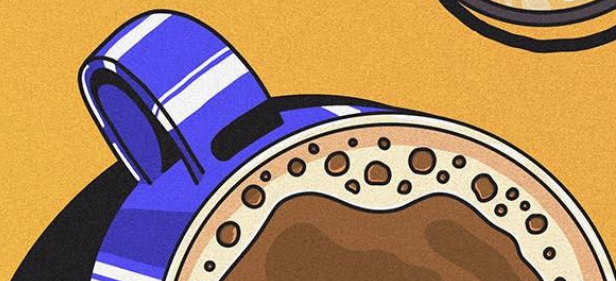
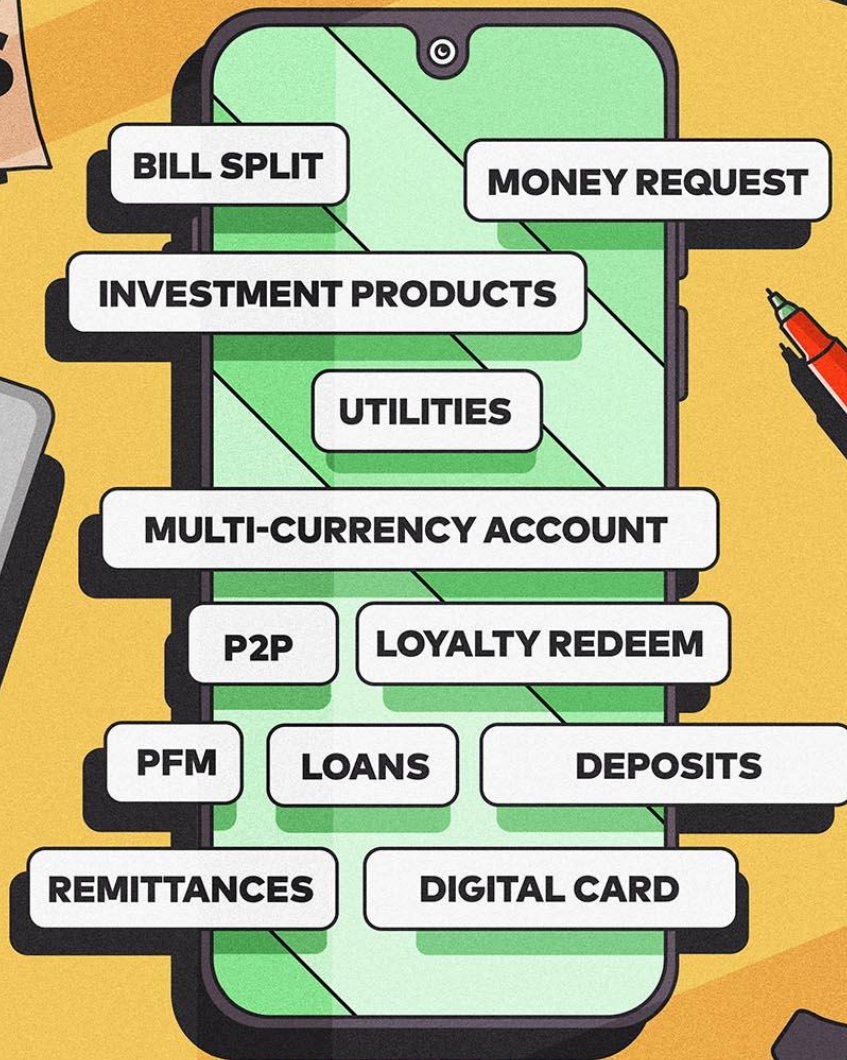
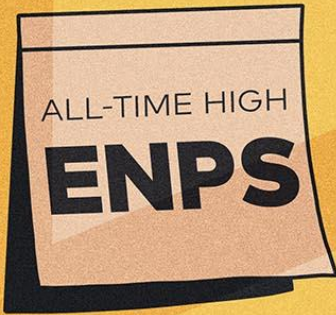




