mln at 30 June 2020, up 19.5% y-o-y and remained largely flat q-o-q.** The dollarisation level of our deposits decreased to 67.8% at 30 June 2020, compared to 68.8% at 30 June 2019 and 71.5% at 31 March 2020. The cost of foreign currency denominated deposits stood at 1.4% in 2Q20 (down 10bps y-o-y and up 10bps q-o-q) and in 1H20 (down 20bps y-o-y), while the cost of local currency denominated deposits increased by 120bps y-o-y and by 70bps q-o-q in 2Q20, and increased by 80bps y-o-y during first half of 2020. The spread between the cost of RB's client deposits in GEL and foreign currency widened to 5.0ppts during 2Q20 (GEL: 6.4%; FC: 1.4%), compared to 3.7ppts in 2Q19 (GEL: 5.2%; FC: 1.5%) and 4.4ppts in 1Q20 (GEL: 5.7%; FC: 1.3%). On a six months basis, spread widened to 4.6ppts in 1H20 (GEL: 6.0%; FC: 1.4%) compared to 3.6ppts in 1H19 (GEL: 5.2%; FC: 1.6%)
- **Retail Banking NIM was 4.0% in 2Q20 (down 220bps y-o-y and down 90bps q-o-q) and 4.4% in 1H20 (down 200bps y-o-y).** The y-o-y and q-o-q decline in NIM in 2Q20 and 1H20 was mostly attributable to lower loan yields (down 180bps y-o-y and down 70bps q-o-q in 2Q20, and down 170bps y-o-y in 1H20). In addition, the cost of funds increased by 90bps y-o-y and by 10bps q-o-q in 2Q20, and by 70bps y-o-y in 1H20, primarily on the back of increased NBG monetary policy rate (NBG increased monetary policy rate by cumulative of 250bps since September 2019, although NBG reduced the policy rate twice by cumulative of 75bps in the second quarter of 2020)
- **Retail Banking net fee and commission income**. Net fee and commission income generation decreased during the second quarter and the first half of 2020. This was primarily driven by slower customer activity due to COVID-19 pandemic and temporary removal of fees on transactions executed through our mobile and internet banking platforms since mid-March 2020, for a two-month period, in order to decrease customer visits to branches and incentivise the transfer of customers' activity to digital channels
- **RB's asset quality.** Cost of credit risk ratio was 0.2% in 2Q20 (down from 1.6% in 2Q19 and from 7.4% in 1Q20) and 3.7% in 1H20 (up from 2.0% 1H19). The significant increase in cost of credit risk ratio in 1H20 was due to the IFRS 9 reserve builds, created for the full economic cycle in 1Q20, primarily related to deterioration of the macro-economic environment and expected creditworthiness of borrowers as a result of the COVID-19 impact. These assumptions were further revisited during the second quarter to reflect the better visibility and the macro-economic forecast scenarios published by the NBG in May, resulting in additional ECL for the Retail Banking segment in 2Q20

- **Our Retail Banking business continued to further focus our strategy towards continuous digitalisation,** as demonstrated by the following performance indicators:

RETAIL BANKING PERFORMANCE INDICATORS

Volume information in GEL thousands	2Q20	2Q19	Change y-o-y	1Q20	Change q-o-q	1H20	1H19	Change y-o-y
Retail Banking customers								
Number of new customers	27,214	41,175	-33.9%	31,796	-14.4%	59,010	81,020	-27.2%
Number of customers	2,540,721	2,475,292	2.6%	2,567,097	-1.0%	2,540,721	2,475,292	2.6%
Cards								
Number of cards issued	92,315	183,106	-49.6%	152,938	-39.6%	245,253	359,191	-31.7%
Number of cards outstanding	2,178,053	2,122,006	2.6%	2,160,942	0.8%	2,178,053	2,122,006	2.6%
Express Pay terminals								
Number of Express Pay terminals	3,118	3,177	-1.9%	3,183	-2.0%	3,118	3,177	-1.9%
Number of transactions via Express Pay terminals	13,849,756	27,499,428	-49.6%	22,934,069	-39.6%	36,783,825	54,250,566	-32.2%
Volume of transactions via Express Pay terminals	1,550,286	1,951,441	-20.6%	2,026,846	-23.5%	3,577,132	3,716,977	-3.8%
POS terminals								
Number of desks	17,248	14,026	23.0%	16,123	7.0%	17,248	14,026	23.0%
Number of contracted merchants	8,513	6,832	24.6%	7,764	9.6%	8,513	6,832	24.6%
Number of POS terminals	23,788	19,667	21.0%	22,472	5.9%	23,788	19,667	21.0%
Number of transactions via POS terminals	21,114,390	20,805,141	1.5%	22,611,894	-6.6%	43,726,284	37,334,681	17.1%
Volume of transactions via POS terminals	532,544	617,763	-13.8%	650,294	-18.1%	1,182,839	1,105,961	7.0%
Internet banking								
Number of active users [9]	247,342	268,357	-7.8%	287,301	-13.9%	247,342	268,357	-7.8%
Number of transactions via internet bank	973,336	1,338,941	-27.3%	1,107,073	-12.1%	2,080,409	2,760,076	-24.6%
Volume of transactions via internet bank	583,328	557,660	4.6%	654,221	-10.8%	1,237,550	1,048,117	18.1%
Mobile banking								
Number of active users [9]	619,519	418,155	48.2%	567,036	9.3%	619,519	418,155	48.2%
Number of transactions via mobile bank	13,335,918	8,182,306	63.0%	12,453,837	7.1%	25,789,755	14,880,232	73.3%
Volume of transactions via mobile bank	1,766,710	1,025,298	72.3%	1,663,128	6.2%	3,429,837	1,815,498	88.9%

- **Y-o-y growth in client base to 2,540,721 customers at 30 June 2020** was due to the increased offering of cost-effective remote channels and substantially improving our positioning in many key areas. Based on the latest research, Bank of Georgia is regarded as the most trusted financial institution in Georgia
- **The number of outstanding cards** increased by 2.6% y-o-y and by 0.8% q-o-q at 30 June 2020. The number of Loyalty programme Plus+ cards (launched in July 2017 as part of RB's client-centric approach), reached 956,728 as at 30 June 2020, up 32.6% y-o-y and up 5.5% q-o-q
- **Digital channels**. We have actively continued the further development of our digital strategy and therefore, 96% of total daily transactions of individuals were executed through digital channels during the second quarter of 2020
  - **mBank and iBank digital penetration.** The Bank continued introducing new features to mobile banking application and internet bank and introducing dedicated digital spaces in our branches to incentivise transferring client activity to digital channels. The focus in this direction further increased after the COVID-19 pandemic outbreak, which the Bank responded to with various activities, such as instructive videos, incentives and call centre support for customers educating them how to use these digital channels. As a result of increased investments and efforts in this direction, the number of active users, as well as the number and volume of transactions through these channels, mostly mobile bank, continued to expand
  - **The utilisation of Express Pay terminals**. The Bank has a large network of self-service terminals throughout Georgia, which are used extensively by its customers. The decline in number of transactions both y-o-y and q-o-q in 2Q20 and in 1H20, was primarily due to the continuous migration of customers to mobile banking platform
- **Business iBank.** In 2019, the Bank released a new business internet banking platform for MSME and corporate clients, which comes with many features designed to make its use an intuitive and smooth experience. Since then, we have focused our efforts on making the Business iBank even more useful for business transactions to further incentivise transfer of client activity to digital channels. In the second quarter of 2020, the number (down 10.6% y-o-y and down 7.1% q-o-q) and volume (down 6.5% y-o-y and down 10.5% q-o-q) of Business iBank transactions declined, primarily reflecting the slowdown in business activity on the back of COVID-19 crisis and temporary lockdown of the economy during the April-May period. On a six months basis, both the number and volume of transactions through Business iBank still grew by 5.3% and 3.7% y-o-y, respectively, and more than 96% of daily transactions of legal entities were executed through the internet bank in 1H20
- In August 2020, *Global Finance Magazine* named Bank of Georgia *Best Consumer Digital Bank in Georgia in 2020*, including regional awards in sub-categories such as *Best Online Product Offering, Best Online Investment Management Services*, *Best Digital Bank in Lending* and *Best Trade Finance Services* in Central and Eastern Europe for 2020
- **Digital ecosystem development.** Currently, our digital ecosystem rests on two pillars: retail and MSME. Under the retail pillar, we launched two platforms in 2019 – real estate platform *area.ge* and online marketplace platform *extra.ge*. Under the MSME pillar, we launched *Optimo* in 2019, a digital solution for MSME customers to run their business sales and solutions
  - In 1Q20, the Group in response to COVID-19 outbreak accepted the social and commercial challenge to play a vital role

[9] The users that log-in in internet and mobile bank at least once in three months

in addressing accelerated digital service demand. Due to social distancing and restrictions imposed on commercial activities, the Group's digital ecosystem arm proactively restructured its operations and commercial offerings to adapt to the changing environment. Core focus fell on *extra.ge*, which after its acquisition in 2Q19, has been transformed into a vibrant and dynamic platform, one of the largest full-scale digital marketplaces in Georgia, and the full-scale re-launch was completed as planned in the first quarter of 2020. During the second quarter of 2020, *extra.ge* mainly focused on acquisition of market share. Through different active campaigns and initiatives, the platform doubled the network of merchants operating in the country to 400+ vendors, selling 42,000+ SKUs (Stock keeping units), as well as significantly increased the number of registered users, delivering 50% increase in cashless payments. The platform undergoes continuous upgrades to make the shopping experience more user-friendly and easy for customers. The Group is also planning to launch mobile application of *extra.ge* in the third quarter of 2020

- Following the COVID-19 outbreak, during the first quarter of 2020, the Group structured a unique digital solution for merchants who were faced by customer scarcity and a heavy burden of restrictions. With the packaged solution, branded as *Adapter*, the Group is offering a best-in-class solution to the merchants, who can now undergo fast and efficient transformation to digital sales with just a simple plug-in. *Adapter* combines an integration of *Optimo*, an effective inventory and order management platform, with *extra.ge*, a digital marketplace, through which merchants can sell their products directly to customers remotely. *Adapter* quickly gained interest and popularity amongst market players, small merchants, as well as large physical marketplaces, which is evident through active negotiations and already onboarded partners. *Adapter* was highly accepted by hundreds of retailers and producers, exceeding initially planned targets. The Group has also completed the development of *Optimo RECA*, tailored core inventory management automation solution for restaurants, cafes and hotels, which is planned to be launched in the third quarter of 2020
- COVID-19 outbreak has significantly decreased activity in the real estate sector, therefore, directly impacting *area.ge*'s operations and performance. As such, in the second quarter of 2020, *area.ge* has refocused its strategy towards facilitating and accelerating the real estate sales. The team has developed multiple solutions for real estate developer companies, which connect them closely with brokers and other market players, such as banks and financial institutions that provide mortgage loans as part of their product offering. Currently, the team is working on multiple solutions in relation to the subsidised mortgage loan programme initiated by the Government of Georgia
- In the second quarter of 2020, the Group, 500 Startups and the Georgia's Innovation and Technology Agency have launched *500 Startups Acceleration programme*. The programme implies screening, selecting and accelerating the development of both Georgian and international early stage start-ups operating within the region. 14 companies from different business verticals have joined the programme and with the participation of Digital Area ecosystem around US$ 1 million is planned to be invested in the programme for development of these companies till the end of this year

- **SOLO, our premium banking brand, was the least impacted business from our Retail Banking segments, and continued its growth and investment in its lifestyle brand.** We have 11 SOLO lounges, of which 9 are located in Tbilisi, the capital of Georgia, and 2 in major regional cities of Georgia. The number of SOLO clients reached 56,207 at 30 June 2020 (48,953 at 30 June 2019 and 56,327 at 31 March 2020). At 30 June 2020, the product to client ratio for the SOLO segment was 5.0, compared to 2.1 for our retail franchise. While SOLO clients currently represent 2.2% of our total retail client base, they contributed 30.1% to our retail loan book, 39.4% to our retail deposits, 25.7% and 33.7% to our net retail interest income and to our net retail fee and commission income in 2Q20, respectively. The fee and commission income from the SOLO segment was GEL 5.5mln in 2Q20 (GEL 6.6mln in 2Q19 and GEL 6.1mln in 1Q20) and GEL 11.7mln in first half of 2020 (GEL 12.4mln in 1H19). SOLO Club, a membership group within SOLO, which offers exclusive access to SOLO products and offers ahead of other SOLO clients at a higher fee, continued to increase its client base. At 30 June 2020, SOLO Club had 5,562 members, up 15.8% y-o-y and slightly down 1.0% q-o-q
- **MSME banking.** The number of MSME segment clients reached 225,480 at 30 June 2020, up 3.5% y-o-y and up 0.4% q-o-q. MSME's gross loan portfolio reached GEL 2,929.4mln (up 23.2% y-o-y and down 2.9% q-o-q) and client deposits and notes amounted to GEL 791.4mln (up 11.0% y-o-y and up 5.4% q-o-q) at 30 June 2020. The MSME segment generated operating income of GEL 41.1mln in 2Q20 (down 17.7% y-o-y and down 18.6% q-o-q) and GEL 91.6mln in the first half of 2020 (down 4.0% y-o-y in 1H19), decline primarily driven by the slow-down in business activity on the back of COVID-19 pandemic outbreak and the temporary lockdown of the economy during April-May period
- **As a result, Retail Banking recorded a profit** in the amount of GEL 49.5mln in 2Q20 (compared to profit adjusted for one-off costs of GEL 77.5mln[10] in 2Q19 and a loss of GEL 78.0mln in 1Q20), and a loss of GEL 28.6mln in the first half of 2020 (compared to profit adjusted for one-off costs of GEL 147.2mln[10] in 1H19). Retail Banking ROAE was 16.4% in 2Q20 (compared to ROAE of 26.9%[10] in 2Q19 and negative profitability in 1Q20). On a six months basis, RB's profitability was negative in 1H20, compared to outstanding ROAE of 26.2%[10] in 1H19. Loss and negative profitability, respectively, in 1Q20 and 1H20, resulted primarily from the increased cost of risk and non-recurring costs associated with the COVID-19 pandemic impact recorded in the first quarter of 2020

[10] Profit and ROAE exclude GEL 3.1mln in 2Q19 and GEL 10.1mln in 1H19 one-off employee costs (net of income tax) related to termination benefits of the former CEO and executive management

CORPORATE AND INVESTMENT BANKING (CIB)

CIB provides (1) loans and other credit facilities to Georgia's large corporate clients and other legal entities, excluding SME and micro businesses; (2) services such as fund transfers and settlements services, currency conversion operations, trade finance services and documentary operations as well as handling savings and term deposits; (3) finance lease facilities through the Bank's leasing operations arm, the Georgian Leasing Company; (4) brokerage services through Galt & Taggart; and (5) Wealth Management private banking services to high-net-worth individuals and offers investment management products in Georgia and internationally through representative offices and subsidiaries in Tbilisi, London, Budapest, Istanbul and Tel Aviv.

GEL thousands, unless otherwise noted	**2Q20**	**2Q19**	**Change y-o-y**	**1Q20**	**Change q-o-q**	**1H20**	**1H19**	**Change y-o-y**
INCOME STATEMENT HIGHLIGHTS[11]								
Net interest income	63,110	51,864	21.7%	69,341	-9.0%	132,451	100,405	31.9%
Net fee and commission income	9,197	7,113	29.3%	8,955	2.7%	18,152	15,264	18.9%
Net foreign currency gain	11,431	11,262	1.5%	8,534	33.9%	19,965	21,504	-7.2%
Net other income / (expense)	4,825	(392)	NMF	4,681	3.1%	9,506	994	NMF
Operating income	**88,563**	**69,847**	**26.8%**	**91,511**	**-3.2%**	**180,074**	**138,167**	**30.3%**
Salaries and other employee benefits	(14,170)	(14,738)	-3.9%	(10,561)	34.2%	(24,731)	(27,177)	-9.0%
Administrative expenses	(3,488)	(4,004)	-12.9%	(4,466)	-21.9%	(7,954)	(8,031)	-1.0%
Depreciation, amortisation and impairment	(2,434)	(1,933)	25.9%	(2,473)	-1.6%	(4,907)	(3,634)	35.0%
Other operating expenses	(227)	(302)	-24.8%	(296)	-23.3%	(523)	(505)	3.6%
Operating expenses	**(20,319)**	**(20,977)**	**-3.1%**	**(17,796)**	**14.2%**	**(38,115)**	**(39,347)**	**-3.1%**
Operating income before cost of risk	**68,244**	**48,870**	**39.6%**	**73,715**	**-7.4%**	**141,959**	**98,820**	**43.7%**
Cost of risk	(2,536)	(6,574)	-61.4%	(95,902)	-97.4%	(98,438)	(8,398)	NMF
Net operating income / (loss) before non-recurring items	**65,708**	**42,296**	**55.4%**	**(22,187)**	**NMF**	**43,521**	**90,422**	**-51.9%**
Net non-recurring items	32	-	NMF	(1,406)	NMF	(1,374)	(72)	NMF
Profit / (loss) before income tax and one-off costs	**65,740**	**42,296**	**55.4%**	**(23,593)**	**NMF**	**42,147**	**90,350**	**-53.4%**
Income tax (expense) / benefit	(4,246)	(3,169)	34.0%	1,847	NMF	(2,398)	(7,032)	-65.9%
Profit / (loss) adjusted for one-off costs	**61,494**	**39,127**	**57.2%**	**(21,746)**	**NMF**	**39,749**	**83,318**	**-52.3%**
One-off termination costs of former CEO and executive management (after tax)	-	(929)	NMF	-	-	-	(4,094)	NMF
Profit / (loss)	**61,494**	**38,198**	**61.0%**	**(21,746)**	**NMF**	**39,749**	**79,224**	**-49.8%**
BALANCE SHEET HIGHLIGHTS								
Net loans and finance lease receivables, currency blended	4,046,063	3,208,823	26.1%	4,391,652	-7.9%	4,046,063	3,208,823	26.1%
Net loans and finance lease receivables, GEL	705,502	526,572	34.0%	768,968	-8.3%	705,502	526,572	34.0%
Net loans and finance lease receivables, FC	3,340,561	2,682,251	24.5%	3,622,684	-7.8%	3,340,561	2,682,251	24.5%
Client deposits, currency blended	5,042,772	3,427,166	47.1%	4,285,356	17.7%	5,042,772	3,427,166	47.1%
Client deposits, GEL	2,423,448	1,260,869	92.2%	1,310,129	85.0%	2,423,448	1,260,869	92.2%
Client deposits, FC	2,619,324	2,166,297	20.9%	2,975,227	-12.0%	2,619,324	2,166,297	20.9%
Time deposits, currency blended	2,552,135	1,252,061	103.8%	1,740,893	46.6%	2,552,135	1,252,061	103.8%
Time deposits, GEL	1,468,397	403,114	NMF	583,015	151.9%	1,468,397	403,114	NMF
Time deposits, FC	1,083,738	848,947	27.7%	1,157,878	-6.4%	1,083,738	848,947	27.7%
Current accounts and demand deposits, currency blended	2,490,637	2,175,105	14.5%	2,544,463	-2.1%	2,490,637	2,175,105	14.5%
Current accounts and demand deposits, GEL	955,051	857,755	11.3%	727,114	31.3%	955,051	857,755	11.3%
Current accounts and demand deposits, FC	1,535,586	1,317,350	16.6%	1,817,349	-15.5%	1,535,586	1,317,350	16.6%
Letters of credit and guarantees, standalone (off-balance sheet item)	1,455,700	1,141,715	27.5%	1,520,149	-4.2%	1,455,700	1,141,715	27.5%
Assets under management	2,834,975	2,504,280	13.2%	2,704,411	4.8%	2,834,975	2,504,280	13.2%
RATIOS								
ROAE[11]	31.5%	22.0%		-10.6%		9.9%	24.5%	
Net interest margin, currency blended	3.4%	3.7%		4.0%		3.7%	3.7%	
Cost of credit risk ratio	-1.7%	0.7%		8.3%		3.2%	0.4%	
Cost of funds, currency blended	3.7%	4.2%		3.5%		3.6%	4.0%	
Loan yield, currency blended	8.3%	9.5%		8.9%		8.7%	9.2%	
Loan yield, GEL	12.4%	12.6%		13.7%		13.1%	12.0%	
Loan yield, FC	7.5%	8.9%		7.8%		7.8%	8.7%	
Cost of deposits, currency blended	4.2%	3.5%		3.7%		4.0%	3.5%	
Cost of deposits, GEL	8.1%	5.9%		7.3%		7.5%	5.9%	
Cost of deposits, FC	1.7%	1.9%		1.6%		1.7%	1.9%	
Cost of time deposits, currency blended	6.4%	5.7%		6.0%		6.1%	5.6%	
Cost of time deposits, GEL	9.5%	7.6%		9.4%		9.0%	7.5%	
Cost of time deposits, FC	3.6%	4.4%		3.6%		3.7%	4.3%	
Current accounts and demand deposits, currency blended	2.4%	2.1%		2.0%		2.2%	2.1%	
Current accounts and demand deposits, GEL	6.4%	4.8%		5.5%		5.8%	4.8%	
Current accounts and demand deposits, FC	0.4%	0.3%		0.2%		0.3%	0.3%	
Cost / income ratio[12]	22.9%	30.0%		19.4%		21.2%	28.5%	
Concentration of top ten clients	7.3%	9.1%		9.6%		7.3%	9.1%	

[11] The income statement adjusted profit excludes GEL 0.9mln in 2Q19 and GEL 4.1mln in 1H19 one-off employee costs (net-off income tax) related to the former CEO and executive management termination benefits. The amount in 2Q19 is comprised of GEL 1.1mln (gross of income tax) excluded from salaries and other employee benefits and GEL 0.2mln tax benefit excluded from income tax expense. The amount in 1H19 is comprised of GEL 3.8mln (gross of income tax) excluded from salaries and other employee benefits, GEL 1.1mln (gross of income tax) excluded from non-recurring items and GEL 0.8mln tax benefit excluded from income tax expense. The 2Q19 and 1H19 ROAE have been adjusted accordingly

[12] The cost/income ratio is adjusted for GEL 1.1mln in 2Q19 and GEL 3.8mln in 1H19 one-off employee costs (gross of income tax) related to termination benefits of the former executive management

Performance highlights

- **Corporate and Investment Banking delivered strong results.** CIB was least effected by the COVID-19 pandemic outbreak in terms of operating activity in the first half of 2020 and generated strong net interest income and net fee and commission income during the period, coupled with efficient cost discipline. This resulted in significant y-o-y increase in operating income before cost of risk, which was up 39.6% y-o-y in 2Q20 and up 43.7% y-o-y in 1H20
- CIB's net interest income increased by 21.7% y-o-y and was down 9.0% q-o-q during the second quarter of 2020, and increased by 31.9% y-o-y in the first half of 2020. **CIB NIM was 3.4% in 2Q20 (down 30bps y-o-y and down 60bps q-o-q) and remained flat at 3.7% in the first half of 2020**. In 2Q20, 30bps y-o-y decline in NIM was primarily driven by 120bps decrease in currency blended loan yields, partially offset by 50bps y-o-y decline in cost of funds, while 60bps q-o-q decline in NIM was the result of 60bps decline in currency blended loan yields, coupled with 20bps increase in cost of funds. On a six months basis, currency blended loan yields were down 50bps y-o-y, partially offset by 40bps y-o-y decrease in cost of funds, resulting in flat NIM in 1H20
- **CIB's net fee and commission income reached GEL 9.2mln in 2Q20, up 29.3% y-o-y and up 2.7% q-o-q, ending the first half of 2020 with GEL 18.2mln fee and commission income, up 18.9% y-o-y.** The growth in net fee and commission income in all periods presented was largely driven by increased fees from guarantees and letters of credit issued, settlement operations and higher placement fees generated in 2020
- **CIB's loan book and dollarisation**. CIB loan portfolio reached GEL 4,046.1mln at 30 June 2020, up 26.1% y-o-y and down 7.9% q-o-q. On a constant currency basis, CIB loan book was up 19.7% y-o-y and down 2.2% q-o-q. The concentration of the top 10 CIB clients was 7.3% at 30 June 2020 (9.1% at 30 June 2019 and 9.6% at 31 March 2020). Foreign currency denominated net loans represented 82.6% of CIB's loan portfolio at 30 June 2020, compared to 83.6% a year ago and 82.5% at 31 March 2020. At 31 March 2020, 39.7% of total gross CIB loans were issued in foreign currency with exposure to foreign currency risk in regards of income, while 43.2% of total gross CIB loans were issued in foreign currency with no or minimal exposure to foreign currency risk
- **Dollarisation of CIB deposits** decreased to 51.9% at 30 June 2020 from 63.2% a year ago and from 69.4% at 31 March 2020. De-dollarisation of CIB's deposit portfolio was primarily supported by notable, 12.0% q-o-q decrease in foreign currency denominated deposits and 85.0% q-o-q growth in local currency denominated deposits in the second quarter of 2020, as a result of significant increase in interest rates offered on local currency funds. The interest rates on local currency deposits increased significantly (up 220bps y-o-y and up 80bps q-o-q in 2Q20, and up 160bps y-o-y in 1H20), while interest rates on foreign currency deposits mostly declined (down 20bps y-o-y and up 10bps q-o-q in 2Q20, and down 20bps y-o-y in 1H20), and the cost of deposits in local currency remained well above the cost of foreign currency deposits during 2020. The increase in interest rates on local currency deposits in the second quarter was mainly driven by the pressure on local currency funding in April and May, however, this impact was subsequently stabilised to more normal levels as a result of the new local currency funding instruments introduced by the NBG to the market in order to support the GEL liquidity
- **Net other income.** Significant y-o-y increase in net other income was largely driven by higher net real estate gains on the back of higher income from operating leases in 2020. Furthermore, the Group recorded a gain on revaluation of investment property in the second quarter of 2020 (impact of changes in fair value on certain investment properties due to the lapse of the repurchase option granted to the former borrower), contributing to the increase of net other income in 2Q20 and 1H20
- **Cost of credit risk.** CIB's cost of credit risk ratio stood at net gain of 1.7% in 2Q20 (compared to losses of 0.7% in 2Q19 and 8.3% in 1Q20) and was 3.2% in the first half of 2020 (compared to 0.4% in 1H19). The significant increase in cost of credit risk ratio in the first half of 2020 was driven by the IFRS 9 ECL reserve builds, created for the full economic cycle in the first quarter of 2020, primarily related to deterioration of the macro-economic environment and expected creditworthiness of borrowers as a result of the COVID-19 pandemic impact. This reflected additional reserves for borrowers operating across multiple sectors of the Georgian economy, with the largest impacts in tourism, trade, transportation, construction and real estate industries. These assumptions were further revisited during the second quarter to reflect the better visibility and the macro-economic forecast scenarios published by the NBG in May 2020. Based on the analysis, the additional reserves booked in the first quarter proved largely sufficient. In 2Q20, appreciation of local currency and amortisation of the loan portfolio resulted in GEL 14.9mln net reversal of ECL on loans to customers and finance lease receivables, leading to a net gain of 1.7% in 2Q20 in terms of cost of credit risk ratio. As for the cost of risk of GEL 2.5mln recorded in 2Q20, the reversal of ECL on loan portfolio, was offset by ECL on other assets and provisions, driven by additional reserves recorded by the Group in respect of guarantees issued and other financial assets, and expenses accrued for certain legal fees during the second quarter of 2020
- As a result, **CIB recorded a profit** of GEL 61.5mln during the second quarter of 2020 (compared to profit adjusted for one-off costs of GEL 39.1mln[13] in 2Q19 and a loss of GEL 21.7mln in 1Q20), and profit of GEL 39.7mln in the first half of 2020

(compared to profit adjusted for one-off costs of GEL 83.3mln[13] in 1H19). CIB's ROAE was 31.5% in 2Q20 (compared to ROAE of 22.0%[13] in 2Q19 and negative profitability in 1Q20) and 9.9% in 1H20 (compared to ROAE of 24.5%[13] in 1H19)

Performance highlights of investment management operations

- **The Investment Management's AUM increased to GEL 2,835.0mln as at 30 June 2020, up 13.2% y-o-y and up 4.8% q-o-q.** This includes a) deposits of Wealth Management franchise clients, b) assets held at Bank of Georgia Custody, c) Galt & Taggart brokerage client assets, and d) Global certificates of deposit held by Wealth Management clients. The y-o-y and q-o-q increase in AUM mostly reflected increase in client assets at Galt & Taggart and depreciation of the local currency during 2020
- **Wealth Management deposits reached GEL 1,469.0mln as at 30 June 2020, up 14.9% y-o-y and down 11.4% q-o-q, growing at a compound annual growth rate (CAGR) of 10.2% over the last five-year period**. The cost of deposits stood at 3.0% in 2Q20 (down 30bps y-o-y and flat q-o-q) and at 3.1% in the first half of 2020 (down 10bps y-o-y)
- We served 1,553 wealth management clients from 77 countries as at 30 June 2020, compared to 1,531 clients as at 30 June 2019 and 1,563 clients as at 31 March 2020
- **Galt & Taggart, which brings under one brand corporate advisory, debt and equity capital markets research and brokerage services, continues to develop local capital markets in Georgia**
  - During the first half of 2020, Galt & Taggart acted as a:
    - lead manager for International Finance Corporation, facilitating a public placement of GEL 100mln local bond issuance in April 2020
    - rating advisor for one of the microfinance organisations, assisting in obtaining credit rating from Scope Ratings
  - In February 2020, *Global Finance Magazine* named Galt & Taggart *Best Investment Bank in Georgia* for the sixth consecutive year
  - Galt and Taggart Research activities in the first half of 2020:
    - In March 2020, Galt & Taggart together with JSC Bank of Georgia organised a web-conference to discuss the COVID-19 impact on the Georgian economy and various economic scenarios for 2020. The web-conference was attended by c.200 guests, including the Bank's corporate clients and high-level representatives from the Georgian Government. The presentation was followed by a Q&A session, during which the Minister of Economy and Sustainable Development of Georgia addressed participants and commented on the Government's support measures for private sector
    - In March 2020, Galt & Taggart continued its web-conference series on COVID-19 developments and organised a web-conference, this time for the Bank's SME clients, to discuss virus impact on Georgian economy, which was followed by a Q&A session
    - In May 2020, Galt & Taggart in collaboration with the leading property guide portal in Georgia organised a web-conference to discuss 1Q20 update on Tbilisi real estate market and future outlook, followed by Q&A session. The web-conference was attended by sector representatives via different social media platforms
    - In June 2020, Galt & Taggart hosted a web-conference and discussed its report on tourism challenges and expectations for the second half of 2020. The web-conference was attended by sector representatives, government officials and business associations. Additionally, live broadcasting via social media platforms was available for any interested stakeholders
    - In June 2020, Galt & Taggart published its view on Georgia's growth model in the context of global change triggered by COVID-19 pandemic

[13] Profit and ROAE are adjusted for GEL 0.9mln in 2Q19 and GEL 4.1mln in 1H19 one-off employee costs (net of income tax) related to termination benefits of the former CEO and executive management

SELECTED FINANCIAL AND OPERATING INFORMATION

INCOME STATEMENT	BANK OF GEORGIA GROUP CONSOLIDATED							
GEL thousands, unless otherwise noted	**2Q20**	**2Q19**	**Change y-o-y**	**1Q20**	**Change q-o-q**	**1H20**	**1H19**	**Change y-o-y**
Interest income	379,038	342,224	10.8%	388,326	-2.4%	767,364	676,959	13.4%
Interest expense	(204,102)	(150,870)	35.3%	(191,246)	6.7%	(395,347)	(295,624)	33.7%
Net interest income	**174,936**	**191,354**	**-8.6%**	**197,080**	**-11.2%**	**372,017**	**381,335**	**-2.4%**
Fee and commission income	54,389	68,025	-20.0%	70,894	-23.3%	125,284	130,556	-4.0%
Fee and commission expense	(21,488)	(24,758)	-13.2%	(30,782)	-30.2%	(52,271)	(45,109)	15.9%
Net fee and commission income	**32,901**	**43,267**	**-24.0%**	**40,112**	**-18.0%**	**73,013**	**85,447**	**-14.6%**
Net foreign currency gain	22,743	26,968	-15.7%	30,661	-25.8%	53,404	49,952	6.9%
Net other income / (expense)	9,081	(4,260)	NMF	6,627	37.0%	15,707	(691)	NMF
Operating income	**239,661**	**257,329**	**-6.9%**	**274,480**	**-12.7%**	**514,141**	**516,043**	**-0.4%**
Salaries and other employee benefits (excluding one-offs)	(60,656)	(57,982)	4.6%	(56,538)	7.3%	(117,194)	(110,399)	6.2%
One-off termination costs of former executive management (1)	-	(4,570)	NMF	-	-	-	(12,412)	NMF
Salaries and other employee benefits	(60,656)	(62,552)	-3.0%	(56,538)	7.3%	(117,194)	(122,811)	-4.6%
Administrative expenses	(22,450)	(22,033)	1.9%	(27,021)	-16.9%	(49,470)	(44,774)	10.5%
Depreciation, amortisation and impairment	(21,139)	(17,295)	22.2%	(21,390)	-1.2%	(42,529)	(32,983)	28.9%
Other operating expenses	(913)	(1,248)	-26.8%	(1,059)	-13.8%	(1,974)	(2,329)	-15.2%
Operating expenses	**(105,158)**	**(103,128)**	**2.0%**	**(106,008)**	**-0.8%**	**(211,167)**	**(202,897)**	**4.1%**
Profit from associates	113	254	-55.5%	301	-62.5%	414	442	-6.3%
Operating income before cost of risk	**134,616**	**154,455**	**-12.8%**	**168,773**	**-20.2%**	**303,388**	**313,588**	**-3.3%**
Expected credit loss on loans to customers	11,621	(32,436)	NMF	(228,189)	NMF	(216,568)	(72,553)	NMF
Expected credit loss on finance lease receivables	(3,387)	(557)	NMF	(1,885)	79.7%	(5,273)	(1,003)	NMF
Other expected credit loss on other assets and provisions	(18,455)	(2,483)	NMF	(11,329)	62.9%	(29,782)	(4,573)	NMF
Cost of risk	**(10,221)**	**(35,476)**	**-71.2%**	**(241,403)**	**-95.8%**	**(251,623)**	**(78,129)**	**NMF**
Net operating income / (loss) before non-recurring items	**124,395**	**118,979**	**4.6%**	**(72,630)**	**NMF**	**51,765**	**235,459**	**-78.0%**
Net non-recurring items (excluding one-offs)	(1,241)	(2,538)	-51.1%	(40,345)	-96.9%	(41,586)	(4,112)	NMF
One-off termination costs of former CEO (2)	-	-	-	-	-	-	(3,985)	NMF
Net non-recurring items	(1,241)	(2,538)	-51.1%	(40,345)	-96.9%	(41,586)	(8,097)	NMF
Profit / (loss) before income tax	**123,154**	**116,441**	**5.8%**	**(112,975)**	**NMF**	**10,179**	**227,362**	**-95.5%**
Income tax (expense) / benefit *(excluding one-offs)*	(8,470)	(9,871)	-14.2%	13,030	NMF	4,560	(20,407)	NMF
Income tax benefit related to one-off termination costs of former CEO and executive management (3)	-	574	NMF	-	-	-	2,161	NMF
Income tax (expense) / benefit	(8,470)	(9,297)	-8.9%	13,030	NMF	4,560	(18,246)	NMF
Profit / (loss)	**114,684**	**107,144**	**7.0%**	**(99,945)**	**NMF**	**14,739**	**209,116**	**-93.0%**
One-off items (1)+(2)+(3)	**-**	**(3,996)**	**NMF**	**-**	**-**	**-**	**(14,236)**	**NMF**
Profit / (loss) attributable to:								
– shareholders of the Group	114,174	106,642	7.1%	(99,515)	NMF	14,659	208,154	-93.0%
– non-controlling interests	510	502	1.6%	(430)	NMF	80	962	-91.7%
Earnings / (loss) per share (basic)	**2.40**	**2.23**	**7.6%**	**(2.09)**	**NMF**	**0.31**	**4.35**	**-92.9%**
Earnings / (loss) per share (diluted)	**2.40**	**2.23**	**7.6%**	**(2.08)**	**NMF**	**0.31**	**4.34**	**-92.9%**

BALANCE SHEET	**BANK OF GEORGIA GROUP CONSOLIDATED**				
GEL thousands, unless otherwise noted	**Jun-20**	**Jun-19**	**Change y-o-y**	**Mar-20**	**Change q-o-q**
Cash and cash equivalents	1,633,755	936,106	74.5%	1,507,142	8.4%
Amounts due from credit institutions	1,700,075	1,704,701	-0.3%	1,954,218	-13.0%
Investment securities	2,113,900	1,896,738	11.4%	1,917,772	10.2%
Loans to customers and finance lease receivables	12,599,092	10,579,710	19.1%	13,144,429	-4.1%
Accounts receivable and other loans	4,060	3,688	10.1%	3,460	17.3%
Prepayments	31,513	36,027	-12.5%	42,144	-25.2%
Inventories	13,901	11,748	18.3%	13,342	4.2%
Right-of-use assets	89,758	105,874	-15.2%	92,335	-2.8%
Investment property	212,182	178,764	18.7%	208,776	1.6%
Property and equipment	396,272	358,921	10.4%	380,580	4.1%
Goodwill	33,351	33,351	0.0%	33,351	0.0%
Intangible assets	116,355	93,515	24.4%	112,152	3.7%
Income tax assets	54,595	5,080	NMF	71,500	-23.6%
Other assets	139,945	149,233	-6.2%	134,578	4.0%
Assets held for sale	45,212	40,544	11.5%	47,914	-5.6%
Total assets	**19,183,966**	**16,134,000**	**18.9%**	**19,663,693**	**-2.4%**
Client deposits and notes	11,583,139	8,855,616	30.8%	10,835,918	6.9%
Amounts owed to credit institutions	3,521,860	2,960,519	19.0%	4,144,701	-15.0%
Debt securities issued	1,561,933	2,137,239	-26.9%	2,294,431	-31.9%
Lease liabilities	96,878	100,172	-3.3%	104,976	-7.7%
Accruals and deferred income	37,257	34,748	7.2%	34,470	8.1%
Income tax liabilities	70,171	30,361	131.1%	80,601	-12.9%
Other liabilities	112,929	97,125	16.3%	121,341	-6.9%
Total liabilities	**16,984,167**	**14,215,780**	**19.5%**	**17,616,438**	**-3.6%**
Share capital	1,618	1,618	0.0%	1,618	0.0%
Additional paid-in capital	500,887	493,890	1.4%	483,006	3.7%
Treasury shares	(54)	(49)	10.2%	(54)	0.0%
Other reserves	25,417	46,743	-45.6%	7,141	NMF
Retained earnings	1,662,164	1,367,632	21.5%	1,546,456	7.5%
Total equity attributable to shareholders of the Group	**2,190,032**	**1,909,834**	**14.7%**	**2,038,167**	**7.5%**
Non-controlling interests	9,767	8,386	16.5%	9,088	7.5%
Total equity	**2,199,799**	**1,918,220**	**14.7%**	**2,047,255**	**7.5%**
Total liabilities and equity	**19,183,966**	**16,134,000**	**18.9%**	**19,663,693**	**-2.4%**
Book value per share	**46.07**	**40.06**	**15.0%**	**42.88**	**7.4%**

BELARUSKY NARODNY BANK (BNB)

INCOME STATEMENT HIGHLIGHTS *GEL thousands, unless otherwise stated*	2Q20	2Q19	Change y-o-y	1Q20	Change q-o-q	1H20	1H19	Change y-o-y
Net interest income	9,157	6,360	44.0%	9,469	-3.3%	18,626	12,945	43.9%
Net fee and commission income	1,486	1,798	-17.4%	1,703	-12.7%	3,190	3,611	-11.7%
Net foreign currency gain	3,787	4,779	-20.8%	493	NMF	4,280	8,734	-51.0%
Net other income	350	169	107.1%	334	4.8%	683	314	117.5%
Operating income	**14,780**	**13,106**	**12.8%**	**11,999**	**23.2%**	**26,779**	**25,604**	**4.6%**
Operating expenses	(8,098)	(8,890)	-8.9%	(8,706)	-7.0%	(16,804)	(16,737)	0.4%
Operating income before cost of risk	**6,682**	**4,216**	**58.5%**	**3,293**	**102.9%**	**9,975**	**8,867**	**12.5%**
Cost of risk	(1,928)	(1,536)	25.5%	(3,422)	-43.7%	(5,350)	(2,977)	79.7%
Net non-recurring items	(24)	(13)	84.6%	(10)	140.0%	(34)	(63)	-46.0%
Profit / (loss) before income tax expense	**4,730**	**2,667**	**77.4%**	**(139)**	**NMF**	**4,591**	**5,827**	**-21.2%**
Income tax expense	(1,010)	(379)	NMF	(32)	NMF	(1,042)	(950)	9.7%
Profit / (loss)	**3,720**	**2,288**	**62.6%**	**(171)**	**NMF**	**3,549**	**4,877**	**-27.2%**

BALANCE SHEET HIGHLIGHTS *GEL thousands, unless otherwise stated*	Jun-20	Jun-19	Change y-o-y	Mar-20	Change q-o-q
Cash and cash equivalents	187,920	93,097	101.9%	150,349	25.0%
Amounts due from credit institutions	13,605	18,301	-25.7%	13,141	3.5%
Investment securities	93,549	128,486	-27.2%	81,592	14.7%
Loans to customers and finance lease receivables	638,713	512,126	24.7%	671,854	-4.9%
Other assets	50,667	57,098	-11.3%	54,981	-7.8%
Total assets	**984,454**	**809,108**	**21.7%**	**971,917**	**1.3%**
Client deposits and notes	647,977	503,309	28.7%	643,614	0.7%
Amounts owed to credit institutions	144,815	146,855	-1.4%	143,374	1.0%
Debt securities issued	57,289	50,238	14.0%	51,063	12.2%
Other liabilities	12,873	7,044	82.8%	13,407	-4.0%
Total liabilities	**862,954**	**707,446**	**22.0%**	**851,458**	**1.4%**
Total equity	**121,500**	**101,662**	**19.5%**	**120,459**	**0.9%**
Total liabilities and equity	**984,454**	**809,108**	**21.7%**	**971,917**	**1.3%**

KEY RATIOS	2Q20	2Q19	1Q20	1H20	1H19
Profitability					
ROAA, annualised[14]	2.4%	2.9%	-2.1%	0.2%	3.0%
ROAA, annualised (unadjusted)	2.4%	2.8%	-2.1%	*0.2%*	*2.8%*
ROAE, annualised[14]	21.8%	22.9%	-18.6%	1.4%	23.7%
RB ROAE[14]	*16.4%*	*26.9%*	*-25.5%*	*-4.7%*	*26.2%*
CIB ROAE[14]	*31.5%*	*22.0%*	*-10.6%*	*9.9%*	*24.5%*
ROAE, annualised (unadjusted)	21.8%	22.1%	-18.6%	*1.4%*	*22.2%*
Net interest margin, annualised	4.2%	5.7%	5.0%	4.6%	5.8%
RB NIM	*4.0%*	*6.2%*	*4.9%*	*4.4%*	*6.4%*
CIB NIM	*3.4%*	*3.7%*	*4.0%*	*3.7%*	*3.7%*
Loan yield, annualised	10.2%	11.8%	10.8%	10.6%	12.0%
RB Loan yield	*11.1%*	*12.9%*	*11.8%*	*11.5%*	*13.2%*
CIB Loan yield	*8.3%*	*9.5%*	*8.9%*	*8.7%*	*9.2%*
Liquid assets yield, annualised	3.4%	3.4%	3.9%	3.7%	3.6%
Cost of funds, annualised	4.8%	4.5%	4.7%	4.8%	4.6%
Cost of client deposits and notes, annualised	3.5%	3.1%	3.1%	3.3%	3.1%
RB Cost of client deposits and notes	*2.9%*	*2.7%*	*2.6%*	*2.8%*	*2.7%*
CIB Cost of client deposits and notes	*4.2%*	*3.5%*	*3.7%*	*4.0%*	*3.5%*
Cost of amounts owed to credit institutions, annualised	7.3%	6.9%	7.6%	7.5%	7.1%
Cost of debt securities issued	7.7%	7.6%	7.6%	7.7%	7.5%
Operating leverage, y-o-y[15]	-13.6%	-4.2%	-9.2%	-11.2%	0.3%
Operating leverage, q-o-q[15]	-11.9%	-7.7%	1.5%	0.0%	0.0%
Efficiency					
Cost / Income[15]	43.9%	38.3%	38.6%	41.1%	36.9%
RB Cost / Income[15]	*56.3%*	*37.8%*	*46.6%*	*50.9%*	*36.6%*
CIB Cost /Income[15]	*22.9%*	*30.0%*	*19.4%*	*21.2%*	*28.5%*
Cost / Income (unadjusted)	43.9%	40.1%	38.6%	*41.1%*	*39.3%*
Liquidity[16]					
NBG liquidity coverage ratio *(minimum requirement 100%)*	135.4%	114.3%	121.2%	135.4%	114.3%
Liquid assets to total liabilities	32.1%	31.9%	30.5%	32.1%	31.9%
Net loans to client deposits and notes	108.8%	119.5%	121.3%	108.8%	119.5%
Net loans to client deposits and notes + DFIs	94.5%	104.7%	104.9%	94.5%	104.7%
Leverage (times)	7.7	7.4	8.6	7.7	7.4
Asset quality:					
NPLs (in GEL)	355,260	347,285	284,038	355,260	347,285
NPLs to gross loans to clients	2.7%	3.2%	2.1%	2.7%	3.2%
NPL coverage ratio	115.7%	88.1%	147.2%	115.7%	88.1%
NPL coverage ratio, adjusted for discounted value of collateral	166.3%	131.5%	194.9%	166.3%	131.5%
Cost of credit risk, annualised	-0.2%	1.3%	7.4%	3.5%	1.5%
RB Cost of credit risk	*0.2%*	*1.6%*	*7.4%*	*3.7%*	*2.0%*
CIB Cost of credit risk	*-1.7%*	*0.7%*	*8.3%*	*3.2%*	*0.4%*
Capital adequacy:					
NBG (Basel III) CET1 capital adequacy ratio	9.9%	11.0%	8.3%	9.9%	11.0%
Minimum regulatory requirement	*6.9%*	*9.6%*	*6.9%*	*6.9%*	*9.6%*
NBG (Basel III) Tier I capital adequacy ratio	12.0%	13.3%	10.6%	12.0%	13.3%
Minimum regulatory requirement	*8.7%*	*11.6%*	*8.7%*	*8.7%*	*11.6%*
NBG (Basel III) Total capital adequacy ratio	17.4%	16.7%	15.3%	17.4%	16.7%
Minimum regulatory requirement	*13.3%*	*16.1%*	*13.3%*	*13.3%*	*16.1%*
Selected operating data:					
Total assets per FTE	2,671	2,184	2,676	2,671	2,184
Number of active branches, of which:	229	276	233	229	276
- Express branches (including Metro)	*121*	*167*	*124*	*121*	*167*
- Bank of Georgia branches	*97*	*97*	*97*	*97*	*97*
- SOLO lounges	*11*	*12*	*12*	*11*	*12*
Number of ATMs	940	890	939	940	890
Number of cards outstanding, of which:	2,178,053	2,122,006	2,160,942	2,178,053	2,122,006
- Debit cards	*1,828,691*	*1,634,843*	*1,791,937*	*1,828,691*	*1,634,843*
- Credit cards	*349,362*	*487,163*	*369,005*	*349,362*	*487,163*
Number of POS terminals	23,787	19,667	22,472	23,787	19,667
Number of Express pay terminals	3,118	3,177	3,183	3,118	3,177
FX Rates:					
GEL/US$ exchange rate (period-end)	3.0552	2.8687	3.2845		
GEL/GBP exchange rate (period-end)	3.7671	3.6384	4.0725		