BANK OF GEORGIA

MANAGEMENT REPORT 2020

HELPING PEOPLE ACHIEVE MORE OF THEIR POTENTIAL



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INTRODUCTION

About Us

JSC Bank of Georgia (the "Bank") was established on 21 October 1994 as a joint stock company ("JSC") under the laws of Georgia. The Bank comprises: a) retail banking (Retail Banking), and b) corporate banking and wealth management operations (Corporate and Investment Banking) in Georgia. JSC Bank of Georgia is a systemically important and leading universal bank in Georgia. The Bank is a leader in payments business and financial mobile application, with the strong retail and corporate banking franchise in Georgia. With a continued focus on increasing digitalisation and expanding technological and data analytics capabilities, the Bank aims to offer more personalised solutions and seamless experiences to its customers to enable them to achieve more of their potential.

The Bank aims to benefit from growth of the Georgian economy, and through both its Retail Banking and Corporate and Investment Banking services aims to deliver on its strategy, which is based on at least 20% return on average equity (ROAE) and c.15% growth of its loan book in the medium term.

At 31 December 2020, the Bank had 211 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.

Ownership

As at 31 December 2020, 31 December 2019 and 31 December 2018, JSC BGEO Group was the principal shareholder of the Bank. Less than 0.5% of the Bank's shares were owned by up to a 1,000 different individual shareholders through listing on the Georgian Stock Exchange.

Shareholder	31 Dec 20	31 Dec 19	31 Dec 18
JSC BGEO Group	79.78%	79.78%	79.78%
Bank of Georgia Group plc	19.78%	19.78%	19.78%
Others	0.44%	0.44%	0.44%
Total	100.00%	100.00%	100.00%

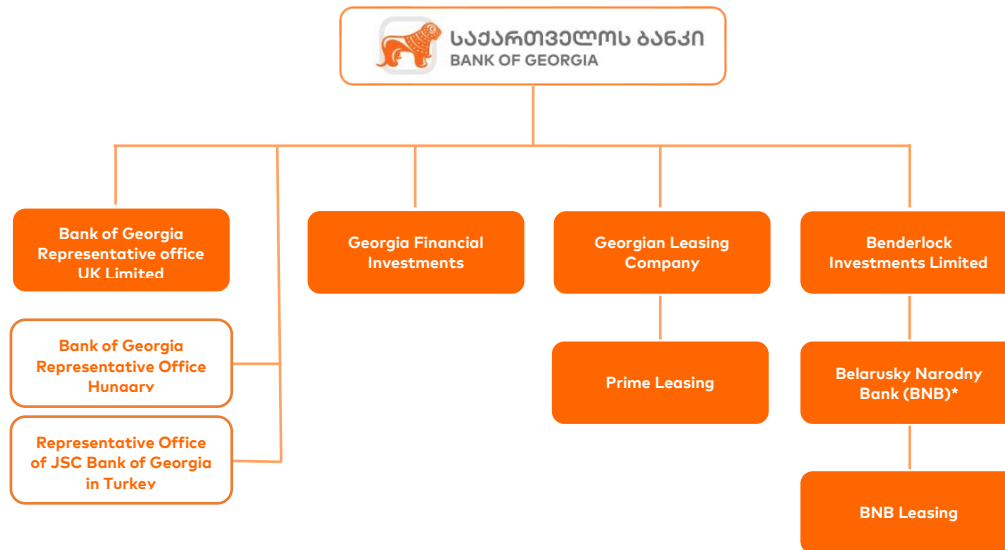
Before 29 May 2018 JSC BGEO Group was fully owned by BGEO Group plc, a public limited liability company incorporated in England and Wales and represented the ultimate parent company of the Bank. The shares of BGEO Group plc were admitted to the premium listing segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange plc's Main Market for listed securities, effective 28 February 2012.