	Jun-20	Jun-19	Mar-20
Full time employees (FTE), of which:	**7,181**	**7,386**	**7,349**
- Full time employees, BOG standalone	*5,693*	*5,786*	*5,851*
- Full time employees, BNB	*543*	*632*	*550*
- Full time employees, other	*945*	*968*	*948*

Shares outstanding	Jun-20	Jun-19	Mar-20
Ordinary shares	47,536,332	47,669,887	47,528,704
Treasury shares	1,633,096	1,499,541	1,640,724
Total shares outstanding	**49,169,428**	**49,169,428**	**49,169,428**

[14] The 2Q19 and 1H19 ratios are adjusted for one-off employee costs related to termination benefits of the former CEO and executive management
[15] The 2Q19 and 1H19 ratios are adjusted for one-off employee costs related to termination benefits of the former executive management
[16] We stopped reporting the NBG liquidity ratio since 1 January 2020 due to the phase-out of the requirement of this ratio per NBG's regulations

PRINCIPAL RISKS AND UNCERTAINTIES

In the Group's 2019 Annual Report and Accounts we disclosed the principal and emerging risks and uncertainties and their potential impact, as well as the trends and outlook associated with these risks and the actions we take to mitigate these risks. We have updated this disclosure to reflect recent developments and this is set out in full below. If any of the following risks occur, the Group's business, financial condition, results of operations or prospects could be materially affected. The order in which the principal risks and uncertainties appear does not denote their order of priority. It is not possible to fully mitigate all of our risks. Any system of risk management and internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The risks and uncertainties described below may not be the only ones the Group faces. Additional risks and uncertainties, including those that the Group is currently not aware of or deems immaterial, may also result in decreased revenues, incurred expenses or other events that could result in a decline in the value of the Group's securities.

MACROECONOMIC ENVIRONMENT	
PRINCIPAL RISK / UNCERTAINTY	**Macroeconomic factors relating to Georgia, including depreciation of the Lari against the US Dollar, may have a material impact on our loan book.**
KEY DRIVERS / TRENDS	The Group's operations are primarily located in, and most of its revenue is sourced from, Georgia. Macroeconomic factors relating to Georgia, such as changes in GDP, inflation and interest rates, may have a material impact on the quality of our loan portfolio, loan losses, our margins, and customer demand for our products and services. During the first half of 2020, Georgia delivered an estimated negative real GDP growth of 5.8% according to Geostat, as the country is now facing a pronounced economic slowdown due to the COVID-19 pandemic. Real GDP is expected to decline by 4% in 2020 based on International Monetary Fund (the "IMF") estimates, but projections are subject to more than the usual level of uncertainty. Lower exports, no external tourism, and weaker remittances are expected to widen the current account deficit to 11.3% of GDP in 2020 according to IMF. Rising global risk aversion is likely to reduce private financial inflows and delay investment. The authorities have sought to contain the COVID-19 pandemic and cushion its economic impact, however, face a balance of payments gap. Notably, the real GDP growth was 5.1% in 2019 and 4.8% in 2018, according to Geostat. Uncertain and volatile global economic conditions could have substantial political and macroeconomic ramifications globally which, in turn, could impact the Georgian economy. In the first half of 2020, the Lari depreciated against the US Dollar by 6.5%, after depreciating by 7.1% in 2019. The volatility of Lari against the US Dollar may adversely affect the quality of our loan portfolio, as well as increase the cost of credit risk and expected credit loss provisions. The creditworthiness of our customers may be adversely affected by the depreciation of the Lari against the US Dollar, which could result in them having difficulty repaying their loans. The depreciation of the Lari may also adversely affect the value of our customers' collateral. At 30 June 2020, approximately 82.6% and 45.6% of our Corporate and Investment Banking and Retail Banking loans, respectively, were denominated in foreign currency, while 7.5% of Retail Banking gross loans and 43.2% of Corporate and Investment Banking gross loans issued in foreign currency had no or minimal exposure to foreign currency risk. In the first quarter of 2020, following the COVID-19 pandemic outbreak, the Group created a GEL 220.2 million upfront provision for the full economic cycle in both Retail and Corporate and Investment Banking businesses. This COVID-19 related charge was based on our expectations of future credit losses on our portfolio given the application of the future economic scenarios. The assumptions were further revisited during the second quarter to reflect the better visibility and the macro-economic forecast scenarios published by the NBG in May 2020. Based on the analysis, additional reserves created in the first quarter proved largely sufficient. In addition, the depreciation of the local currency and the amortisation of the loan portfolio in the second quarter resulted in GEL 8.2mln net reversal of ECL on loans to customers and finance lease receivables in 2Q20. As a result, our cost of credit risk ratio was 3.5% in the first half of 2020 compared to 1.5% in the first half of 2019.

	There still is uncertainty over the magnitude of the global slowdown that will result from the COVID-19 pandemic. The Georgian economy is well-diversified, both by sector, and in terms of trading partner country dependence, however, if the virus leads to a continued global shutdown a significant negative impact on areas of the Georgian economy is expected.
MITIGATION	The Group continuously monitors market conditions and reviews market changes, and also performs stress and scenario testing to test its position under adverse economic conditions, including adverse currency movements. The Bank's Asset and Liability Management Committee sets our open currency position limits and the Bank's proprietary trading position limits, which are currently more conservative than those imposed by the National Bank of Georgia, our regulator. The Treasury department manages our open currency position on a day-to-day basis. The open currency position is also monitored by the Bank's Quantitative Risk Management and Risk Analytics department. In order to assess the creditworthiness of our customers, we take into account currency volatility when there is a currency mismatch between the customer's loan and the revenue. In line with the NBG's requirements, we assign up to 75% additional risk weighting to the foreign currency loans of clients, whose source of income is denominated in Lari. The Bank's Credit Committees and Credit Risk department set counterparty limits by using a credit risk classification and scoring system for approving individual transactions. The credit quality review process is continuous and provides early identification of possible changes in the creditworthiness of customers, including regular collateral revaluations, potential losses and corrective actions needed to reduce risk, which may include obtaining additional collateral in accordance with underlying loan agreements. In order to encourage responsible lending practice in the market, NBG introduced macroprudential policy instruments that modify lending conditions to individuals. The payment-to-income ratio (PTI) and the loan-to-value ratio (LTV), effective since 1 November 2018 for commercial banks and since 1 January 2019 for all loan issuers, require the financial institutions to issue loans based on the rigorous assessment of clients' debt paying ability and aim at reducing high-risk products in the market. This initiative ensures the sustainability of the financial sector in the event of real estate price reductions and further reduces the risk of the loan portfolio quality. NBG eased the above mentioned regulation from April 2020 as part of its response to COVID-19 pandemic. The changes mostly apply to hedged borrowers, while the PTI and LTV thresholds for unhedged borrowers remain more conservative. Since 2016, NBG has actively implemented various measures to de-dollarise the Georgian economy. In January 2019, in order to hedge the borrowers against foreign currency risks, NBG raised a threshold of small-sized loans that must be issued only in local currency from GEL 100,000 to GEL 200,000. Among NBG's initiatives towards de-dollarisation and increasing access to long-term lending in the local currency is Liquidity Coverage Ratio (LCR) under Basel III framework, effective since September 2017. The NBG's preferential treatment for Georgian Lari is translated into 75% LCR for the local currency high-quality liquid assets, while the mandatory ratio stands at 100% for the foreign currency as well as for all currencies in total. Moreover, NBG mandated changes in minimum reserve requirements on funds attracted in national and foreign currencies. NBG raised the minimum reserve requirement on foreign currency funds from 20% to 25% depending on maturity, effective from 1 September 2018, and then further to 30%, effective by the end of May 2019, although the requirement was subsequently reduced back to 25% in October 2019. In June 2018, in order to encourage the financial institutions to raise funding in the local currency, NBG decreased minimum reserve requirements on local currency funding from 7% to 5%. Since the beginning of 2016, we have focused on increasing local currency lending. We actively work with IFIs to raise long-term Lari funding to increase our Lari-denominated loans to customers. Furthermore, in June 2017, we completed the inaugural local currency denominated international bond issuance in the amount of GEL500 million to support local currency lending.

	Applicable from the beginning of 2017, the NBG expanded the list of assets that banks are permitted to use as collateral for REPO transactions, which provides an additional funding source for our Lari-denominated loan book. This list further expanded since second quarter of 2020 as part of the NBG's response to COVID-19 pandemic. The Government and NBG have appropriate tools to help mitigate the economic threat to a degree, and to try to maintain economic growth. We continue to monitor the COVID-19 pandemic outbreak impact and to consider our continued business resilience.
REGIONAL INSTABILITY	
PRINCIPAL RISK / UNCERTAINTY	**The Georgian economy and our business may be adversely affected by regional tensions and instability.** The Group's operations are primarily located in, and most of its revenue is sourced from, Georgia. The Georgian economy is well-diversified and there is no significant dependency on a single country. However, it is dependent on economies of the region, in particular Russia, Turkey, Azerbaijan and Armenia who are key trading partners. There has been ongoing geopolitical tension, political and economic instability and military conflict in the region, which may have an adverse effect on our business and financial position.
KEY DRIVERS / TRENDS	Russian troops continue to occupy the Abkhazia and the Tskhinvali/South Ossetia regions, and tensions between Russia and Georgia persist. Russia is opposed to the eastward enlargement of the NATO, including the former Soviet republics such as Georgia. Therefore, Georgia's continued progression towards closeness to the EU and NATO may intensify tensions between Georgia and Russia. Developments, such as the introduction of a free trade regime between Georgia and the EU in September 2014 and the visa-free travel in the EU granted to Georgian citizens in March 2017, similarly contributes to tensions. The Government has taken certain steps towards improving relations with Russia but, as of the date of this announcement, these have not resulted in any formal or legal changes in the relationship between the two countries. In June 2018, as a result of early parliamentary and presidential elections, amendments to the Turkish constitution became effective. The amendments which grant the president wider powers are expected to transform Turkey's system of government away from a parliamentary system which could have a negative impact on political stability in Turkey. On 8 July 2019, Russia's ban on direct flights to Georgia, imposed earlier in June over anti-occupation protests in Tbilisi, came into effect. The sanction was expected to affect the Georgian tourism sector, however, it also provided more incentives to further diversify the country's tourist base. There is an ongoing conflict between Azerbaijan and Armenia, which impacts the region.
MITIGATION	The Group actively monitors regional and local market conditions and risks related to political instability, and the Georgian Government's response thereto. It performs stress and scenario tests in order to assess the impact on its financial position, and develops responsive strategies and action plans. While financial market turbulences and geopolitical tensions affect regional trading partners, Georgia's preferential trading regimes and well-diversified economy in terms of dependency on a single country, support the country to enhance resilience to regional external shocks. Economic growth remained strong in Georgia in 2019, despite Russia banning direct flights to Georgia from July 2019. Real GDP growth reached 5.1% in 2019 and the current account deficit reached a historic low in the second half of 2019, with deficit halved in 2019, overall. Despite favourable current account dynamics, the ban on flights from Russia weighed on GEL due to negative expectations and increased political uncertainty. Inflation accelerated from September 2019 and came in at 7.0% in December 2019. The price growth reflected higher tobacco excises and GEL's nominal depreciation. The National Bank of Georgia intervened and sold foreign currency and increased monetary policy rate to address rising inflationary pressures. Notably, in October 2019, S&P Global Ratings upgraded Georgia's credit rating to BB, highlighting economic resilience towards the challenging external environment, relatively high growth prospects, prudent public finance management, higher reserves, and a stable and healthy

	financial sector. We believe that Georgia's efforts to further diversify its economic linkages, use potential of new large markets – the EU and China – and further enhance its institutions to enable the economy to deal with the external shocks relatively well. In December 2019, the IMF's Executive Board approved the extension of the US$285 million economic programme with Georgia, approved in April 2017, by one year until 11 April 2021. The programme has not envisaged additional financing, however, after the COVID-19 pandemic outbreak the authorities have requested additional financial assistance of about US$375 million. The authorities have also secured additional donor assistance in the amount of US$ 1.5 billion that is expected to close the financing gap. On 1 May 2020, the Executive Board of the IMF completed the Sixth Review of Georgia's programme. The completion of the review released around US$ 200 million for budget support, to help Georgia meet urgent balance of payments and fiscal needs stemming from the COVID-19 pandemic, including increased spending on health services and social protection. The fiscal deficit is expected to temporarily widen to accommodate revenue losses from containment measures and additional spending to support economic activity. Monetary policy is expected to remain flexible and dependent on inflation developments. Exchange rate flexibility should continue to act as a shock absorber, but excessive lari volatility should be avoided as it could prove disruptive to financial stability. Providing adequate liquidity and releasing capital buffers by the National Bank of Georgia in financial institutions would help sustain financial stability. During the first half of 2020, Georgia delivered an estimated negative real GDP growth of 5.8%, as the country is now facing a pronounced economic slowdown due to the COVID-19 pandemic. Real GDP is expected to decline by 4% in 2020 based on IMF estimates, but projections are subject to more than the usual level of uncertainty. Lower exports, no tourism, and weaker remittances are expected to widen the current account deficit to 11.3% of GDP in 2020, according to IMF. Rising global risk aversion is likely to reduce private financial inflows and delay investment. The authorities have sought to contain the COVID-19 pandemic and cushion its economic impact but face a balance of payments gap. Inflation was retreating gradually since May 2020 and was 6.1% in June, still above NBG's 3.0% target level. High inflation is explained by strengthening influence of GEL depreciation and disruption to supply chains due to COVID-19 pandemic. Importantly, after sharp fall in remittances in April 2020, the reduction slowed to single digit in May 2020, and rebounded strongly growing at a 17.8% y-o-y in June 2020, which supports demand in face of increased economic uncertainty. As timeline for resuming regular international flights is unclear due to unfavorable epidemiological situation in Georgia's tourism source markets, tourism remains a major weakness. However, our brokerage and investment arm, Galt & Taggart expects Georgian tourists to spend around US$500 million locally in the second half of 2020 (of which US$ 300 million will be generated from local residents not traveling abroad and US$ 200 million generated from ordinary local tourist spending), bringing some relief to the industry. The NBG's foreign currency sales in the amount of US$215 million in the first half of 2020 largely offset the foreign currency shortfall in the economy due to stalled tourism inflows. Notably, despite these interventions, international reserves are anticipated to increase from the current US$3.6 billion by the end of 2020 as reserves are replenished by borrowings from donors. The Government's revised 2020 budget document was approved by Parliament of Georgia in June 2020. The revised budget incorporates the fiscal parameters agreed with the IMF, US$1.5 billion in donor funding and fiscal stimulus measures for businesses and households affected by the coronavirus pandemic. The budget framework assumes negative 4.0% GDP growth in 2020 and sets the deflator at 4.8%. The fiscal deficit is projected to increase to 8.5% of GDP due to the shortfall in revenues (GEL 1.45 billion reduction compared to the initial budget) and an increase in expenditure for anti-crisis measures (GEL 1.4 billion increase compared to the initial budget). To meet its spending needs, the Government plans to increase external borrowings by GEL 4.3 billion, and domestic debt is set to rise by GEL 649 million, with total public debt projected at 54.4% of GDP in 2020. The Government expects to return to its pre-crisis debt parameters in the medium term. Notably, the Government is borrowing more from donors than it currently needs, building a fiscal buffer totaling GEL 2.7 billion into the revised budget. Such a buffer builds confidence as funds can be utilised if the crisis deepens, or a recovery takes longer than currently

	projected to materialise.
LOAN PORTFOLIO QUALITY	
PRINCIPAL RISK / UNCERTAINTY	**The Group may not be able to maintain the quality of its loan portfolio.** The quality of the Group's loan portfolio may deteriorate due to external factors beyond the Group's control such as negative developments in Georgia's economy or in the economies of its neighbouring countries, the unavailability or limited availability of credit information on certain of its customers, any failure of its risk management procedures or rapid expansion of its loan portfolio. The Group's Corporate and Investment Banking loan portfolio is concentrated and to the extent that such borrowers enter into further loan arrangements with the Group, this will increase the credit and general counterparty risk of the Group, with respect to those counterparties and could result in deterioration of the Group's loan portfolio quality. Furthermore, the collateral values that the Group holds against the loans may decline, which may have an adverse effect on the business and financial position of the Group.
KEY DRIVERS / TRENDS	Expected credit loss and, in turn, the Group's cost of credit risk could increase if a single large borrower defaults or a material concentration of smaller borrowers default. The Corporate and Investment Banking loan portfolio is concentrated, with the Group's top ten Corporate and Investment Banking borrowers accounting for 7.3% of gross loans to customers and finance lease receivables at 30 June 2020, as compared to 9.9% at 31 December 2019 and 9.8% at 31 December 2018. At 30 June 2020, the Group held collateral against gross loans covering 87.8% of the total gross loans to customers and finance lease receivables. The main forms of collateral taken in respect of Corporate and Investment Banking loans are liens over real estate, property, plant and equipment, corporate guarantees, inventory, deposits and securities, and transportation equipment. The most common form of collateral accepted in Retail Banking loans is a lien over residential property. Downturns in the residential and commercial real estate markets, or a general deterioration of economic conditions in the industries in which the Group's customers operate, may result in illiquidity and a decline in the value of the collateral securing loans, including a decline to levels below the outstanding principal balance of those loans. In addition, declining or unstable prices of collateral in Georgia may make it difficult for the Group to accurately value collateral it holds. If the fair value of the collateral that the Group holds declines significantly in the future, it could be required to record additional provisions and could experience lower than expected recovery levels on collateralised loans. Further changes to laws or regulations may impair the value of such collateral. During the first half of 2020, the Group's cost of credit risk ratio was 3.5%, as compared to 1.5% in the first six months of 2019. The increase was driven by the reserve builds, created for the full economic cycle in both Retail and Corporate and Investment Banking segments in the first quarter of 2020, primarily related to deterioration of macroeconomic environment and expected creditworthiness of borrowers as a result of the COVID-19 pandemic impact. As of 30 June 2020, 31 December 2019 and 2018, the Group's non-performing loans accounted for 2.7%, 2.1% and 3.3% of gross loans to customers and finance lease receivables, respectively.
MITIGATION	The Group continuously monitors market conditions and reviews market changes, and also performs stress and scenario testing to test its position under adverse economic conditions. Our Credit Committees and Credit Risk department set counterparty limits by using a credit risk classification and scoring system for approving individual transactions. The credit quality review process is continuous and provides early identification of possible changes in the creditworthiness of customers, including regular collateral revaluations, potential losses and corrective actions needed to reduce risk, which may include obtaining additional collateral in accordance with underlying loan agreements. The Group continuously monitors the market value of the collateral it holds against the loans.

	When evaluating collateral for provisioning purposes, the Group discounts the market value of the assets to reflect the liquidation value of the collateral. In terms of Retail Banking loan portfolio, when disbursing the loans to retail customers the Group strictly adheres to PTI and LTV ratios set by NBG based on the rigorous assessment of clients' debt paying ability. This further reduces the risk of the loan portfolio quality in the event of real estate price reductions. In terms of Corporate and Investment Banking loan portfolio concentration, the Group aims to adhere strictly to the limits set by the NBG for client exposures, monitors the level of concentration in its loan portfolio and the financial performance of its largest borrowers, uses collateral to minimise loss given default on its largest exposures and maintains a well-diversified loan book sector concentration.
REGULATORY RISK	
PRINCIPAL RISK / UNCERTAINTY	**The Group operates in an evolving regulatory environment and is subject to regulatory oversight of the National Bank of Georgia, supervising the banking sector and the securities market in Georgia.** The financial sector in Georgia is highly regulated. The regulatory environment continues to evolve. We, however, cannot predict what additional regulatory changes will be introduced in the future or the impact they may have on our operations.
KEY DRIVERS / TRENDS	Our banking operations must comply with prudential ratios set by our regulator, the NBG, including reserve requirements, and mandatory financial ratios, as well as adhere to required regular report filings. Our ability to comply with existing or amended NBG requirements may be affected by a number of factors, including those outside of our control, such as an increase in the Bank's risk-weighted assets, our ability to raise capital, losses resulting from deterioration in our asset quality and/or a reduction in income levels and/or an increase in expenses, decline in the value of the Bank's securities portfolio, as well as weakening of global and Georgian economies. Since the Group is listed on the London Stock Exchange's main market for listed securities, it is subject to the UK Financial Conduct Authority regulations. Furthermore, the Group companies are also subject to relevant laws and regulations in Georgia.
MITIGATION	In order to ensure the full compliance with relevant regulations, the Group has established systems and processes, which are embedded in all levels of the Group's operations. Continued investment in our people and processes enables us to meet our current regulatory requirements and means that we are well-placed to respond to any future changes in regulation. In line with our integrated control framework, we carefully evaluate the impact of legislative and regulatory changes as part of our formal risk identification and assessment processes and, to the extent possible, proactively participate in the drafting of relevant legislation. As part of this process, we engage in constructive dialogue with regulatory bodies, where possible, and seek external advice on potential changes to legislation. We then develop appropriate policies, procedures and controls, as required, to fulfil our compliance obligations. Our compliance framework, at all levels, is subject to regular review by the Bank's Internal Audit department and external assurance service providers.
LIQUIDITY AND FUNDING RISK	
PRINCIPAL RISK / UNCERTAINTY	**The Group is exposed to liquidity risk when the maturities of its assets and liabilities do not coincide, as well as funding risk.** Although the Group expects to have sufficient funding over the next 18 months and beyond to execute its strategy and to have sufficient liquidity over the next 18 months and beyond, liquidity risk is nevertheless inherent in banking operations and may be heightened by a number of factors, including an over-reliance on, or an inability to access, a particular source of funding, changes in credit ratings or market-wide phenomena, such as financial market instability. Credit markets worldwide have in recent years experienced, and may continue to experience, a reduction in liquidity and long-term funding as a result of global economic and financial factors. The availability of credit in emerging markets, in particular, is significantly influenced by the

	level of investor confidence and, as such, any factors that affect investor confidence (for example, a downgrade in credit ratings of the Bank, Georgia, or state interventions or debt restructurings in a relevant industry) could affect the price or availability of funding for the Group companies, operating in any of these markets.
KEY DRIVERS / TRENDS	The Group's current liquidity may be affected by unfavourable financial market conditions. If assets held by the Group in order to provide liquidity become illiquid or their value drops substantially, the Group may be required, or may choose, to rely on other sources of funding to finance its operations and future growth. Only a limited amount of funding, however, is available on the Georgian inter-bank market, and recourse to other funding sources may pose additional risks, including the possibility that other funding sources may be more expensive and less flexible. In addition, the Group's ability to access such external funding sources depends on the level of credit lines available to it, and this, in turn, is dependent on the Group's financial and credit condition, as well as general market liquidity. In terms of current and short-term liquidity, the Group is exposed to the risk of unexpected, rapid withdrawal of deposits by its customers in large volumes. Circumstances in which customers are more likely to withdraw deposits in large volumes rapidly include, among others, a severe economic downturn, a loss in consumer confidence, an erosion of trust in financial institutions or a period of social, economic or political instability. If a substantial portion of customers rapidly or unexpectedly withdraw their demand or term deposits or do not roll over their term deposits upon maturity, this could have a material adverse effect on the Group's business, financial condition and results of operations. Furthermore, should the COVID-19 pandemic continue to cause disruption to economic activity in Georgia and globally, there could be adverse impacts on the Group's liquidity and funding positions.
MITIGATION	The Group manages its liquidity risk through the liquidity risk management framework, which models the ability of the Group to meet its payment obligations under both normal conditions and crisis. The Bank has developed a model based on the Basel III liquidity guidelines. It maintains a solid buffer on top of Liquidity Coverage Ratio (LCR) requirement of 100%, mandated by NBG since September 2017. A strong LCR enhances the Group's short-term resilience. Moreover, the Bank holds a comfortable buffer on top of Net Stable Funding Ratio (NSFR) requirement of 100%, which came into effect on 1 September 2019. A solid buffer over NSFR provides stable funding sources over a longer time span. This approach is designed to ensure that the funding framework is sufficiently flexible to secure liquidity under a wide range of market conditions. As of 30 June 2020, 31 December 2019 and 31 December 2018, the LCR was 135.4%, 136.7%, and 120.1%, respectively, while NSFR was 136.6% and 132.5%, at 30 June 2020 and 31 December 2019, respectively, all comfortably above the NBG's minimum regulatory requirements. Among other things, the Group maintains a diverse funding base comprising of short-term sources of funding (including Retail Banking and Corporate and Investment Banking customer deposits, inter-bank borrowings and borrowings from the NBG) and longer-term sources of funding (including term Retail Banking and Corporate and Investment Banking deposits, borrowing from international credit institutions, sales and purchases of securities, and long-term debt securities). Client deposits and notes are one of the most important sources of funding for the Group. As of 30 June 2020, 31 December 2019 and 31 December 2018, 88.1%, 90.4%, and 90.8%, respectively, of client deposits and notes had contractual maturities of one year or less, of which 48.6%, 55.2%, and 55.1%, respectively, were payable on demand. However, as of the same dates, the ratio of net loans to client deposits and notes was 108.8%, 118.4%, and 115.5%, respectively, and the ratio of net loans to client deposits and notes and DFIs was 94.5%, 103.2%, and 99.6%, respectively. The Bank has strong support from International Financial Institutions. It has already attracted a number of new long-term borrowings both in local and foreign currencies during the past few months in 2020 of more than US$200 million from International Finance Corporation, European

	Investment Bank, FMO - Dutch entrepreneurial development bank (in collaboration with other participating lenders) and European Bank for Reconstruction and Development, part of which has been drawn-down during the first half of 2020. Furthermore, we are actively working with our partner financial institutions and expect to sign new long-term facilities of around US$400 million during following months, which will further improve our liquidity position and enable us to support our customers and the economy in which we operate during these unprecedented times. Furthermore, as part of its updated supervisory plan for Georgian banking sector, aimed at elevating the negative financial and economic challenges created by the COVID-19 in Georgia, the NBG announced the readiness to revisit and reduce LCR requirements (on 1 May 2020, NBG temporarily cancelled the 75% LCR requirement for local currency for a one-year period, or until further communicated by NBG), as well as mandatory reserve requirements, if necessary. Furthermore, NBG has already extended the eligibility criteria for repo-eligible securities and this may be revisited further, if necessary, to support the local currency liquidity.
CAPITAL RISK	
PRINCIPAL RISK / UNCERTAINTY	**The Bank faces the risk of not meeting the minimum capital adequacy requirements set by the NBG.** The Bank, like all regulated financial institutions in Georgia, is required to comply with certain capital adequacy ratios set by the NBG. The failure to maintain the minimum capital adequacy ratios may have a material adverse effect on the Group and may compromise its strategic targets.
KEY DRIVERS / TRENDS	Since December 2017, the Bank is subject to NBG capital adequacy regulation, which is based on Basel III guidelines of the Basel Committee of Banking Supervision, with regulatory discretion applied by the NBG due to the specifics of the local banking industry. The new increased requirements are phased-in gradually with fully loaded requirement of capital adequacy ratios of risk-weighted assets effective by end of 2022 (temporarily amended in March 2020 as described further below as NBG's response to COVID-19 pandemic outbreak). Our ability to comply with existing or amended NBG requirements may be affected by a number of factors, including those outside of our control, such as an increase in the Bank's risk-weighted assets, our ability to raise capital, losses resulting from deterioration in our asset quality and/or a reduction in income levels and/or an increase in expenses, local currency volatility, as well as weakening of global and Georgian economies. In March 2020, as a response to emerged COVID-19 pandemic, in agreement with NBG, the Bank created a GEL 400 million general provision under the Bank's local regulatory accounting basis that is used to calculate the capital adequacy ratios. This provision covers the NBG's current expectation of estimated credit losses on the Bank's lending book for the whole economic cycle. This resulted in a decline in capital ratios in 2020, which still stood comfortably above the minimum regulatory requirements. That said, should the COVID-19 pandemic continue to cause disruption to economic activity in Georgia and globally, there could be further adverse impact on the Group's capital adequacy position.
MITIGATION	The Group maintains an actively managed capital base to cover risks inherent to its business. As part of our capital adequacy management framework, we continuously monitor market conditions and review market changes, and perform stress and scenario testing to test our position under adverse economic conditions, market and regulatory developments. Capital position is continuously monitored by the management, as well as the Board, to ensure prudent management and timely actions, when necessary. In 2019, we underwent the capital optimisation exercise to strengthen the Bank's capital position and enable the realisation of the potential upsides. For that, in March 2019, the Bank issued inaugural $100 million Additional Tier 1 Capital Notes, which marks the first ever AT1 transaction from Georgia. This issuance helped Bank of Georgia optimise its capital structure from a foreign currency perspective, and provided a natural hedge against operating in a dollarised economy. Further, in December 2019, the Bank signed a ten-year US$107 million

<table>
<tr><td></td><td>subordinated syndicated loan agreement arranged by FMO – Dutch entrepreneurial development bank in collaboration with other participating lenders, which qualifies for the Tier 2 capital instrument under the NBG Basel III framework.

In addition, in March 2020, given the level of uncertainty with regard to the global impact of COVID-19 and the potential length of time of that impact, the Board of Directors decided not to recommend a dividend for the 2019 year to shareholders at the 2020 Annual General Meeting. As a result of the ongoing uncertainties, the Board has confirmed that the Group will not be distributing a 2019 dividend to shareholders.

Furthermore, as part of its updated supervisory plan for Georgian banking sector, aimed at elevating the negative financial and economic challenges created by the COVID-19 in Georgia, NBG implemented certain measures in relation to capital adequacy requirements to allow the banks to use existing regulatory capital buffers to support customers in the current financially stressed circumstances, to continue normal business activities as far as possible, and to support the economy through ongoing lending operations:

– Combined buffer - the conservation buffer requirement of 2.5% of risk-weighted assets has been reduced to 0% indefinitely
– Pillar 2 requirements:
  – Currency induced credit risk buffer (CICR) requirement reduced by 2/3rds indefinitely
  – The phase-in of additional credit portfolio concentration risk buffer (HHI) and net General risk assessment program (GRAPE) buffer requirements on Common Equity Tier 1 (CET1) and Tier 1 capital, planned at the end of March 2020, has been postponed indefinitely
  – The possibility of fully or partially releasing the remaining requirements of Pillar 2 buffers (HHI, CICR, net GRAPE), if necessary, remains open
– During the period the banks are allowed to partially or fully use the Pillar 2 and conservation buffers, the banks are restricted to make capital distribution in any form
– The banks will be given sufficient time to build-up capital buffers back to pre-crisis level

The Group’s capital position remains robust, and comfortably above our minimum regulatory requirements. At 30 June 2020, having absorbed the full upfront GEL 400 million local regulatory accounting general provision, the Bank’s Basel III Common Equity Tier 1, Tier 1 and Total capital adequacy ratios stood at 9.9%, 12.0% and 17.4% respectively, all still comfortably above the minimum required levels of 6.9%, 8.7% and 13.3%, respectively.</td></tr>
<tr><td colspan="2">OPERATIONAL RISK, CYBER-SECURITY, INFORMATION SYSTEMS AND FINANCIAL CRIME</td></tr>
<tr><td>PRINCIPAL RISK / UNCERTAINTY</td><td>We are at risk of experiencing cyber-attacks, attempts of unauthorised access to our systems and financial crime, or failures in our banking activity processes or systems or human error, which could disrupt our customer services, result in financial loss, have legal or regulatory implications and/or affect our reputation.

We are highly dependent on the proper functioning of our risk management, internal controls and systems, and internal processes including those related to data protection, IT and information security in order to manage these threats.

We may be adversely affected if we fail to mitigate the risk of our products and services being used to facilitate a financial crime.</td></tr>
<tr><td>KEY DRIVERS / TRENDS</td><td>Information-security threats have continued to increase over the past few years and we have seen a number of major organisations subject to cyber-attacks. Fortunately, our operations have not been materially affected and we have not suffered a data breach. The external threat profile is continuously changing, and we expect threats to continue to increase.

Over the past few years, as our operations have expanded and our focus has been directed towards more digitalisation of banking products and services, we have seen an increase in electronic crimes, including fraud, although losses have not been significant. Money laundering (ML) and Terrorism financing (FT) risks, which the Bank has measures in place to guard against, continue to evolve globally. The Bank continues to face stringent regulatory and supervisory requirements related to the fight against ML/TF. Failure to comply with these requirements may</td></tr>
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	lead to enforcement action by the regulator, which can result in a pecuniary penalty and negatively impact the Group's reputation.
MITIGATION	We have an integrated control framework encompassing operational risk management, IT systems, corporate and other data security, each of which is managed by a separate department. We have an anti-money laundering (AML)/counter-terrorist financing (CTF) framework which includes a risk-based approach (RBA) towards the ML/FT risks, Know Your Customer (KYC), transaction monitoring, sanctions and transaction screening, transaction reporting, correspondent relationship assessment and monitoring, and training programmes. The framework is designed to comply with the local legislation, international standards (Financial Action Task Force (FATF) recommendations), and international financial sanctions programmes. We continue to enhance our AML compliance function by strengthening the Bank's AML compliance framework, policies and procedures (including ML/FT risk management policy, KYC and Customer Acceptance Policy). We have invested significant resources to further improve our ML/FT risk management capabilities, including transaction monitoring solutions. We have a regulatory change management process in place ensuring timely compliance with the new regulations. We identify and assess operational risk categories within our risk management framework, identify critical risk areas or groups of operations with an increased risk level, and develop policies and security procedures to mitigate these risks. In a view of continuous technological advancements, which inevitably lead to the change of the cyber-threat landscape, we are committed to implementing preventative and reactive measures to protect information in all of its forms from loss, unauthorised access, use, disclosure, modification or destruction. To this end, we have established a rigorous information security programme, which in aligned with current business and regulatory requirements, and an emerging threat landscape. *Policies and standards.* Designated Governance and Risk Management unit develops and maintains a comprehensive set of information security policies and standards, which are regularly reviewed by this unit to ensure that they are up-to-date. These policies and standards are reviewed and approved by the relevant governance bodies on an annual basis, are aligned with recognised industry standards, such as those determined by the National Institute of Standards and Technology (the "NIST") and the International Organisation for Standardisation (the "ISO"), and are made available to all relevant personnel through internal channels. *Internal and external information security checks*. To ensure the adequacy and effectiveness of our risk management, internal controls and systems in place, we carry out regular information security checks internally, and with the assistance of external consultants. Our Internal Audit department independently evaluates the Bank's overall control environment, issues recommendations and monitors the implementation of control measures. Once a year, we engage external auditors to conduct cyber-security audit. In addition, we regularly initiate authorised simulated attacks on our system, have an internationally recognised vendor conduct a penetration test once a year, and carry out vulnerability assessments on a quarterly basis. *Access management*. We have access controls in place that are based on the general principles, such as least privilege access, separation of duties, defence in depth and privileges commensurate with particular role's duties. We continuously strive towards maintaining the existing controls up-to-date. In response to our employees working remotely due to the COVID-19 pandemic outbreak, to address remote work related information and cyber-security risks, we developed new monitoring rules and alerts, and modified thresholds to detect anomalous activity, while working from unprotected home networks, and we tightened security requirements for gaining remote access. *Vendor security*. While the effective relationships with vendors are essential for our continued success, we understand that they can pose significant risks to our information security. We have established a comprehensive procedure for evaluating the maturity of vendors' information security and business continuity practices. As part of the selection process, vendors are subject to information security due diligence assessment. In line with the findings of vendor's information security due diligence assessment, necessary contractual and technical controls are implemented.

	Existing vendor relationships are subject to, at a minimum, annual monitoring and review to determine their fulfilment of information security requirements. Termination of a relationship with a vendor is subject to exit procedures to ensure protection of our information's confidentiality, integrity, availability and accountability. *Awareness programs*. We conduct awareness campaigns to help personnel recognise information security concerns and respond accordingly. Information security training is a requirement for all of our personnel as part of on-boarding process, and afterwards once a year. On a quarterly basis, Information Security department initiates a phishing campaign to test the ability of our personnel to detect phishing attacks and respond duly. On a periodic basis, Information Security department sends awareness e-mails and shares posts through internal channels regarding current information security threats. In response to COVID-19 pandemic outbreak, we developed a mandatory specialised training course for our personnel about working remotely in a secure manner, to protect themselves against the emerging information security threats (phishing e-mails claiming to contain information about COVID-19, among others). The Bank's Internal Audit function provides assurance on the adequacy and effectiveness of our risk management, internal controls and systems in place. These types of operational risk are on the Audit and Risk Committees' regular agenda and are also frequently discussed at the Board level.
COVID-19 PANDEMIC IMPACT RISK	
PRINCIPAL RISK / UNCERTAINTY	**The coronavirus (COVID-19) was declared as a global pandemic in the beginning of 2020 and continues to rapidly spread throughout the world.** The spread of the virus has led to global shutdowns. Full lockdown in Georgia was introduced on 21 March 2020, and state of emergency declared in the country, which lasted for around two months, after which the Government started to gradually release restrictions and open the economy. We are monitoring the impact on our business, customers and employees on an ongoing basis. The outbreak in Georgia has not been as severe as in many other countries, as the Georgian Government took significant early actions to reduce the spread of the virus, which included early flight bans, and school and business closures, continued with complete restrictions of all economic activities, other than essential stores and services. There is still uncertainty over the magnitude of the global slowdown that will result from this pandemic. The Georgian economy is well-diversified, both by sector, and in terms of trading partner country dependence, however, if the virus leads to a continued global shutdown a significant negative impact on hospitality sector in Georgia is expected. This may also impact other areas of the Georgian economy, such as real estate.
KEY DRIVERS / TRENDS	With the COVID-19 pandemic, Georgia's economic outlook has clearly deteriorated. The IMF expects real GDP to decline by 4% in 2020. The economic slowdown is expected to have significant negative effect on hospitality sector, as well as on other sectors of Georgian economy. Falling exports, halt of tourism inflows and weaker remittances are expected to widen the current account deficit in 2020. Several measures were taken by the Georgian authorities in order to respond effectively to COVID-19 crisis. Safety measures implemented at early stage played a critical role in containing the virus spread so far. This was followed by the announcement of anti-crisis stimulus plan, which includes a social assistance package for individuals, as well as tax exemptions and various funding mechanisms for businesses, and stimulus plans for various sectors of economy, among others. Georgian authorities have mobilised US\$3.0 billion financing from the IMF and other international partners (US, EU, World Bank, KFW, AFD, EBRD, EIB, ADB, etc.). US\$1.5 billion (9.9% of GDP) of this funding is earmarked for the public sector and US\$1.5 billion for the private sector. With this support, the estimated stimulus in 2020 will be substantial at 11-15% of GDP, which will help to finance healthcare and macroeconomic stabilisation initiatives. At the end of March 2020, NBG introduced an updated supervisory plan for the Georgian

	banking sector, aimed at alleviating the negative financial and economic challenges created by the global COVID-19 pandemic in Georgia. The measures, which were introduced with immediate effect, were mainly focused on capital adequacy and liquidity initiatives that allow banks to use existing regulatory capital buffers to support customers in the current financially stressed circumstances, to continue normal business activities as far as possible, and to support the economy through ongoing lending operations. See *pages 21-23* of the Group's 1Q20 results announcement for detailed outline of initiatives implemented by the Government of Georgia and the National Bank of Georgia as a response to COVID-19 pandemic outbreak. Our baseline scenario is that the pandemic fades and the economy reopens in the second half of 2020, however, the projections are subject to more than usual uncertainty.
MITIGATION	The Group has introduced a number of resilience protocols and a comprehensive Business Continuity Plan (the "BCP") aimed at curbing the spread of COVID-19 in Georgia and mitigating the negative impact on our business and the community. We started developing the BCP at the end of January 2020, such that all of our operations would be successfully adapted to the new operating environment, while establishing the health and safety of all our staff and customers as the number one priority. Our BCP was focused on three main pillars: operating continuity and efficiency (employees, customers and community), capital, and liquidity and funding positions. **Operating continuity and efficiency:** We have put in place a number of initiatives to reduce physical interaction and prevent the spread of coronavirus, whilst maintain the full banking capability required to support and assist our customers. This included additional safety measures and protocols introduced in everyday working environment, moving back office staff to working from home, significantly enhancing the capacity of the call centre, temporarily closing the customer service support areas of express branches, with only the self-service terminals and ATM areas remaining open, implementing a three-month grace period on principal and interest payments on all retail loans to significantly reduce the requirement for customers to physically visit branches, incentivising the offloading of customer activity to digital channels, among others. See *pages 23 and 24* of the Group's 1Q20 results announcement for detailed outline of initiatives implemented as part of its BCP by the Group to respond to COVID-19 pandemic outbreak. **Capital, liquidity and funding positions:** As result of extensive stress and scenario testing analysis, we have put in place certain initiatives to ensure the Group has sufficient liquidity and capital to meet regulatory requirements, ensure the operational continuity of the business and financial support of its customers. Furthermore, NBG implemented countercyclical measures to support the financial stability of the banking system to be able to adequately respond to the crisis. See detailed plans and initiatives put in place by the Bank to further strengthen our capital and liquidity and funding positions, as well as NBG's response plan to COVID-19 crisis, above, in Mitigation section of *Capital risk* and *Liquidity and Funding risk*. Furthermore, as mentioned above, the Government of Georgia has managed the pandemic well, with strong containment of the disease, which has been acknowledged by the international community. Through mobilisation of financing from international organisation and its Anti-crisis stimulus plan, Government announced a series of support measures and packages to mitigate the negative economic impact of COVID-19. We are monitoring the developing economic trends on the back of the COVID-19 pandemic and its impact on our business, customers and employees on an ongoing basis. There is still significant uncertainty over the magnitude of the global slowdown that will result from this pandemic, and we will continue to take appropriate actions to pro-actively manage evolving circumstances.

Emerging risk – Climate change	
PRINCIPAL RISK / UNCERTAINTY	Financial risks resulting from the process of adjustment towards a lower carbon economy and from weather-related events both extend across multiple categories such as revenues, expenditures, assets and liabilities, capital and financing and operations.
KEY DRIVERS / TRENDS	We consider sustainability to be integral to the growth of business. We are pioneering sustainability practices in operations in Georgia, for example through our Environmental and Social Risk Management System. There is increased focus on these risks by key stakeholders such as international institutions, customers and investors. Further the regulatory landscape is evolving to reflect climate change risk and will become subject to new reporting requirements and regulatory guidance.
MITIGATION	We are raising climate awareness across the Group and deepening our understanding of climate risks and opportunities. Our dedicated Environmental and Social team is part of our credit review process and supports our customers. We have established a working group with overall responsibility of assessing current disclosures and identifying alignment and gaps. We will assess if and how internal processes may need to be modified for assessing climate related risks and opportunities.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

We, the Directors, confirm that to the best of our knowledge:

- The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting" as adopted by the European Union, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group;
- This Results Report includes a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- This Results Report includes a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.8R (disclosure of related parties' transactions and changes therein)

After considering the Group's financial and cash flow forecasts and all other available information and possible outcomes or responses to events, the Board is satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore, the Directors considered it appropriate to adopt the going concern basis in preparing this Results Report.

The Directors of the Group are as follows:

Neil Janin
Archil Gachechiladze
Hanna Loikkanen
Alasdair Breach
Tamaz Georgadze
Jonathan Muir
Cecil Quillen
Véronique McCarroll

By order of the Board

Neil Janin	**Archil Gachechiladze**
Chairman	Chief Executive Officer

19 August 2020

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT REVIEW REPORT

SELECTED EXPLANATORY NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT REVIEW REPORT TO BANK OF GEORGIA GROUP PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report as at and for the six months ended 30 June 2020 which comprises Interim Condensed Consolidated Statement of Financial Position, Interim Condensed Consolidated Income Statement, Interim Condensed Consolidated Statement of Comprehensive Income, Interim Condensed Consolidated Statement of Changes in Equity, Interim Condensed Consolidated Statement of Cash Flows and related notes 1 to 24. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report as at and for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
London
19 August 2020

Notes:

1. The maintenance and integrity of the Bank of Georgia Group PLC's web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

(Thousands of Georgian Lari)

	Notes	*As at* *30 June 2020 (unaudited)*	*As at* *31 December 2019*
Assets			
Cash and cash equivalents	6	1,633,755	2,153,624
Amounts due from credit institutions	7	1,700,075	1,619,072
Investment securities	8	2,113,900	1,786,804
Loans to customers and finance lease receivables	9	12,599,092	11,931,262
Accounts receivable and other loans		4,060	3,489
Prepayments		31,513	42,632
Inventories		13,901	12,297
Right-of-use assets		89,758	96,095
Investment properties		212,182	225,073
Property and equipment		396,272	379,788
Goodwill		33,351	33,351
Intangible assets		116,355	106,290
Income tax assets	10	54,595	282
Other assets		139,945	143,154
Assets held for sale		45,212	36,284
Total assets		**19,183,966**	**18,569,497**
Liabilities			
Client deposits and notes	11	11,583,139	10,076,735
Amounts owed to credit institutions	12	3,521,860	3,934,123
Debt securities issued	13	1,561,933	2,120,064
Lease liability		96,878	94,616
Accruals and deferred income		37,257	52,471
Income tax liabilities	10	70,171	37,918
Other liabilities		112,929	102,662
Total liabilities		**16,984,167**	**16,418,589**
Equity	15		
Share capital		1,618	1,618
Additional paid-in capital		500,887	492,072
Treasury shares		(54)	(64)
Other reserves		25,417	(7,481)
Retained earnings		1,662,164	1,655,256
Total equity attributable to shareholders of the Group		**2,190,032**	**2,141,401**
Non-controlling interests		9,767	9,507
Total equity		**2,199,799**	**2,150,908**
Total liabilities and equity		**19,183,966**	**18,569,497**

The financial statements on page 41 to 78 were approved by the Board of Directors on 19 August 2020 and signed on its behalf by:

Archil Gachechiladze

Chief Executive Officer

19 August 2020

Bank of Georgia Group PLC

Registered No. 10917019

The accompanying selected explanatory Notes on pages 46 to 78 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2020

(Thousands of Georgian Lari)

	Notes	For the six months ended 30 June 2020 (unaudited)	For the six months ended 30 June 2019 (unaudited)*
Interest income calculated using EIR method		751,436	665,752
Other interest income		15,928	11,207
Interest income		**767,364**	**676,959**
Interest expense		(390,473)	(291,797)
Deposit insurance fees		(4,874)	(3,827)
Net interest income	16	**372,017**	**381,335**
Fee and commission income		125,284	130,556
Fee and commission expense		(52,271)	(45,109)
Net fee and commission income	17	**73,013**	**85,447**
Net foreign currency gain		53,404	49,952
Net other (expense) income		15,707	(691)
Operating income		**514,141**	**516,043**
Salaries and other employee benefits		(117,194)	(122,811)
Administrative expenses		(49,470)	(44,774)
Depreciation and amortisation		(42,529)	(32,983)
Other operating expenses		(1,974)	(2,329)
Operating expenses		**(211,167)**	**(202,897)**
Profit from associates		414	442
Operating income before cost of risk		**303,388**	**313,588**
Expected credit loss /impairment charge on loans to customers	18	(216,568)	(72,553)
Expected credit loss /impairment charge on finance lease receivables	18	(5,273)	(1,003)
Other expected credit (loss) / recovery	18	(21,744)	(1,014)
Impairment charge on other assets and provisions		(8,038)	(3,559)
Cost of risk		**(251,623)**	**(78,129)**
Net operating income before non-recurring items		**51,765**	**235,459**
Net non-recurring items	19	(41,586)	(8,097)
Profit before income tax expense		**10,179**	**227,362**
Income tax benefit (expense)	10	4,560	(18,246)
Profit for the period		**14,739**	**209,116**
Total profit attributable to:			
– shareholders of the Group		14,659	208,154
– non-controlling interests		80	962
		14,739	**209,116**
Basic earnings per share	15	0.3080	4.3505
Diluted earnings per share	15	0.3079	4.3350

**Certain amounts do not correspond to the 2019 interim condensed consolidated financial statements as they reflect the reclassification adjustments made as described in Note 3.*

The accompanying selected explanatory Notes on pages 46 to 78 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

(Thousands of Georgian Lari)

	Notes	For the six months ended 30 June 2020 (unaudited)	For the six months ended 30 June 2019 (unaudited)
Profit for the period		**14,739**	**209,116**
Other comprehensive loss from continuing operations			
Other comprehensive loss from continuing operations to be reclassified to profit or loss in subsequent periods:			
– Net change in fair value on investments in debt instruments measured at fair value through other comprehensive income (FVOCI)	8	34,171	12,961
– Realised gain on financial assets measured at FVOCI		(1,323)	(6,361)
–Change in allowance for expected credit losses on investments in debt instruments measured at FVOCI reclassified to the consolidated income statement		205	1,727
– (Loss) gain from currency translation differences		(4,789)	13,200
Net other comprehensive income (loss) from continuing operations to be reclassified to profit or loss in subsequent periods		**28,264**	**21,527**
Other comprehensive (loss) income from continuing operations not to be reclassified to profit or loss in subsequent periods:			
– Net loss on investments in equity instruments designated at FVOCI		(828)	185
Net other comprehensive (loss) income from continuing operations not to be reclassified to profit or loss in subsequent periods		**(828)**	**185**
Other comprehensive loss for the period, net of tax		**27,436**	**21,712**
Total comprehensive income (loss) for the period		**42,175**	**230,828**
Total comprehensive income attributable to:			
– shareholders of the Group		41,943	229,727
– non-controlling interests		232	1,101
		42,175	**230,828**

The accompanying selected explanatory Notes on pages 46 to 78 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

(Thousands of Georgian Lari)

	Attributable to shareholders of the Group								
	Share capital	*Additional paid-in capital*	*Treasury shares*	*Other reserves*	*Reserves of disposal group held for sale*	*Retained earnings*	*Total*	*Non-controlling interests*	*Total equity*
31 December 2018	**1,618**	**480,555**	**(51)**	**30,515**	**-**	**1,277,732**	**1,790,369**	**7,904**	**1,798,273**
Profit for the six months ended 30 June 2019 (unaudited)	-	-	-	-	-	208,154	208,154	962	209,116
Other comprehensive income for the six months ended 30 June 2019 (unaudited)	-	-	-	16,229	-	5,344	21,573	139	21,712
Total comprehensive income for the six months ended 30 June 2019 (unaudited)	**-**	**-**	**-**	**16,229**	**-**	**213,498**	**229,727**	**1,101**	**230,828**
Increase in equity arising from share-based payments	-	37,893	13	-	-	-	37,906	**-**	37,906
Purchase of treasury shares	-	(24,558)	(11)	-	-	-	(24,569)	**-**	(24,569)
Dividends to shareholders of the Group (Note 15)	-	-	-	-	-	(123,598)	(123,598)	**-**	(123,598)
Dividends of subsidiaries to non-controlling shareholders	-	-	-	-	-	-	-	**(621)**	(621)
30 June 2019 (unaudited)	**1,618**	**493,890**	**(49)**	**46,744**	**-**	**1,367,632**	**1,909,835**	**8,384**	**1,918,219**
31 December 2019	**1,618**	**492,072**	**(64)**	**(7,481)**	**-**	**1,655,256**	**2,141,401**	**9,507**	**2,150,908**
Profit for the six months ended 30 June 2020 (unaudited)	-	-	-	-	-	14,659	14,659	80	14,739
Other comprehensive income for the six months ended 30 June 2020 (unaudited)	-	-	-	32,899	-	(5,615)	27,284	152	27,436
Total comprehensive income for the six months ended 30 June 2020 (unaudited)	**-**	**-**	**-**	**32,899**	**-**	**9,044**	**41,943**	**232**	**42,175**
Increase in equity arising from share-based payments	-	28,137	21	-	-	-	28,158	-	28,158
Purchase of treasury shares	-	(19,322)	(11)	-	-	-	(19,333)	-	(19,333)
Dividends to shareholders of the Group (Note 15)	-	-	-	-	-	(2,136)	(2,136)	-	(2,136)
Increase in share capital of subsidiaries	-	-	-	9	-	-	9	18	27
Dilution of interests in subsidiaries	-	-	-	(10)	-	-	(10)	10	-
30 June 2020 (unaudited)	**1,618**	**500,887**	**(54)**	**25,417**	**-**	**1,662,164**	**2,190,032**	**9,767**	**2,199,799**

The accompanying selected explanatory Notes on pages 46 to 78 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

(Thousands of Georgian Lari)

	Notes	For the six months ended 30 June 2020 (unaudited)	For the six months ended 30 June 2019 (unaudited)
Cash flows from operating activities			
Interest received		578,260	655,576
Interest paid		(378,469)	(292,660)
Fees and commissions received		140,288	108,728
Fees and commissions paid		(52,271)	(45,109)
Net cash inflow (outflow) from real estate		6,284	-
Net realised gain from foreign currencies		52,059	44,354
Recoveries of loans to customers previously written off	9	14,592	1,727
Other income received (expense paid)		(3,442)	8,443
Salaries and other employee benefits paid		(89,036)	(89,147)
General and administrative and operating expenses paid		(61,418)	(29,435)
Cash flows from operating activities before changes in operating assets and liabilities		**206,847**	**362,477**
Net (increase) decrease in operating assets			
Amounts due from credit institutions		29,290	(278,765)
Loans to customers and finance lease receivables		(194,329)	(779,163)
Prepayments and other assets		6,895	(9,271)
Net increase (decrease) in operating liabilities			
Amounts due to credit institutions		(528,940)	(124,375)
Debt securities issued		(652,905)	306,397
Client deposits and notes		1,007,920	273,561
Lease liability		-	(1,093)
Other liabilities		(41,188)	(13,322)
Net cash flows from operating activities before income tax		**(166,410)**	**(263,554)**
Income tax paid		(17,500)	(2,369)
Net cash flows from operating activities		**(183,910)**	**(265,923)**
Cash flows from (used in) investing activities			
Net sales (purchases) of investment securities		(288,691)	131,599
Proceeds from sale of investment properties and assets held for sale		23,512	19,813
Proceeds from sale of property and equipment and intangible assets		317	2,913
Purchase of property and equipment and intangible assets		(65,233)	(50,543)
Dividends received		632	210
Net cash flows from (used in) investing activities		**(329,463)**	**103,992**
Cash flows from (used in) financing activities			
Cash payments for the principal portion of the lease liability		(2,502)	-
Dividends paid		(2,164)	(123,765)
Purchase of treasury shares		(19,333)	(24,569)
Net cash from (used in) financing activities		**(23,999)**	**(148,334)**
Effect of exchange rates changes on cash and cash equivalents		17,445	30,509
Effect of expected credit losses on cash and cash equivalents		58	63
Net increase (decrease) in cash and cash equivalents		**(519,869)**	**(279,693)**
Cash and cash equivalents, beginning of the period	6	**2,153,624**	**1,215,799**
Cash and cash equivalents, end of the period	6	**1,633,755**	**936,106**

The accompanying selected explanatory Notes on pages 46 to 78 are an integral part of these interim condensed consolidated financial statements.

(Thousands of Georgian Lari)

1. Principal activities

Bank of Georgia Group PLC ("BOGG") is a public limited liability company incorporated in England and Wales with registered number 10917019. BOGG holds 99.55% of the share capital of JSC Bank of Georgia (the "Bank") as at 30 June 2020, representing the Bank's ultimate parent company. Together with the Bank and other subsidiaries, the Group makes up a group of companies (the "Group") and provides banking, leasing, brokerage and investment management services to corporate and individual customers. The shares of BOGG ("BOGG Shares") are admitted to the premium listing segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange PLC's Main Market for listed securities, effective 21 May 2018. The Bank is the Group's main operating unit and accounts for most of the Group's activities.

JSC Bank of Georgia was established on 21 October 1994 as a joint stock company ("JSC") under the laws of Georgia. The Bank operates under a general banking license issued by the National Bank of Georgia ("NBG"; the central bank of Georgia) on 15 December 1994.

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and internationally, and exchanges currencies. Its main office is in Tbilisi, Georgia. At 30 June 2020, the Bank has 229 operating outlets in all major cities of Georgia (31 December 2019: 272). The Bank's registered legal address is 29a Gagarini Street, Tbilisi 0160, Georgia.

BOGG's registered legal address is 84 Brook Street, London, W1K 5EH, England.

As at 30 June 2020 and 31 December 2019, the following shareholders owned more than 3% of the total outstanding shares of BOGG. Other shareholders individually owned less than 3% of the outstanding shares.

	As at	
Shareholder	*30 June 2020 (unaudited)*	*31 December 2019*
JSC Georgia Capital**	19.90%	19.90%
Harding Loevner Management LP	4.88%	4.78%
JP Morgan Asset Management	3.35%	3.52%
Van Eck Associates Corporation	3.33%	2.78%
Dimensional Fund Advisors (DFA) LP	3.03%	2.90%
Others	65.51%	66.12%
Total*	**100.00%**	**100.00%**

****For the purposes of calculating percentage of shareholding, the denominator includes total number of issued shares, which includes shares held in the trust for the share-based compensation purposes of the Group.***
****** JSC Georgia Capital will exercise its voting rights at the Group's general meetings in accordance with the votes cast by all other Group Shareholders, as long as JSC Georgia Capital's percentage holding in Bank of Georgia Group PLC is greater than 9.9%.***

2. Basis of preparation

General

The financial information set out in these interim condensed consolidated financial statements does not constitute Bank of Georgia Group PLC's statutory financial statements within the meaning of section 434 of the Companies Act 2006. Statutory financial statements were prepared for the year ended 31 December 2019 under IFRS, as adopted by the European Union and reported on by BOGG's auditors and delivered to the Registrar of Companies. The auditor's report was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

These interim condensed consolidated financial statements of Bank of Georgia Group PLC represent continuation of consolidated financial statements of BGEO Group PLC prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ("EU").

These interim condensed consolidated financial statements for the six months ended 30 June 2020 were prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting", as adopted by the European Union, and the Disclosure and Transparency Rules of the Financial Conduct Authority.

The preparation of the interim condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported income and expense, assets and liabilities and disclosure of contingencies at the date of the interim condensed consolidated financial statements. Although these estimates and assumptions are based on management's best judgment at the date of the interim condensed consolidated financial statements, actual results may differ from these estimates.

Assumptions and significant estimates other than disclosed in these interim condensed consolidated financial statements are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at and for the year ended 31 December 2019, signed and authorized for release on 16 March 2020.

These interim condensed consolidated financial statements are presented in thousands of Georgian Lari ("GEL"), except per share amounts, which are presented in Georgian Lari, and unless otherwise noted.

The interim condensed consolidated financial statements are unaudited, reviewed by the auditors and their review conclusion is included in this report.

Going concern

The Board of Directors of BOGG has made an assessment of the Group's ability to continue as a going concern which also included assessment of forecast cash flows as a result of COVID-19 pandemic. Based on this, the Board of Directors is satisfied that it has the resources to continue in business for a period of at least 12 months from the date of approval of the interim condensed consolidated financial statements. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern for the foreseeable future. Therefore, the interim condensed consolidated financial statements continue to be prepared on the going concern basis.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies

Basis of consolidation

The accounting policies and methods of computation applied in the preparation of these interim condensed consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements of the Group as at and for the year ended 31 December 2019

Amendments effective from 1 January 2020

Amendments to IFRS 16: Covid-19-Related Rent Concessions

Accounting consequences of changes in lease payments depend on whether that change meets the definition of a lease modification, which IFRS 16 Leases defines as "a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease.

Amendment provided lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. If lessee applies the exemption, COVID-19-related rent concessions should be accounted as if they were not lease modifications. The amendment is effective for annual reporting periods beginning on or after 1 June 2020.

The amendment did not have material effect on Group's interim condensed consolidated financial statements.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments are effective for annual reporting periods beginning on or after 1 January 2020.

The amendment did not have material effect on Group's interim condensed consolidated financial statements.

Reclassifications

As at 31 December 2019 the Group revisited the presentation of the effects of certain cross-currency swap agreements to hedge net interest rate risk on Euro-denominated lending. Considering that during 2019 such contracts reached significant volume, the Group revisited the presentation of the effects of these agreements in its income statement. As a result, the Group concluded that certain reclassification is required to better reflect the risk management objective of the Group. The following reclassifications were made to the interim condensed consolidated income statement for the period ended 30 June 2019. The Group believes that such presentation provides better information to the users of the Group's financial statements regarding the Group's risk management strategy:

Consolidated income statement for the period ended 30 June 2019	***As previously reported***	***Reclassification***	***As reclassified***
Interest expense	(308,569)	16,772	(291,797)
Interest element of cross-currency swaps	-	*16,772*	*16,772*
Net foreign currency gain	66,724	(16,772)	49,952

(Thousands of Georgian Lari)

4. Significant accounting judgements and estimates

In the process of applying the Group's accounting policies, the Board of Directors and management use their judgement and make estimates in determining the amounts recognised in the interim condensed consolidated financial statements.

Given the unprecedented nature of the COVID-19 pandemic and the uncertainties associated with it, the Group re-considered the existing accounting judgements and estimates and applied management overlays to the methodology. As a result, the Group has made a number of changes in the significant judgements that were applied as at the end of the previous reporting date. The most significant changes were as follows:

Allowance for impairment of financial assets

Significant Increase in Credit Risk (SICR)

In response to COVID-19 outbreak the Group implemented an initiative to grant 3 months payment holidays to its borrowers in order to significantly reduce the requirement for customers to physically visit Bank branches.

Given the unprecedented nature of the COVID-19 pandemic and the uncertainties associated with it, the Bank re-considered the existing impairment model and applied management overlays to the methodology to reflect a COVID-19 effect in ECL. In particular, granting the three-month payment holidays to the borrowers was not automatically considered as SICR event (i.e. a trigger to transfer the exposures from Stage 1 to Stage 2) and was only transferred to stage 2 where there was an observable evidence of financial difficulties of the borrower indicating that the level of risk has increased significantly since loan origination.

In assessing whether the credit risk has significantly increased as a result, the Group has identified a series of qualitative and quantitative criteria based on undertaking the holistic analysis of various factors including those which are specific to a particular financial instrument or to a borrower as well as those applicable to particular sub-portfolios.

Further, for the borrowers for which the credit risk was considered as significantly increased, Probability of Default (PD) of 1 were assigned in the downside scenario and the ECL was calculated as a weighted average of the scenario results.

Measurement of expected credit losses

Loss given default (LGD): The determination of the LGD takes into account expected future cash flows from credit enhancements and other collateral which is adjusted to reflect the effect of COVID-19 in interim condensed consolidated financial statements. In particular, the Group initially applied a 15% haircut to the expected future cash flows from the real estate collateral values in USD in baseline and upside scenarios and a 30% haircut in the downside scenario, respectively. In second quarter of 2020 based on the macro-economic forecast scenarios published by the NBG, these assumptions were reassessed to a 5% haircut in baseline and 15% haircut in Downside scenarios to the expected future cash flows from the real estate collateral values in GEL, respectively. Further we have adjusted Cure and Recovery rates by 20% downwards.

Forward-looking information

Forward-looking variable assumptions

To incorporate forward-looking information into the Group's allowance for credit losses, the Group uses the macroeconomic forecasts provided by National Bank of Georgia for Group companies operating in Georgia, while data used by Belarusky Narodny Bank ("BNB") is provided by a non-governmental research centre operating in Belarus. Macroeconomic variables covered by these forecasts and which the Group incorporated in its ECL model, include: GDP growth, foreign exchange rate and inflation rate which are updated for anticipated impact of COVID-19 pandemic.

The most significant period end assumptions used for ECL estimate as at 30 June 2020 per geographical segments are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

Georgia

Key drivers	ECL scenario	Assigned weight	As at 30 June 2020			Assigned weight	As at 31 March 2020			Assigned weight	As at 31 December 2019		
			2020	2021	2022		2020	2021	2022		2020	2021	2022
GDP growth in %													
	Upside	25%	-3.0%	6.0%	5.0%	10%	2.1%	7.0%	6.0%	25%	5.5%	6.0%	5.0%
	Base case	50%	-4.0%	4.5%	5.0%	50%	-2.7%	5.5%	5.0%	50%	4.5%	5.0%	5.0%
	Downside	25%	-9.0%	2.5%	4.0%	40%	-7.0%	2.5%	3.5%	25%	2.5%	3.5%	4.5%
GEL/USD exchange rate													
	Upside	25%	3.04	2.89	2.89	10%	3.05	2.80	2.80	25%	2.76	2.62	2.62
	Base case	50%	3.20	3.20	3.20	50%	3.30	2.95	2.90	50%	2.90	2.90	2.90
	Downside	25%	3.52	3.70	3.51	40%	3.80	3.30	3.20	25%	3.19	3.35	3.18
CPI inflation rate in %													
	Upside	25%	5.5%	4.0%	3.0%	10%	4.2%	3.0%	3.0%	25%	4.5%	3.5%	3.0%
	Base case	50%	4.5%	1.5%	2.5%	50%	4.7%	3.5%	3.0%	50%	4.5%	2.5%	3.0%
	Downside	25%	7.0%	2.0%	2.5%	40%	7.0%	5.0%	4.5%	25%	7.0%	5.0%	3.0%

(Thousands of Georgian Lari)

4. Significant accounting judgements and estimates (continued)

Forward-looking variable assumptions (continued)

Belarus

Key drivers	ECL scenario	Assigned weight	As at 30 June 2020				As at 31 December 2019			
			2021Q1	2021Q2	2021Q3	2021Q4	2020Q1	2020Q2	2020Q3	2020Q4
GDP growth in %										
	Upside	25%	2.0%	2.0%	2.0%	2.0%	3.4%	2.9%	3.2%	3.6%
	Base case	50%	0.0%	1.0%	1.0%	1.0%	1.6%	0.8%	1.0%	1.2%
	Downside	25%	-2.0%	0.0%	0.0%	0.0%	-0.3%	-1.3%	-1.3%	-1.3%
BYN/USD exchange rate %										
	Upside	25%	0.0%	0.0%	0.0%	0.0%	-5.1%	-5.4%	-4.7%	-3.3%
	Base case	50%	0.0%	0.0%	0.0%	0.0%	-0.6%	0.7%	2.7%	2.8%
	Downside	25%	-3.6%	0.0%	0.0%	0.0%	3.9%	6.7%	10.0%	8.5%
CPI inflation rate in %										
	Upside	25%	1.5%	0.2%	0.2%	0.2%	1.5%	0.4%	-0.3%	0.5%
	Base case	50%	1.5%	0.7%	0.7%	0.7%	2.1%	1.0%	0.3%	1.6%
	Downside	25%	1.5%	1.3%	1.3%	1.3%	2.6%	1.5%	0.9%	2.7%

All other parameters held constant, increase in GDP growth, appreciation of local currency and decrease of inflation would result in decrease in ECL, with opposite changes resulting in ECL increase. GDP growth input has the most significant impact on ECL, followed by foreign exchange rate and inflation. Retail portfolio ECL is less affected by foreign exchange rate inputs due to larger share of GEL-denominated exposures. However, retail portfolio ECL is affected by inflation, which does not have a significant impact on corporate ECL.
The table below shows the sensitivity of the recognised ECL amounts to the forward looking assumptions used in the model. For these purposes, 100% weight is assigned to each macroeconomic scenario separately and respective ECL is recalculated.

Sensitivity of ECL to forward looking assumptions

	As at 30 June 2020				
	Reported ECL	*Reported ECL coverage*	*ECL coverage by scenarios*		
Key drivers			*Upside*	*Basecase*	*Downside*
Commercial loans	166,954	3.78%	3.45%	3.48%	4.70%
Residential mortgage loans	44,324	1.35%	1.01%	1.02%	2.34%
Micro and SME loans	99,954	3.45%	2.53%	2.58%	6.11%
Consumer loans	121,936	5.62%	5.08%	5.12%	7.18%
Gold – pawn loans	409	0.43%	0.43%	0.43%	0.44%

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the interim condensed consolidated 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 judgement is required in establishing fair values (Note 21). No specific adjustment due to COVID-19 was applied.

Measurement of fair value of investment properties

The Group performs valuation of its investment properties with a sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. The last date of valuation of investment properties was 31 December 2019.

In order to identify any significant changes in the real estate market as a result of COVID-19 that could indicate that investment properties are not stated at fair value as at the reporting date, the Group hired an independent valuator to perform real estate market research. The research results have revealed that although COVID-19 has negatively affected the market in terms of number of transactions, prices have not been largely affected, therefore, no revaluation was applied as at the reporting date.

5. Segment information

The Group disaggregated revenue from contracts with customers by products and services for each of the segments, as the Group believes it best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

In 2020 the Group allocated holding company operation results to the respective segments, the comparative periods were not restated as the change was not material and the information is still comparable.

For management purposes, the Group is organised into the following operating segments based on products and services as follows:

RB	- Retail Banking (excluding Retail Banking of BNB) - principally provides consumer loans, mortgage loans, overdrafts, credit cards and other credit facilities, funds transfers and settlement services, and handling of customers' deposits for both individuals and legal entities. The Retail Banking business targets the emerging retail, mass retail and mass affluent segments, together with small and medium size enterprises, and micro businesses.
CIB	- Corporate Investment Banking - comprises Corporate Banking and Investment Management operations in Georgia. Corporate Banking principally provides loans and other credit facilities, funds transfers and settlement services, trade finance services, documentary operations support and handles saving and term deposits for corporate and institutional customers. The Investment Management business principally provides private banking services to high-net worth clients.
BNB	- Comprising JSC Belarusky Narodny Bank, principally providing retail and corporate banking services in Belarus.

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured in the same manner as profit or loss in the Consolidated Income Statement.

Transactions between operating segments are on an arm's length basis in a similar manner to transactions with third parties.

The Group's operations are primarily concentrated in Georgia, except for BNB, which operates in Belarus.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's operating income in 2020 or 2019.

(Thousands of Georgian Lari)

5. Segment information (continued)

The following table presents the income statement and certain asset and liability information regarding the Group's operating segments as at and for the six month period ended 30 June 2020:

	Retail Banking	*Corporate investment Banking*	*BNB*	*Eliminations*	*Group Total*
Net interest income	220,934	132,451	18,626	6	372,017
Net fee and commission income	51,581	18,152	3,190	90	73,013
Net foreign currency gain (loss)	29,159	19,965	4,280	-	53,404
Net other (expense) income	5,991	9,506	683	(473)	15,707
Operating income	**307,665**	**180,074**	**26,779**	**(377)**	**514,141**
Operating expenses	(156,625)	(38,115)	(16,804)	377	(211,167)
Profit from associates	414	-	-	-	414
Operating income (expense) before cost of risk	**151,454**	**141,959**	**9,975**	**-**	**303,388**
Cost of risk	(147,835)	(98,438)	(5,350)	-	(251,623)
Net operating income (loss) before non-recurring items	**3,619**	**43,521**	**4,625**	**-**	**51,765**
Net non-recurring expense/loss	(40,178)	(1,374)	(34)	-	(41,586)
Profit (loss) before income tax	**(36,559)**	**42,147**	**4,591**	**-**	**10,179**
Income tax expense	8,000	(2,398)	(1,042)	-	4,560
Profit (loss) for the period from continuing operations	**(28,559)**	**39,749**	**3,549**	**-**	**14,739**
Profit (loss) for the period	**(28,559)**	**39,749**	**3,549**	**-**	**14,739**
Assets and liabilities					
Total assets	11,887,434	6,358,037	984,454	(45,959)	19,183,966
Total liabilities	10,623,981	5,543,191	862,954	(45,959)	16,984,167
Other segment information					
Property and equipment	39,644	4,494	222	128	44,488
Intangible assets	17,082	1,627	971	935	20,615
Capital expenditure	**56,726**	**6,121**	**1,193**	**1,063**	**65,103**
Depreciation, amortisation and impairment	(35,499)	(4,907)	(2,123)	-	(42,529)

(Thousands of Georgian Lari)

5. Segment information (continued)

The following table presents the income statement and certain asset and liability information regarding the Group's operating segments as at and for the six month period ended 30 June 2019 and as at 31 December 2019:

	Retail banking	*Corporate investment banking*	*BNB*	*Other*	*Eliminations*	*Group Total*
Net interest income	268,659	100,405	12,945	(686)	12	381,335
Net fee and commission income	67,039	15,264	3,611	(478)	11	85,447
Net foreign currency gain (loss)	21,804	21,504	8,734	(2,090)	-	49,952
Net other (expense) income	(1,582)	994	314	55	(472)	(691)
Operating income	**355,920**	**138,167**	**25,604**	**(3,199)**	**(449)**	**516,043**
Operating expenses	(139,060)	(43,120)	(16,737)	(4,429)	449	(202,897)
Profit from associates	442	-	-	-	-	442
Operating income (expense) before cost of risk	**217,302**	**95,047**	**8,867**	**(7,628)**	**-**	**313,588**
Cost of risk	(65,930)	(8,398)	(2,977)	(824)	-	(78,129)
Net operating income (loss) before non-recurring items	**151,372**	**86,649**	**5,890**	**(8,452)**	**-**	**235,459**
Net non-recurring expense/loss	(3,220)	(1,176)	(63)	(3,638)	-	(8,097)
Profit (loss) before income tax	**148,152**	**85,473**	**5,827**	**(12,090)**	**-**	**227,362**
Income tax expense	(11,047)	(6,249)	(950)	-	-	(18,246)
Profit (loss) for the period	**137,105**	**79,224**	**4,877**	**(12,090)**	**-**	**209,116**
Assets and liabilities						
Total assets	11,304,456	6,339,367	943,070	85,426	(102,822)	18,569,497
Total liabilities	10,095,635	5,461,859	833,874	130,043	(102,822)	16,418,589
Other segment information						
Property and equipment	34,850	3,738	693	44	-	39,325
Intangible assets	14,156	1,316	861	-	-	16,333
Capital expenditure	**49,006**	**5,054**	**1,554**	**44**	**-**	**55,658**
Depreciation & amortisation	(27,779)	(3,634)	(1,568)	(2)	-	(32,983)

(Thousands of Georgian Lari)

6. Cash and cash equivalents

	As at	
	30 June 2020 (unaudited)	*31 December 2019*
Cash on hand	627,019	663,580
Current accounts with central banks, excluding obligatory reserves	396,140	405,560
Current accounts with credit institutions	328,929	463,498
Time deposits with credit institutions with maturities of up to 90 days	281,742	621,120
Cash and cash equivalents	**1,633,830**	**2,153,758**
Less – Allowance for expected credit loss	(75)	(134)
Cash and cash equivalents	**1,633,755**	**2,153,624**

As at 30 June 2020, GEL 436,261 (31 December 2019: GEL 845,606) was placed on current and time deposit accounts with internationally recognised OECD banks and central banks that are the counterparties of the Group in performing international settlements. The Group earned up to 0.12% interest per annum on these deposits (31 December 2019: up to 2.20%). Management does not expect any losses from non-performance by the counterparties holding cash and cash equivalents, and there are no material differences between their book and fair values.

7. Amounts due from credit institutions

	As at	
	30 June 2020 (unaudited)	*31 December 2019*
Obligatory reserves with central banks	1,687,912	1,577,911
Time deposits with maturities of more than 90 days	6,463	5,404
Deposits pledged as security for open commitments	6,110	5,691
Inter-bank loan receivables	-	30,413
Amounts due from credit institutions	**1,700,485**	**1,619,419**
Less – Allowance for expected credit loss	(410)	(347)
Amounts due from credit institutions	**1,700,075**	**1,619,072**

Obligatory reserves with central banks represent amounts deposited with the NBG and National Bank of the Republic of Belarus (the “NBRB”). Credit institutions are required to maintain cash deposits (obligatory reserve) with the NBG and with the NBRB, the amount of which depends on the level of funds attracted by the credit institution. The Group’s ability to withdraw these deposits is restricted by regulation. The Group earned up to 1.25% interest on obligatory reserves with NBG and NBRB for the years ended 30 June 2020 (31 December 2019: 1.25%).

As at 30 June 2020, inter-bank loan receivables include no deposits placed with non-OECD banks (31 December 2019: GEL Nil).

8. Investment securities

	As at	
	30 June 2020 (unaudited)	*31 December 2019*
Investment securities measured at FVOCI - debt instruments	2,110,790	1,783,437
Investment securities designated as at FVOCI - equity investments	3,110	3,367
Investment securities	**2,113,900**	**1,786,804**

(Thousands of Georgian Lari)

8. Investment securities (continued)

	As at	
	30 June 2020 (unaudited)	*31 December 2019*
Ministry of Finance of Georgia treasury bonds*	956,431	647,886
Ministry of Finance of Georgia treasury bills**	67,980	120,519
Foreign treasury bonds	118,934	66,961
Certificates of deposit of central banks	-	8,912
Other debt instruments***	967,445	939,159
Investment securities measured at FVOCI - debt instruments	**2,110,790**	**1,783,437**

** GEL 508,872 was pledged for short-term loans from the NBG (2019 GEL 576,017).*
*** GEL 6,419 was pledged for short-term loans from the NBG (2019:74,564).*
**** GEL 581,472 was pledged for short-term loans from the NBG (2019: GEL 684,546).*

Other debt instruments as at 30 June 2020 mainly comprises bonds issued by the European Bank for Reconstruction and Development of GEL 312,594 (2019: GEL 309,351), GEL-denominated bonds issued by The Netherlands Development Finance Company of GEL 163,343 (2019: GEL 156,494), GEL-denominated bonds issued by Black Sea Trade and Development Bank of GEL 151,863 (2019: GEL 150,865), GEL-denominated bonds issued by International Finance Corporation of GEL 204,210 (2019: GEL 208,948), GEL-denominated bonds issued by Asian Development Bank of GEL 61,513 (2019: GEL 58,863).

Foreign treasury bonds comprise of US Treasury Notes in amount of GEL 49,922 (2019: Nil) and Ministry of Finance of Belarus treasury bonds in amount of GEL 69,012 (2019: GEL 66,961).

9. Loans to customers and finance lease receivables

	As at	
	30 June 2020 (unaudited)	*31 December 2019*
Commercial loans	4,417,104	4,101,950
Residential mortgage loans	3,289,186	3,066,683
Micro and SME loans	2,893,403	2,660,220
Consumer loans	2,171,451	2,085,108
Gold – pawn loans	94,978	85,540
Loans to customers at amortised cost, gross	**12,866,122**	**11,999,501**
Less – Allowance for expected credit loss	(433,577)	(225,133)
Loans to customers at amortised cost, net	**12,432,545**	**11,774,368**
Finance lease receivables, gross	**173,427**	**159,191**
Less – Allowance for expected credit loss	(6,880)	(2,297)
Finance lease receivables, net	**166,547**	**156,894**
Total loans to customers and finance lease receivables	**12,599,092**	**11,931,262**

As at 30 June 2020, loans to customers carried at GEL 808,497 (31 December 2019: GEL 577,246) were pledged for short-term loans from the NBG.

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables (continued)

Expected credit loss

Movements of the gross loans and respective allowance for expected credit loss / impairment of loans to customers by class are provided in the table below, within which the new financial asset originated or purchased and the assets repaid during the six months include the effects from revolving loans and increase of exposure to clients, where existing loans have been repaid with new contracts issued during the six months. All new financial assets are originated either in Stage 1 or POCI category. Utilisation of additional tranches on existing financial assets are reflected in Stage 2 or Stage 3 if the credit risk of the borrower has deteriorated since initiation. Resegmentation relates to loans transferred between classes due to change of borrower and/or product types. Currency translation differences relate to loans issued by the subsidiaries of the Group whose functional currency is different from the presentation currency of the Group, while foreign exchange movement relates to foreign currency denominated loans issued by the Group. Net other changes in gross loan balances includes the effects of changes in accrued interest. Net other measurement of ECL includes the effect of changes in ECL due to changes in PDs and other inputs, as well as the effect from ECL attributable to changes in accrued interest.

Commercial loans at amortised cost, gross:	*As at 30 June 2020*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2020	**3,583,051**	**349,494**	**161,744**	**7,661**	**4,101,950**
New financial asset originated or purchased	1,274,881	29,387	-	-	1,304,268
Transfer to Stage 1	239,313	(239,313)	-	-	-
Transfer to Stage 2	(292,276)	296,107	(3,831)	-	-
Transfer to Stage 3	(727)	(36,618)	37,345	-	-
Assets derecognised due to pass-through arrangement	(21,592)	(6,620)	-	-	(28,212)
Assets repaid	(1,121,366)	(95,010)	(8,502)	(676)	(1,225,554)
Resegmentation	17,856	-	-	-	17,856
Impact of modifications	(744)	30	(6)	(7)	(727)
Write-offs	-	-	(6,483)	-	(6,483)
Recoveries of amounts previously written off	-	-	3,045	291	3,336
Unwind of discount	-	-	5,964	(259)	5,705
Currency translation differences	(18,510)	(655)	(1,316)	-	(20,481)
Foreign exchange movement	214,212	15,675	7,213	421	237,521
Net other changes	20,664	155	6,684	422	27,925
Balance at 30 June 2020	**3,894,762**	**312,632**	**201,857**	**7,853**	**4,417,104**
Individually assessed	-	-	193,949	-	193,949
Collectively assessed	3,894,762	312,632	7,908	7,853	4,223,155
Balance at 30 June 2020	**3,894,762**	**312,632**	**201,857**	**7,853**	**4,417,104**

Commercial loans at amortised cost, ECL:	*As at 30 June 2020*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2020	**16,903**	**3,414**	**77,995**	**298**	**98,610**
New financial asset originated or purchased	1,959	919	-	-	2,878
Transfer to Stage 1	2,892	(2,892)	-	-	-
Transfer to Stage 2	(353)	1,028	(675)	-	-
Transfer to Stage 3	(9)	(7,547)	7,556	-	-
Impact on ECL of exposures transferred between stages during the year	(212)	(544)	12,288	-	11,532
Assets derecognised due to pass-through arrangement	(5)	(48)	-	-	(53)
Assets repaid	(5,832)	(989)	(4,201)	(443)	(11,465)
Resegmentation	72	-	-	-	72
Impact of modifications	1	8	(6)	-	3
Write-offs	-	-	(6,483)	-	(6,483)
Recoveries of amounts previously written off	-	-	3,045	291	3,336
Unwind of discount	-	-	5,964	(259)	5,705
Currency translation differences	(267)	(52)	(318)	-	(637)
Foreign exchange movement	885	(180)	2,512	(25)	3,192
Net other measurement of ECL	16,145	22,167	21,148	804	60,264
Balance at 30 June 2020	**32,179**	**15,284**	**118,825**	**666**	**166,954**
Individually assessed	-	-	115,616	-	115,616
Collectively assessed	32,179	15,284	3,209	666	51,338
Balance at 30 June 2020	**32,179**	**15,284**	**118,825**	**666**	**166,954**

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables (continued)

Expected credit loss (continued)

Consumer loans at amortised cost, gross:	As at 30 June 2020				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2020	**1,856,795**	**110,158**	**108,414**	**9,741**	**2,085,108**
New financial asset originated or purchased	636,546	2,427	740	1,539	641,252
Transfer to Stage 1	77,934	(70,217)	(7,717)	-	-
Transfer to Stage 2	(183,949)	196,774	(12,825)	-	-
Transfer to Stage 3	(25,517)	(19,810)	45,327	-	-
Assets repaid	(558,235)	(32,097)	(28,991)	(1,414)	(620,737)
Resegmentation	(230)	-	93	-	(137)
Impact of modifications	(13,560)	(1,912)	(2,074)	(146)	(17,692)
Write-offs	-	-	(11,666)	(4)	(11,670)
Recoveries of amounts previously written off	-	-	8,367	11	8,378
Unwind of discount	-	-	2,053	25	2,078
Currency translation differences	(9,627)	(25)	(50)	-	(9,702)
Foreign exchange movement	12,741	1,288	1,178	196	15,403
Net other changes	63,288	10,177	5,394	311	79,170
Balance at 30 June 2020	**1,856,186**	**196,763**	**108,243**	**10,259**	**2,171,451**
Individually assessed	-	-	1,232	-	1,232
Collectively assessed	1,856,186	196,763	107,011	10,259	2,170,219
Balance at 30 June 2020	**1,856,186**	**196,763**	**108,243**	**10,259**	**2,171,451**

Consumer loans at amortised cost, ECL:	As at 30 June 2020				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2020	**16,823**	**6,345**	**49,325**	**214**	**72,707**
New financial asset originated or purchased	8,006	562	528	3	9,099
Transfer to Stage 1	7,652	(4,914)	(2,738)	-	-
Transfer to Stage 2	(7,444)	13,004	(5,560)	-	-
Transfer to Stage 3	(219)	(2,376)	2,595	-	-
Impact on ECL of exposures transferred between stages during the year	(3,510)	(3,831)	(1,813)	-	(9,154)
Assets repaid	(9,954)	(2,023)	(17,763)	(58)	(29,798)
Resegmentation	-	-	-	-	-
Impact of modifications	(510)	(279)	(1,086)	(11)	(1,886)
Write-offs	-	-	(11,666)	(4)	(11,670)
Recoveries of amounts previously written off	-	-	8,367	11	8,378
Unwind of discount	-	-	2,053	25	2,078
Currency translation differences	(36)	(6)	(47)	-	(89)
Foreign exchange movement	(68)	(12)	(129)	(15)	(224)
Net other measurement of ECL	25,402	18,482	37,818	793	82,495
Balance at 30 June 2020	**36,142**	**24,952**	**59,884**	**958**	**121,936**
Individually assessed	-	-	257	-	257
Collectively assessed	36,142	24,952	59,627	958	121,679
Balance at 30 June 2020	**36,142**	**24,952**	**59,884**	**958**	**121,936**

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables (continued)

Expected credit loss (continued)

Micro and SME loans at amortised cost, gross:	As at 30 June 2020				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2020	**2,426,866**	**113,130**	**118,475**	**1,749**	**2,660,220**
New financial asset originated or purchased	763,397	3,775	-	303	767,475
Transfer to Stage 1	76,933	(74,821)	(2,112)	-	-
Transfer to Stage 2	(455,075)	462,052	(6,977)	-	-
Transfer to Stage 3	(8,784)	(36,135)	44,919	-	-
Assets repaid	(621,945)	(31,496)	(16,890)	(172)	(670,503)
Resegmentation	(17,844)	-	-	-	(17,844)
Impact of modifications	(6,684)	(909)	(1,229)	(4)	(8,826)
Write-offs	-	-	(9,219)	(919)	(10,138)
Recoveries of amounts previously written off	-	-	2,612	68	2,680
Unwind of discount	-	-	883	22	905
Currency translation differences	(7,717)	(985)	(518)	-	(9,220)
Foreign exchange movement	102,170	5,560	4,009	108	111,847
Net other changes	48,676	11,385	6,204	542	66,807
Balance at 30 June 2020	**2,299,993**	**451,556**	**140,157**	**1,697**	**2,893,403**
Individually assessed	-	-	20,158	-	20,158
Collectively assessed	2,299,993	451,556	119,999	1,697	2,873,245
Balance at 30 June 2020	**2,299,993**	**451,556**	**140,157**	**1,697**	**2,893,403**

Micro and SME loans loans at amortised cost, ECL:	As at 30 June 2020				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2020	**12,890**	**5,803**	**24,976**	**876**	**44,545**
New financial asset originated or purchased	861	587	-	-	1,448
Transfer to Stage 1	4,125	(3,695)	(430)	-	-
Transfer to Stage 2	(4,442)	5,973	(1,531)	-	-
Transfer to Stage 3	(76)	(1,866)	1,942	-	-
Impact on ECL of exposures transferred between stages during the year	(1,026)	(211)	1,328	-	91
Assets repaid	(4,617)	(864)	(5,633)	(95)	(11,209)
Resegmentation	(72)	-	-	-	(72)
Impact of modifications	(152)	(125)	(490)	-	(767)
Write-offs	-	-	(9,219)	(919)	(10,138)
Recoveries of amounts previously written off	-	-	2,612	68	2,680
Unwind of discount	-	-	883	22	905
Currency translation differences	(142)	(140)	(492)	-	(774)
Foreign exchange movement	60	100	465	53	678
Net other measurement of ECL	14,175	29,417	28,590	385	72,567
Balance at 30 June 2020	**21,584**	**34,979**	**43,001**	**390**	**99,954**
Individually assessed	-	-	7,325	-	7,325
Collectively assessed	21,584	34,979	35,676	390	92,629
Balance at 30 June 2020	**21,584**	**34,979**	**43,001**	**390**	**99,954**

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables (continued)

Expected credit loss (continued)

Residential mortgage loans at amortised cost, gross:	As at 30 June 2020				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2020	**2,764,959**	**160,038**	**109,413**	**32,273**	**3,066,683**
New financial asset originated or purchased	348,647	335	60	4,835	353,877
Transfer to Stage 1	103,303	(99,161)	(4,142)	-	-
Transfer to Stage 2	(275,155)	293,588	(18,433)	-	-
Transfer to Stage 3	(19,989)	(18,360)	38,349	-	-
Assets repaid	(272,680)	(17,097)	(15,699)	(3,033)	(308,509)
Resegmentation	218	-	-	-	218
Impact of modifications	(12,886)	(1,297)	(1,297)	(810)	(16,290)
Write-offs	-	-	(1,720)	(114)	(1,834)
Recoveries of amounts previously written off	-	-	122	58	180
Unwind of discount	-	-	215	84	299
Currency translation differences	(1,732)	(1)	(2)	-	(1,735)
Foreign exchange movement	112,847	4,215	5,371	1,482	123,915
Net other changes	57,264	10,178	3,640	1,300	72,382
Balance at 30 June 2020	**2,804,796**	**332,438**	**115,877**	**36,075**	**3,289,186**
Individually assessed	-	-	139	-	139
Collectively assessed	2,804,796	332,438	115,738	36,075	3,289,047
Balance at 30 June 2020	**2,804,796**	**332,438**	**115,877**	**36,075**	**3,289,186**

Residential mortgage loans at amortised cost, ECL:	As at 30 June 2020				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2020	**461**	**160**	**6,588**	**1,808**	**9,017**
New financial asset originated or purchased	483	-	2	10	495
Transfer to Stage 1	632	(573)	(59)	-	-
Transfer to Stage 2	(828)	1,874	(1,046)	-	-
Transfer to Stage 3	(25)	(395)	420	-	-
Impact on ECL of exposures transferred between stages during the year	(158)	(848)	708	-	(298)
Assets repaid	(842)	(140)	(1,874)	(489)	(3,345)
Resegmentation	-	-	-	-	-
Impact of modifications	(44)	(43)	(179)	(48)	(314)
Write-offs	-	-	(1,720)	(114)	(1,834)
Recoveries of amounts previously written off	-	-	122	58	180
Unwind of discount	-	-	215	84	299
Currency translation differences	(16)	-	-	-	(16)
Foreign exchange movement	(258)	(51)	(323)	(101)	(733)
Net other measurement of ECL	6,525	8,267	20,772	5,309	40,873
Balance at 30 June 2020	**5,930**	**8,251**	**23,626**	**6,517**	**44,324**
Individually assessed	-	-	-	-	-
Collectively assessed	5,930	8,251	23,626	6,517	44,324
Balance at 30 June 2020	**5,930**	**8,251**	**23,626**	**6,517**	**44,324**

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables (continued)

Expected credit loss (continued)

Gold – pawn loans at amortised cost, gross:	As at 30 June 2020				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2020	**80,794**	**1,114**	**3,632**	**-**	**85,540**
New financial asset originated or purchased	49,721	-	-	-	49,721
Transfer to Stage 1	1,103	(533)	(570)	-	-
Transfer to Stage 2	(4,417)	4,805	(388)	-	-
Transfer to Stage 3	(2,061)	(307)	2,368	-	-
Assets repaid	(39,963)	(702)	(1,644)	-	(42,309)
Resegmentation	-	-	(93)	-	(93)
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(58)	-	(58)
Recoveries of amounts previously written off	-	-	18	-	18
Unwind of discount	-	-	(4)	-	(4)
Currency translation differences	-	-	-	-	-
Foreign exchange movement	93	(3)	(171)	-	(81)
Net other changes	1,678	171	395	-	2,244
Balance at 30 June 2020	**86,948**	**4,545**	**3,485**	**-**	**94,978**
Individually assessed	-	-	-	-	-
Collectively assessed	86,948	4,545	3,485	-	94,978
Balance at 30 June 2020	**86,948**	**4,545**	**3,485**	**-**	**94,978**

Gold – pawn loans at amortised cost, ECL:	As at 30 June 2020				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2020	**9**	**1**	**244**	**-**	**254**
New financial asset originated or purchased	-	-	-	-	-
Transfer to Stage 1	20	(3)	(17)	-	-
Transfer to Stage 2	(8)	25	(17)	-	-
Transfer to Stage 3	-	-	-	-	-
Impact on ECL of exposures transferred between stages during the year	(17)	(1)	-	-	(18)
Assets repaid	(9)	2	(57)	-	(64)
Resegmentation	-	-	-	-	-
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(58)	-	(58)
Recoveries of amounts previously written off	-	-	18	-	18
Unwind of discount	-	-	(4)	-	(4)
Currency translation differences	-	-	-	-	-
Foreign exchange movement	(1)	-	-	-	(1)
Net other measurement of ECL	51	(8)	239	-	282
Balance at 30 June 2020	**45**	**16**	**348**	**-**	**409**
Individually assessed	-	-	-	-	-
Collectively assessed	45	16	348	-	409
Balance at 30 June 2020	**45**	**16**	**348**	**-**	**409**

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables (continued)

Concentration of loans to customers

As at 30 June 2020, the concentration of loans granted by the Group to the ten largest third-party borrowers comprised GEL 1,202,642 accounting for 9% of the gross loan portfolio of the Group (2019: GEL 1,199,596 and 10% respectively). An allowance of GEL 11,368 (2019: GEL 9,634) was established against these loans.

As at 30 June 2020, the concentration of loans granted by the Group to the ten largest third-party group of borrowers comprised GEL 1,834,958 accounting for 14% of the gross loan portfolio of the Group (2019: GEL 1,771,490 and 15% respectively). An allowance of GEL 16,411 (2019: GEL 10,211) was established against these loans.

As at 30 June 2020 and 31 December 2019, loans were principally issued within Georgia, and their distribution by industry sector was as follows:

	As at	
	30 June 2020 (unaudited)	*31 December 2019*
Individuals	6,944,093	6,507,095
Manufacturing	1,307,452	1,315,154
Trade	1,340,926	1,264,111
Real estate	826,460	717,063
Construction	627,905	572,159
Hospitality	521,354	399,148
Transport & communication	271,201	248,210
Service	201,934	222,179
Mining and quarrying	131,576	117,801
Financial intermediation	76,183	85,814
Electricity, gas and water supply	61,710	50,318
Other	555,328	500,449
Loans to customers, gross	**12,866,122**	**11,999,501**
Less – Allowance for expected credit loss	(433,577)	(225,133)
Loans to customers, net	**12,432,545**	**11,774,368**

Loans have been issued to the following types of customers:

	As at	
	30 June 2020 (unaudited)	*31 December 2019*
Individuals	6,944,093	6,507,095
Private companies	5,906,350	5,477,804
State-owned entities	15,679	14,602
Loans to customers, gross	**12,866,122**	**11,999,501**
Less – Allowance for expected credit loss	(433,577)	(225,133)
Loans to customers, net	**12,432,545**	**11,774,368**

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables (continued)

Finance lease receivables

	As at	
	30 June 2020 (unaudited)	*31 December 2019*
Minimum lease payments receivable	237,630	220,543
Less – Unearned finance lease income	(64,203)	(61,352)
	173,427	**159,191**
Less – Allowance for expected credit loss / impairment loss	(6,880)	(2,297)
Finance lease receivables, net	**166,547**	**156,894**

The difference between the minimum lease payments to be received in the future and the finance lease receivables represents unearned finance income.

As at 30 June 2020, finance lease receivables carried at GEL 59,905 were pledged for inter-bank loans received from several credit institutions (31 December 2019: GEL 74,489).

As at 30 June 2020, the concentration of investment in the five largest lease receivables comprised GEL 19,463 or 11% of total finance lease receivables (31 December 2019: GEL 16,249 or 10%) and finance income received from them for the six month period ended 30 June 2020 comprised GEL 1,626 or 10% of total finance income from lease (31 December 2019: GEL 2,226 or 9%).

Future minimum lease payments to be received after 30 June 2020 and 31 December 2019 are as follows:

	As at	
	30 June 2020 (unaudited)	*31 December 2019*
Within 1 year	102,122	85,815
From 1 to 5 years	132,669	130,700
More than 5 years	2,839	4,028
Minimum lease payment receivables	**237,630**	**220,543**

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables (continued)

Finance lease receivables (continued)

Movements of the gross finance lease receivables and respective allowance for expected credit loss/impairment of finance lease receivables are as follows:

Finance lease receivables, gross	As at 30 June 2020				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2020	**130,232**	**12,498**	**16,461**	**-**	**159,191**
New financial asset originated or purchased	43,477	-	-	-	43,477
Transfer to Stage 1	38,983	(36,788)	(2,195)	-	-
Transfer to Stage 2	(90,735)	91,675	(940)	-	-
Transfer to Stage 3	(3,163)	(35,132)	38,295	-	-
Assets repaid	(24,005)	(684)	(2,884)	-	(27,573)
Resegmentation	-	-	-	-	-
Impact of modifications	-	(973)	(199)	-	(1,172)
Write-offs	-	-	(6,006)	-	(6,006)
Recoveries of amounts previously written off	-	-	-	-	-
Unwind of discount	-	-	(4)	-	(4)
Currency translation differences	(1,308)	(70)	(90)	-	(1,468)
Foreign exchange movement	3,805	1,342	1,317	-	6,464
Net other changes	829	(81)	(230)	-	518
Balance at 30 June 2020	**98,115**	**31,787**	**43,525**	**-**	**173,427**
Individually assessed	-	-	873	-	873
Collectively assessed	98,115	31,787	42,652	-	172,554
Balance at 30 June 2020	**98,115**	**31,787**	**43,525**	**-**	**173,427**

Finance lease receivables, ECL:	As at 30 June 2020				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2020	**759**	**95**	**1,443**	**-**	**2,297**
New financial asset originated or purchased	137	-	-	-	137
Transfer to Stage 1	144	(140)	(4)	-	-
Transfer to Stage 2	(255)	256	(1)	-	-
Transfer to Stage 3	(168)	(2,555)	2,723	-	-
Impact on ECL of exposures transferred between stages during the year	232	2,492	2,806	-	5,530
Assets repaid	(270)	(13)	(96)	-	(379)
Resegmentation	-	-	-	-	-
Impact of modifications	-	(1)	(18)	-	(19)
Write-offs	-	-	(618)	-	(618)
Recoveries of amounts previously written off	-	-	-	-	-
Unwind of discount	-	-	(4)	-	(4)
Currency translation differences	(47)	(6)	(15)	-	(68)
Foreign exchange movement	-	2	(85)	-	(83)
Net other measurement of ECL	14	40	33	-	87
Balance at 30 June 2020	**546**	**170**	**6,164**	**-**	**6,880**
Individually assessed	-	-	42	-	42
Collectively assessed	546	170	6,122	-	6,838
Balance at 30 June 2020	**546**	**170**	**6,164**	**-**	**6,880**

(Thousands of Georgian Lari)

10. Taxation

The corporate income tax credit (expense) comprises:

	For the six months ended	
	30 June 2020 (unaudited)	*30 June 2019 (unaudited)*
Current income expense	38,255	(16,201)
Deferred income tax credit (expense)	(33,695)	(2,045)
Income tax credit (expense)	**4,560**	**(18,246)**

The income tax rate applicable to most of the Group's income is the income tax rate applicable to subsidiaries' income, which ranges from 15% to 25% (31 December 2019: from 15% to 27%).

As at 30 June 2020 and 31 December 2019, income tax assets and liabilities consist of the following:

	As at	
	30 June 2020 (unaudited)	*31 December 2019*
Current income tax assets	54,401	75
Deferred income tax assets	194	207
Income tax assets	**54,595**	**282**
Current income tax liabilities	243	1,563
Deferred income tax liabilities	69,928	36,355
Income tax liabilities	**70,171**	**37,918**

(Thousands of Georgian Lari)

11. Client deposits and notes

The amounts due to customers include the following:

	As at	
	30 June 2020 (unaudited)	*31 December 2019*
Time deposits	6,627,992	5,042,851
Current accounts	4,955,147	5,033,884
Client deposits and notes	**11,583,139**	**10,076,735**
Held as security against letters of credit and guarantees	**121,345**	**90,346**

At 30 June 2020, amounts due to customers of GEL 1,885,215 (16%) were due to the ten largest customers (31 December 2019: GEL 828,952 (8%)).

Amounts due to customers include accounts with the following types of customers:

	As at	
	30 June 2020 (unaudited)	*31 December 2019*
Individuals	6,859,544	6,460,756
Private enterprises	3,581,861	3,253,970
State and state-owned entities	1,141,734	362,009
Client deposits and notes	**11,583,139**	**10,076,735**

The breakdown of customer accounts by industry sector is as follows:

	As at	
	30 June 2020 (unaudited)	*31 December 2019*
Individuals	6,859,544	6,460,756
Government services	1,130,787	320,470
Financial intermediation	673,495	502,513
Trade	601,341	533,483
Transport & communication	592,766	427,529
Construction	479,609	632,389
Service	280,597	287,975
Manufacturing	271,579	269,684
Real estate	106,991	125,719
Electricity, gas and water supply	76,749	93,757
Hospitality	33,131	62,084
Other	476,550	360,376
Client deposits and notes	**11,583,139**	**10,076,735**

Growth in government services deposits were mainly driven by deposits placed by Ministry of Finance of Georgia and Pension Agency during the six month period ended 30 June 2020.

(Thousands of Georgian Lari)

12. Amounts owed to credit institutions

Amounts due to credit institutions comprise:

	As at	
	30 June 2020 (unaudited)	*31 December 2019*
Borrowings from international credit institutions	1,519,872	1,387,318
Short-term loans from National Bank of Georgia	847,213	1,551,953
Time deposits and inter-bank loans	343,371	234,962
Correspondent accounts	150,875	263,974
Other borrowings*	-	34,423
	2,861,331	**3,472,630**
Non-convertible subordinated debt	660,529	461,493
Amounts due to credit institutions	**3,521,860**	**3,934,123**

** Other borrowings represent borrowings from JSC Georgia Capital on arm's length terms.*

During the six month period ended 30 June 2020, the Group paid up to 6.00% and on average 4.59% on US$ borrowings from international credit institutions (2019: up to 6.50% and on average 5.03%). During the six months ended 30 June 2020, the Group paid up to 11.13% and on average 9.10% on Dollar subordinated debt (2019: up to 11.13% and on average 9.92%).

Some long-term borrowings from international credit institutions are received upon certain conditions (the "Lender Covenants") that the Group maintains different limits for capital adequacy, liquidity, currency positions, credit exposures, leverage and others. At 30 June 2020 and 31 December 2019 , the Group complied with all the Lender Covenants of the significant borrowings from international credit institutions.

On 2 April 2020, the Bank drew-down the second tranche of the US$107 million subordinated syndicated loan facility signed in December, 2019, in the amount of US$55 million. The Bank received the NBG's approval on classification of the facility as a Bank Tier 2 capital instrument under the Basel III regulation since April, 2020 and will further improve the overall capitalisation of the Bank.

On 13 March 2020, the Bank drew-down EUR 15 million of total EUR 50 million loan facility from European Investment Bank ("EIB") signed in December, 2019. The loan was drawn in Georgian Lari with maturity of five years. Up to 50% of the total facility can be drawn in Georgian Lari, while the remaining amount will be denominated in Euros or US Dollars. The local currency tranche is also supported by the Neighbourhood Investment Facility of the European Union. The purpose of the credit is to finance investment projects promoted by micro, small and medium sized and mid capitalisation enterprises in Georgia and support the implementation of projects important for the local private sector development.

On 14 April 2020, the Bank drew-down GEL 100 million loan facility from International Finance Corporation ("IFC"), signed in January 2020, with maturity of five years. The facility will support the local currency needs of Georgian micro, small and medium sized enterprises.

13. Debt securities issued

Debt securities issued comprise:

	30 June 2020 (unaudited)	*31 December 2019*
Eurobonds and notes issued	1,008,600	1,406,200
Additional Tier 1 capital notes issued	301,061	282,407
Local bonds	93,805	87,921
Certificates of deposit	158,467	343,536
Debt securities issued	**1,561,933**	**2,120,064**

On 1 June 2020 the Bank repaid GEL 500 million GEL-denominated 11.00% notes.

(Thousands of Georgian Lari)

14. Commitments and contingencies

Legal

Sai-invest

As at 30 June 2020, the Bank was engaged in litigation proceedings with Sai-Invest LLC in relation to a deposit pledge in the amount of EUR 7 million used to reduce the outstanding loan of LTD Sport Invest towards JSC Bank of Georgia. The dispute is currently pending before the court of appeals after being returned back from the Supreme Court in late 2019. The Bank's management is of the opinion that the possibility of incurring material losses on this claim is low, and, accordingly, no provision has been made in these Consolidated Financial Statements.

Rustavi Azoti

At 30 June 2020, the Bank was engaged in litigation proceedings with East-West United Bank S.A., Agrochim S.A. and Systema Holding Limited (claimants) in relation to foreclosure on security (movable and immovable property and intangible assets) through auction on a defaulted loan of Rustavi Azoti LLC. Claimants request reinstatement of the title to the property owned by Rustavi Azoti LLC and compensation of damages in the amount of around USD 93.6m. In June 2020, Tbilisi City Court refused the claim of the Claimants on all grounds. The Claimants have since launched an appeal and the claim is currently pending before Tbilisi Court of Appeals. No provision has been made as the Bank's management believes that the claim is groundless, and it is extremely unlikely that any significant loss will eventuate from this claim.

At 30 June 2020, BGEO Group Limited (former BGEO Group PLC), was engaged in litigation proceedings in the High Court of Justice of England and Wales (Commercial Court) with Roman Pipia (claimant), who asserts that BGEO Group Limited is liable to the claimant under Georgian law in relation to the loss of the Rustavi Azoti plant, which he alleges he formerly beneficially owned. The Bank had initiated the sale of collateral pledged by Rustavi Azoti LLC and its parent company to secure loans granted by the Bank following default by the borrowers in 2016. Based on the revised claim submitted in December 2018, claimant claims minimum loss and damage of US$286m or US$291m. No provision has been made as the Group believes that the claim is groundless, and it is extremely unlikely that any significant loss will eventuate from this claim.

In the ordinary course of business, the Group 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 Group or BOGG.

(Thousands of Georgian Lari)

14. Commitments and contingencies (continued)

Financial commitments and contingencies

As at 30 June 2020 and 31 December 2019, the Group's financial commitments and contingencies comprised the following:

	As at	
	30 June 2020 (unaudited)	*31 December 2019*
Credit-related commitments		
Guarantees issued	1,386,909	1,347,841
Undrawn loan facilities	251,072	281,615
Letters of credit	98,583	54,815
	1,736,564	**1,684,271**
Less – Cash held as security against letters of credit and guarantees (Note 11)	(121,345)	(90,346)
Less – Provisions	(14,241)	(6,154)
Capital expenditure commitments	**4,720**	**4,279**

15. Equity

Share capital

As at 30 June 2020, issued share capital comprised 49,169,428 common shares of BOGG (30 June 2019: 49,169,428 of BOGG), all of which were fully paid. Each share has a nominal value of one (1) British Penny. Shares issued and outstanding as at 30 June 2020 and 30 June 2019 are described below:

	Number of ordinary shares	*Amount of ordinary shares*
31 December 2018	**49,169,428**	**1,618**
30 June 2019 (unaudited)	**49,169,428**	**1,618**
31 December 2019	**49,169,428**	**1,618**
30 June 2020 (unaudited)	**49,169,428**	**1,618**

(Thousands of Georgian Lari)

15. Equity (continued)

Treasury shares

Treasury shares are held by the Group solely for the purpose of future employee share-based compensation.

The number of treasury shares held by the Group as at 30 June 2020, comprised 1,633,096 (31 December 2019: 1,958,552), with nominal amount of GEL 54 (31 December 2019: GEL 64).

Dividends

Shareholders are entitled to dividends in Pounds Sterling.

In 2020 the Group distributed dividends on the shares vested and exercised during 2020.

On 17 May 2019, the shareholders of the Bank of Georgia Group PLC declared an interim dividend for 2018 of Georgian Lari 2.55 per share. The currency conversion date was set at 31 May 2019, with the official GEL : GBP exchange rate of 3.5337, resulting in a GBP-denominated final dividend of 0.7216 per share. Payment of the total GEL 123,705 final dividends was received by shareholders on 28 June 2019.

Nature and purpose of other reserves

Unrealised gains (losses) on investment securities
This reserve records fair value changes on investment securities.

Unrealised gains (losses) from dilution or sale / acquisition of shares in existing subsidiaries
This reserve records unrealised gains (losses) from dilution or sale / acquisition of shares in existing subsidiaries.

Foreign currency translation reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of subsidiaries with functional currency other than GEL.

Movements on this account during the years ended 30 June 2020 and 31 December 2019, are presented in the statements of other comprehensive income.

Earnings per share

	For the six months ended	
	30 June 2020 (unaudited)	*30 June 2019 (unaudited)*
Basic earnings per share		
Profit for the period attributable to ordinary shareholders of the Group	14,659	208,154
Weighted average number of ordinary shares outstanding during the period	47,596,373	47,846,288
Basic earnings per share	0.3080	4.3505

	For the six months ended	
	30 June 2020 (unaudited)	*30 June 2019 (unaudited)*
Diluted earnings per share		
Effect of dilution on weighted average number of ordinary shares:		
Dilutive unvested share options	7,857	170,395
Weighted average number of ordinary shares adjusted for the effect of dilution	47,604,230	48,016,683
Diluted earnings per share	0.3079	4.3350

(Thousands of Georgian Lari)

16. Net interest income

	For the six months ended	
	30 June 2020 (unaudited)	*30 June 2019 (unaudited)*
Interest income calculated using EIR method	**751,436**	**665,752**
From loans to customers	662,851	593,257
From investment securities	79,512	68,448
From amounts due from credit institutions	14,050	10,656
Net loss on modification of financial assets	(4,977)	(6,609)
Other interest income	**15,928**	**11,207**
From finance lease receivable	15,888	11,015
From loans and advances to customers measured at FVTPL	40	192
Interest income	**767,364**	**676,959**
On client deposits and notes	(191,705)	(135,964)
On amounts owed to credit institutions	(141,766)	(95,683)
On debt securities issued	(83,432)	(74,504)
Interest element of cross-currency swaps	29,267	16,772
On lease liability	(2,837)	(2,418)
Interest expense	**(390,473)**	**(291,797)**
Deposit insurance fees	(4,874)	(3,827)
Net interest income	**372,017**	**381,335**

17. Net fee and commission income

	For the six months ended	
	30 June 2020 (unaudited)	*30 June 2019 (unaudited)*
Settlements operations	94,669	103,186
Guarantees and letters of credit	14,410	11,220
Cash operations	5,673	6,611
Currency conversion operations	4,846	4,115
Brokerage service fees	3,193	1,895
Advisory	592	1,225
Other	1,901	2,304
Fee and commission income	**125,284**	**130,556**
Settlements operations	(42,967)	(36,856)
Cash operations	(4,276)	(3,816)
Guarantees and letters of credit	(250)	(683)
Insurance brokerage service fees	(2,013)	(1,129)
Currency conversion operations	(1,281)	(604)
Advisory	(36)	(83)
Other	(1,448)	(1,938)
Fee and commission expense	**(52,271)**	**(45,109)**
Net fee and commission income	**73,013**	**85,447**

(Thousands of Georgian Lari)

18. Expected credit loss

The table below shows ECL charges on financial instruments for the year recorded in the income statement:

	As at 30 June 2020							
	Stage 1		Stage 2		Stage 3			
	Individual	*Collective*	*Individual*	*Collective*	*Individual*	*Collective*	POCI	*Total*
Cash and cash equivalents	-	58	-	-	-	-	-	58
Amounts due from credit institutions	-	(66)	-	-	-	-	-	(66)
Investment securities measured at amortised cost - debt instruments	-	(85)	-	-	-	-	-	(85)
Investment securities measured at FVOCI - debt instruments	-	(920)	-	-	-	-	-	(920)
Loans to customers at amortised cost	-	(49,255)	-	(67,957)	(40,396)	(52,888)	(6,072)	(216,568)
Finance lease receivables	-	166	-	(81)	28	(5,386)	-	(5,273)
Other financial assets	-	(12,660)	-	-	-	-	-	(12,660)
Financial guarantees	-	(6,041)	-	(544)	845	(10)	-	(5,750)
Letter of credit to customers	-	(1,490)	-	(215)	12	-	-	(1,693)
Other financial commitments	-	(658)	-	(18)	48	-	-	(628)
for the period ended 30 June 2020	**-**	**(70,951)**	**-**	**(68,815)**	**(39,463)**	**(58,284)**	**(6,072)**	**(243,585)**

19. Net non-recurring items

	For the six months ended	
	30 June 2020 (unaudited)	*30 June 2019 (unaudited)*
Modification loss of financial assets*	(39,730)	-
Corporate social responsibility expense**	(1,454)	-
Termination benefits	-	(3,985)
Other	(402)	(4,112)
Net non-recurring expense/loss	**(41,586)**	**(8,097)**

* *Modification loss of financial assets: in response to the COVID-19 outbreak, the Group implemented an initiative to grant a 3 month grace period to its borrowers with the interest accrued for grace period being deferred and either allocated over the original repayment schedule till maturity on a straight line basis (i.e. no compounding applied) or in some cases beyond maturity (i.e., maturity extended by 3 months). The payment holiday was intended to reduce customer traffic to branches and thus reduce chances of the rapid spread of the virus in the country. The noted immediate social response to COVID-19 pandemic resulted in modification loss in amount of GEL 39,730. Given the initiative was driven by high social responsibility motives and was similar to a CSR cost with high degree of abnormality and extraordinary nature, such modification losses were presented as non-recurring item in the Group's interim condensed consolidated financial statements.*

** *Corporate social responsibly expense: in order to assist in the fight against the COVID-19 the Group purchased and donated laboratory tests, respiratory equipment, etc. to the Government of Georgia on a one-off basis.*

(Thousands of Georgian Lari)

20. Risk management

Emerging Risks

Information compiled from all the businesses is examined and processed in order to analyse, control and identify emerging risks.

The coronavirus (COVID-19) has been identified as an emerging risk since the start of 2020 and the Group is continuing to monitor its impact on its business, customers and employees. The outbreak of the pandemic is having at least a short-term negative impact on the country's overall economic activity and has resulted in a global economic slowdown. As of the reporting date a number of economic sectors, including tourism, hospitality and entertainment were identified to be specifically affected by the consequences of the virus outbreak in the country. A considerable amount of funding and other forms of assistance was injected by the Financial Institutions and the Government to support the country's economy and reduce the effect of recession.

To mitigate the impact of the pandemic on its activities the Group has put in place a business continuity plan. A distance-working opportunity continues to be available for the employees as of the reporting date. To decrease the number of customers in the branches and therefore reduce the risk of contagion, the Group has encouraged its customers to switch to digital channels as absolute majority of operations are available without the need to visit a branch. In addition to above, the Group is engaged in continuous negotiations with its customers to support them in alleviating the consequences of the pandemic. The diverse portfolio base helps the Group to decrease the adverse effect of the virus outbreak on its operations and profitability.

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a regular basis. 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 Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Group primarily on a standalone Bank basis, based on certain liquidity coverage ratios established by the NBG. The banks are required to maintain a liquidity coverage ratio, which is defined as the ratio of high-quality liquid assets to net cash outflow over the next 30 days. The order requires that, absent a stress-period, the value of the ratio be no lower than 100%. The liquidity coverage ratio as at 30 June 2020 was 135.4% (31 December 2019: 136.7%).

The Bank maintained excess liquidity in 2020 primarily for risk mitigation purposes on the back of the current COVID-19 crisis; and the repayment of local currency Eurobonds due at the beginning of June 2020.

The Bank holds a comfortable buffer on top of Net Stable Funding Ratio (NSFR) requirement of 100%, which came into effect on 1 September 2019. A solid buffer over NSFR provides stable funding sources over a longer time span. This approach is designed to ensure that the funding framework is sufficiently flexible to secure liquidity under a wide range of market conditions. NSFR was 136.6% and 123.5%, at 30 June 2020 and 31 December 2019, respectively, all comfortably above the NBG's minimum regulatory requirements.

The Group also matches the maturity of financial assets and financial liabilities and imposes a maximum limit on negative gaps compared with the Bank's standalone total regulatory capital calculated per NBG regulation. The ratios are assessed and monitored monthly and compared against set limits. In the case of deviations, amendment strategies / actions are discussed and approved by ALCO.

(Thousands of Georgian Lari)

21. Fair value measurements

Fair value hierarchy

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability. The following tables show analysis of assets and liabilities measured at fair value or for which fair values are disclosed by level of the fair value hierarchy, except for cash and short-term deposits for which fair value approximates to their carrying value:

At 30 June 2020	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Total investment properties	-	-	212,182	212,182
Land	-	-	*52,270*	*52,270*
Residential properties	-	-	*72,288*	*72,288*
Non-residential properties	-	-	*87,624*	*87,624*
Investment securities	1,698	2,110,864	1,338	2,113,900
Other assets – derivative financial assets	-	13,579	-	13,579
Other assets – trading securities owned	5,330	978	-	6,308
Assets for which fair values are disclosed				
Amounts due from credit institutions	-	1,700,075	-	1,700,075
Loans to customers and finance lease receivables	-	-	12,681,729	12,681,729
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	-	41,844	-	41,844
Liabilities for which fair values are disclosed				
Client deposits and notes	-	11,599,744	-	11,599,744
Amounts owed to credit institutions	-	2,505,648	1,016,212	3,521,860
Debt securities issued	-	1,279,445	251,403	1,530,848
Lease liability	-	5,320	91,352	96,672

At 31 December 2019	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Total investment properties	-	-	225,073	225,073
Land	-	-	*56,909*	*56,909*
Residential properties	-	-	*75,328*	*75,328*
Non-residential properties	-	-	*92,836*	*92,836*
Investment securities	2,316	1,783,515	973	1,786,804
Other assets – derivative financial assets	-	34,559	-	34,559
Other assets – trading securities owned	7,493	-	-	7,493
Amounts due from credit institutions	-	1,619,072	-	1,619,072
Loans to customers and finance lease receivables	-	-	12,082,385	12,082,385
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	-	10,836	-	10,836
Liabilities for which fair values are disclosed				
Client deposits and notes	-	10,077,542	-	10,077,542
Amounts owed to credit institutions	-	3,597,035	337,088	3,934,123
Debt securities issued	-	1,746,408	431,940	2,178,348
Lease liability	-	-	95,487	95,487

(Thousands of Georgian Lari)

21. Fair value measurements (continued)

Fair value hierarchy (continued)

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivative financial instruments

Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps, forward foreign exchange contracts and option contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations, as well as standard option pricing models. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and implied volatilities.

Trading securities and investment securities

Trading securities and a certain part of investment securities are quoted equity and debt securities. Investment securities valued using a valuation technique or pricing models consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Fair value of financial instruments that are carried in the financial statements not at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities, fair values of other smaller financial assets and financial liabilities, or cash and short-term deposits, fair values of which are materially close to their carrying values.

	Carrying value 30 June 2020	*Fair value 30 June 2020*	*Unrecognised gain (loss) 30 June 2020*	*Carrying value 2019*	*Fair value 2019*	*Unrecognised gain (loss) 2019*
Financial assets						
Amounts due from credit institutions	1,700,075	1,700,075	-	1,619,072	1,619,072	-
Loans to customers and finance lease receivables	12,599,092	12,681,729	82,637	11,931,262	12,082,385	151,123
Financial liabilities						
Client deposits and notes	11,583,139	11,599,744	(16,605)	10,076,735	10,077,542	(807)
Amounts owed to credit institutions	3,521,860	3,521,860	-	3,934,123	3,934,123	-
Debt securities issued	1,561,933	1,530,848	31,085	2,120,064	2,178,348	(58,284)
Lease liability	96,878	96,672	206	94,616	95,487	(871)
Total unrecognised change in unrealised fair value			**97,323**			**91,161**

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

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity, and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For financial assets and financial liabilities maturing in less than a year, it is assumed that the carrying amounts approximate to their fair value.

(Thousands of Georgian Lari)

22. Maturity analysis of financial assets and liabilities

The table below shows an analysis of financial assets and liabilities according to their contractual maturities, except for current accounts as described below.

	At 30 June 2020							
	On demand	*Up to 3 months*	*Up to 6 months*	*Up to 1 year*	*Up to 3 years*	*Up to 5 years*	*Over 5 years*	*Total*
Financial assets								
Cash and cash equivalents	1,352,034	281,721	-	-	-	-	-	1,633,755
Amounts due from credit institutions	1,680,011	350	529	-	4,060	1,520	13,605	1,700,075
Investment securities	809,431	904,512	875	63,773	41,920	240,797	52,592	2,113,900
Loans to customers and finance lease	-	2,211,166	840,813	1,471,334	3,324,564	1,920,745	2,830,470	12,599,092
Total	**3,841,476**	**3,397,749**	**842,217**	**1,535,107**	**3,370,544**	**2,163,062**	**2,896,667**	**18,046,822**
Financial liabilities								
Client deposits and notes	1,729,673	2,642,002	1,138,427	4,694,799	842,770	484,297	51,171	11,583,139
Amounts owed to credit institutions	150,875	1,233,635	187,889	334,664	604,005	674,445	336,347	3,521,860
Debt securities issued	-	112,951	25,483	83,392	284,587	881,221	174,299	1,561,933
Lease liability	-	9,654	5,592	11,019	33,187	21,890	15,536	96,878
Total	**1,880,548**	**3,998,242**	**1,357,391**	**5,123,874**	**1,764,549**	**2,061,853**	**577,353**	**16,763,810**
Net	**1,960,928**	**(600,493)**	**(515,174)**	**(3,588,767)**	**1,605,995**	**101,209**	**2,319,314**	**1,283,012**
Accumulated gap	**1,960,928**	**1,360,435**	**845,261**	**(2,743,506)**	**(1,137,511)**	**(1,036,302)**	**1,283,012**	

	At 31 December 2019							
	On demand	*Up to 3 months*	*Up to 6 months*	*Up to 1 year*	*Up to 3 years*	*Up to 5 years*	*Over 5 years*	*Total*
Financial assets								
Cash and cash equivalents	1,532,542	621,082	-	-	-	-	-	2,153,624
Amounts due from credit institutions	1,570,495	30,858	720	880	2,860	750	12,509	1,619,072
Investment securities	299,242	1,235,995	4,840	4,632	64,495	129,861	47,739	1,786,804
Loans to customers and finance lease	-	1,671,794	804,885	1,577,849	3,334,464	1,855,284	2,686,986	11,931,262
Total	**3,402,279**	**3,559,729**	**810,445**	**1,583,361**	**3,401,819**	**1,985,895**	**2,747,234**	**17,490,762**
Financial liabilities								
Client deposits and notes	2,082,989	1,761,206	860,222	4,406,906	832,150	86,038	47,224	10,076,735
Amounts owed to credit institutions	263,974	1,768,062	134,427	403,354	603,096	411,165	350,045	3,934,123
Debt securities issued	-	71,714	638,293	102,763	299,807	843,903	163,584	2,120,064
Lease liability	-	5,899	5,703	10,496	33,592	21,438	17,488	94,616
Total	**2,346,963**	**3,606,881**	**1,638,645**	**4,923,519**	**1,768,645**	**1,362,544**	**578,341**	**16,225,538**
Net	**1,055,316**	**(47,152)**	**(828,200)**	**(3,340,158)**	**1,633,174**	**623,351**	**2,168,893**	**1,265,224**
Accumulated gap	**1,055,316**	**1,008,164**	**179,964**	**(3,160,194)**	**(1,527,020)**	**(903,669)**	**1,265,224**	

The Group's capability to discharge its liabilities relies on its ability to realise equivalent assets within the same period of time. In the Georgian marketplace, where most of the Group's business is concentrated, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. To reflect the historical stability of current accounts, the Group calculates the minimal daily balance of current accounts over the past two years and includes the amount in the 'Up to 1 year' category in the table above. The remaining current accounts are included in the 'On demand' category. To match the coverage of short-term borrowings from the NBG with the investment securities pledged to secure it, those securities are included in the 'On demand' category.

(Thousands of Georgian Lari)

22. Maturity analysis of financial assets and liabilities (continued)

The Group's principal sources of liquidity are as follows:

- deposits;
- borrowings from international credit institutions;
- inter-bank deposit agreements;
- debt issues;
- proceeds from sale of securities;
- principal repayments on loans;
- interest income; and
- fees and commissions income.

As at 30 June 2020, client deposits and notes amounted to GEL 11,583,139 (31 December 2019: GEL 10,076,735) and represented 68% (31 December 2019: 61%) of the Group's total liabilities. These funds continue to provide a majority of the Group's funding and represent a diversified and stable source of funds. As at 30 June 2020, amounts owed to credit institutions amounted to GEL 3,521,860 (31 December 2019: GEL 3,934,123) and represented 21% (31 December 2019: 24%) of total liabilities. As at 30 June 2020, debt securities issued amounted to GEL 1,561,933 (31 December 2019: GEL 2,120,064) and represented 9% (31 December 2019:13%) of total liabilities.

In the Board's opinion, liquidity is sufficient to meet the Group's present requirements.

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled, except for current accounts which are included in up to 1 year time bucket, noting that respective contractual maturity may expand over significantly longer periods:

	At 30 June 2020			*At 31 December 2019*		
	Less than 1 year	*More than 1 year*	*Total*	*Less than 1 year*	*More than 1 year*	*Total*
Cash and cash equivalents	1,633,755	-	1,633,755	2,153,624	-	2,153,624
Amounts due from credit institutions	1,680,890	19,185	1,700,075	1,602,953	16,119	1,619,072
Investment securities	1,778,591	335,309	2,113,900	1,544,709	242,095	1,786,804
Loans to customers and finance lease	4,523,313	8,075,779	12,599,092	4,054,528	7,876,734	11,931,262
Accounts receivable and other loans	4,060	-	4,060	3,489	-	3,489
Prepayments	27,771	3,742	31,513	40,906	1,726	42,632
Inventories	13,901	-	13,901	12,297	-	12,297
Investment properties	-	212,182	212,182	-	225,073	225,073
Right-of-use assets	-	89,758	89,758	-	96,095	96,095
Property and equipment	-	396,272	396,272	-	379,788	379,788
Goodwill	-	33,351	33,351	-	33,351	33,351
Intangible assets	-	116,355	116,355	-	106,290	106,290
Income tax assets	54,401	194	54,595	75	207	282
Other assets	119,077	20,868	139,945	128,267	14,887	143,154
Assets held for sale	45,212	-	45,212	36,284	-	36,284
Total assets	**9,880,971**	**9,302,995**	**19,183,966**	**9,577,132**	**8,992,365**	**18,569,497**
Client deposits and notes	10,204,901	1,378,238	11,583,139	9,111,323	965,412	10,076,735
Amounts owed to credit institutions	1,907,063	1,614,797	3,521,860	2,569,817	1,364,306	3,934,123
Debt securities issued	221,826	1,340,107	1,561,933	812,770	1,307,294	2,120,064
Lease liability	26,249	70,629	96,878	22,098	72,518	94,616
Accruals and deferred income	17,805	19,452	37,257	42,223	10,248	52,471
Income tax liabilities	243	69,928	70,171	1,563	36,355	37,918
Other liabilities	112,929	-	112,929	102,662	-	102,662
Total liabilities	**12,491,016**	**4,493,151**	**16,984,167**	**12,662,456**	**3,756,133**	**16,418,589**
Net	**(2,610,045)**	**4,809,844**	**2,199,799**	**(3,085,324)**	**5,236,232**	**2,150,908**

(Thousands of Georgian Lari)

23. Related party disclosures

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

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be affected on the same terms, conditions and amounts as transactions between unrelated parties. All transactions with related parties disclosed below have been conducted on an arm's length basis.

The volumes of related party transactions, outstanding balances as at 30 June 2020 and 30 June 2019, and related expenses and income for the six months are as follows:

	At 30 June 2020 (unaudited)		*At 30 June 2019 (unaudited)*	
	Associates	*Key management personnel**	*Associates*	*Key management personnel**
Loans outstanding at 1 January, gross	**-**	**6,718**	**-**	**1,756**
Loans issued during the year	-	3,585	-	2,529
Loan repayments during the year	-	(3,399)	-	(2,087)
Other movements	-	481	-	337
Loans outstanding at 30 June, gross	**-**	**7,385**	**-**	**2,535**
Less: allowance for impairment at 30 June	-	(16)	-	-
Loans outstanding at 30 June, net	**-**	**7,369**	**-**	**2,535**
Interest income on loans	-	169	-	93
Expected credit loss	-	(23)	-	(14)
Deposits at 1 January	**3**	**30,475**	**809**	**14,748**
Deposits received during the year	83	7,429	712	20,791
Deposits repaid during the year	-	(8,561)	-	(2,955)
Other movements	-	1,862	(401)	(1,105)
Deposits at 30 June	**86**	**31,205**	**1,120**	**31,479**
Interest expense on deposits	-	(654)	-	(447)

** Key management personnel includes members of BOGG's Board of Directors and key executives of the Group.*

Compensation of key management personnel comprised the following:

	For the six months ended	
	30 June 2020 (unaudited)	**30 June 2019 (unaudited)**
Salaries and other benefits	6,847	5,084
Share-based payments compensation *	12,980	26,712
Social security costs	-	11
Total key management compensation	**19,827**	**31,807**

** In 2019, share-based compensation included an amount of GEL 3,985 for key management personnel reflected in the non-recurring items.*

Key management personnel do not receive cash-settled compensation, except for fixed salaries. The major part of the total compensation is share-based. The number of key management personnel at 30 June 2020 was 20 (31 December 2019: 16).

(Thousands of Georgian Lari)

24. Capital adequacy

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

During six month period ended 30 June 2020, the Bank and the Group complied in full with all its externally imposed capital requirements.

The primary objectives of the Group's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

NBG (Basel III) capital adequacy ratio

In December 2017, the NBG adopted amendments to the regulations relating to capital adequacy requirements, including amendments to the regulation on capital adequacy requirements for commercial banks, and introduced new requirements on the determination of the countercyclical buffer rate, on the identification of systematically important banks, on determining systemic buffer requirements and on additional capital buffer requirements for commercial banks within Pillar 2. The NBG requires the Bank to maintain a minimum total capital adequacy ratio of risk-weighted assets, computed based on the Bank's standalone special-purpose financial statements prepared in accordance with NBG regulations and pronouncements, based on Basel III requirements.

At the end of March 2020, NBG introduced an updated supervisory plan for the Georgian banking sector, aimed at alleviating the negative financial and economic challenges created by the global COVID-19 pandemic in Georgia. Following capital adequacy initiatives were introduced:

- Combined buffer - the conservation buffer requirement of 2.5% of risk-weighted assets has been reduced to 0% indefinitely
- Pillar 2 requirements:
  - Currency induced credit risk buffer (CICR) requirement reduced by 2/3rds indefinitely
  - The phase-in of additional credit portfolio concentration risk buffer (HHI) and net GRAPE buffer requirements on Common Equity Tier 1 (CET1) and Tier 1 capital, planned at the end of March 2020, has been postponed indefinitely
  - The possibility of fully or partially releasing the remaining requirements of Pillar 2 buffers (HHI, CICR, net GRAPE), if necessary, remains open
- During the period the banks are allowed to partially or fully use the Pillar 2 and conservation buffers, the banks are restricted to make capital distribution in any form.

NBG requested the Georgian banks to create general provisions under the local accounting basis in the first quarter of 2020, the accounting basis is that used for calculation of capital adequacy ratios. The specific quantum of the provision reflects the NBG's current expectation of estimated credit losses on the lending book of the banking system for the entire economic cycle, given current economic expectations. The NBG considers the banking system capital ratios to be sufficiently in excess of the expected minimum capital requirements, to be able to absorb this upfront general provision, whilst maintaining sufficiently comfortable buffers over the required minimum capital ratios.

As at 30 June 2020 and 31 December 2019, the Bank's capital adequacy ratio on this basis was as follows:

	30 June 2020 (unaudited)	*31 December 2019*
Tier 1 capital	1,695,146	1,887,571
Tier 2 capital	761,999	616,113
Total capital	**2,457,145**	**2,503,684**
Risk-weighted assets	**14,099,110**	**13,868,169**
Tier 1 capital ratio	**12.0%**	**13.6%**
Total capital ratio	**17.4%**	**18.1%**
Min. requirement for Tier 1 capital ratio	**8.7%**	**12.2%**
Min. requirement for Total capital ratio	**13.3%**	**17.1%**

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- **Alternative performance measures (APMs)** In this announcement the management uses various APMs, which they believe provide additional useful information for understanding the financial performance of the Group. These APMs are not defined by International Financial Reporting Standards, and also may not be directly comparable with other companies who use similar measures. We believe that these APMs provide the best representation of our financial performance as these measures are used by management to evaluate the Group's operating performance and make day-to-day operating decisions;
- **Cost of funds** Interest expense of the period divided by monthly average interest bearing liabilities;
- **Cost of credit risk** Expected loss on loans to customers and finance lease receivables for the period divided by monthly average gross loans to customers and finance lease receivables over the same period;
- **Cost to income ratio** Operating expenses divided by operating income;
- **Interest bearing liabilities** Amounts owed to credit institutions, client deposits and notes, and debt securities issued;
- **Interest earning assets (excluding cash)** Amounts due from credit institutions, investment securities (but excluding corporate shares) and net loans to customers and finance lease receivables;
- **Leverage (times)** Total liabilities divided by total equity;
- **Liquid assets** Cash and cash equivalents, amounts due from credit institutions and investment securities;
- **Liquidity coverage ratio (LCR)** High quality liquid assets (as defined by NBG) divided by net cash outflows over the next 30 days (as defined by NBG);
- **Loan yield** Interest income from loans to customers and finance lease receivables divided by monthly average gross loans to customers and finance lease receivables;
- **NBG (Basel III) Common Equity Tier I (CET1) capital adequacy ratio** Common Equity Tier I capital divided by total risk weighted assets, both calculated in accordance with the requirements of the National Bank of Georgia instructions;
- **NBG (Basel III) Tier I capital adequacy ratio** Tier I capital divided by total risk weighted assets, both calculated in accordance with the requirements of the National Bank of Georgia instructions;
- **NBG (Basel III) Total capital adequacy ratio** Total regulatory capital divided by total risk weighted assets, both calculated in accordance with the requirements of the National Bank of Georgia instructions;
- **Net interest margin (NIM)** Net interest income of the period divided by monthly average interest earning assets excluding cash for the same period;
- **Non-performing loans (NPLs)** The principal and interest on loans overdue for more than 90 days and any additional potential losses estimated by management;
- **NPL coverage ratio** Allowance for expected credit loss of loans and finance lease receivables divided by NPLs;
- **NPL coverage ratio adjusted for discounted value of collateral** Allowance for expected credit loss of loans and finance lease receivables divided by NPLs (discounted value of collateral is added back to allowance for expected credit loss);
- **Operating leverage** Percentage change in operating income less percentage change in operating expenses;
- **Return on average total assets (ROAA)** Profit for the period divided by monthly average total assets for the same period;
- **Return on average total equity (ROAE)** Profit for the period attributable to shareholders of the Group divided by monthly average equity attributable to shareholders of the Group for the same period;
- **NMF** Not meaningful

COMPANY INFORMATION

Bank of Georgia Group PLC

Registered Address

84 Brook Street
London W1K 5EH
United Kingdom
www.bankofgeorgiagroup.com
Registered under number 10917019 in England and Wales

Secretary

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65 Gresham Street
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Stock Listing

London Stock Exchange PLC's Main Market for listed securities
Ticker: "BGEO.LN"

Contact Information

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Please note that Investor Centre is a free, secure online service run by our Registrar, Computershare, giving you convenient access to information on your shareholdings.
Investor Centre Web Address - www.investorcentre.co.uk.
Investor Centre Shareholder Helpline - +44 (0)370 873 5866

Share price information

Shareholders can access both the latest and historical prices via the website
www.bankofgeorgiagroup.com