On 3 July 2017, BGEO Group plc announced its intention to demerge into a London-listed banking business, Bank of Georgia Group plc (BOGG plc), and a London-listed investment business, Georgia Capital plc. The demerger was completed on 29 May 2018 and as a result, Bank of Georgia Group plc (admitted to premium listing segment of the Official List of the UK Listing Authority and to trading on the London Stock Exchange plc under ticker "BGEO") became the 100% shareholder of BGEO Group Limited (formerly BGEO Group plc, delisted as a result of demerger).

As at 31 December 2020, 31 December 2019 and 31 December 2018, Bank of Georgia Group plc was the ultimate parent company of the Bank.

Group Structure

JSC Bank of Georgia and its subsidiaries make up a group of companies mainly incorporated in Georgia and Belarus. Primary business activities include providing banking services to corporate and individual customers. The Bank is the group's main operating unit and accounts for most of the group's activities. As at 31 December 2020, the principal holdings in the group's structure were as follows:



Subsidiaries (>50%)
 Representative offices

** 49.99% of BNB is owned by JSC Bank of Georgia directly and 49.99% is owned by Benderlock Investments Limited*

Apart from the commercial legal entities provided in the structure above, the Bank is also the founder and major contributor to "Tree of Life Foundation", a non-profit, non-commercial legal entity established under the laws of Georgia. For the full list of subsidiaries, associates and corporate shares within the group structure, refer to Note 2, Basis of preparation section of the Separate Financial Statements.

OVERVIEW

Financial Highlights

Strong underlying performance reflected in 2020 financial results amid the challenging operating environment on the back of the COVID-19 pandemic outbreak

Operating income
(GEL million)

982.4

-2.0% y-o-y

2018	932.3
2019	1,002.2
2020	982.4

Cost of credit risk ratio

1.9%

+1.0 ppts y-o-y

2018	1.7%
2019	0.9%
2020	1.9%

Cost to income ratio (adjusted)¹

36.2%

+1.6 ppts y-o-y

2018	34.6%
2019	34.6%
2020	36.2%

Cost to income ratio (reported)

36.2%

+0.3 ppts y-o-y

2018	34.6%
2019	35.9%
2020	36.2%

Profit adjusted for one-offs²
(GEL million)

298.7

-39.3% y-o-y

2018	404.8
2019	492.0
2020	298.7

Profit (reported)
(GEL million)

298.7

-37.5% y-o-y

2018	333.3
2019	477.7
2020	298.7

Return on average equity (ROAE) (adjusted)²

13.6%

-12.7 ppts y-o-y

2018	24.8%
2019	26.3%
2020	13.6%

Return on average equity (ROAE) (reported)

13.6%

-11.9 ppts y-o-y

2018	20.5%
2019	25.5%
2020	13.6%

Net loans³
(GEL million)

13,201.0

+19.3% y-o-y

2018	8,722.9
2019	11,063.8
2020	13,201.0

Client deposits
(GEL million)

13,496.5

+41.5% y-o-y

2018	7,811.8
2019	9,537.2
2020	13,496.5

CET1 capital adequacy ratio (NBG, Basel III)

10.4%

Minimum regulatory requirement – 7.4%

2018	12.2%
2019	11.5%
2020	10.4%

Liquidity coverage ratio (NBG, Basel III)

138.6%

Minimum regulatory requirement – 100%

2018	120.1%
2019	136.7%
2020	138.6%

¹ The 2019 cost to income ratio adjusted for GEL 12.4mln one-off employee costs (gross of income tax) related to termination benefits of the former executive management.

² The 2019 income statement adjusted profit excludes GEL 14.2mln one-off employee costs (net of income tax) related to former CEO and executive management termination benefits. The amount comprises GEL 12.4mln (gross of income tax) excluded from salaries and other employee benefits and GEL 4.0mln (gross of income tax) excluded from non-recurring items. The 2018 income statement adjusted profit excludes GEL 3.9mln one-off employee costs (net-off income tax) related to the former CEO termination benefits, and 67.7mln demerger-related expenses (net of income tax) and one-off impact of re-measurement of deferred tax balances. 2019 and 2018 ROAE have been adjusted accordingly.

³ Throughout the Management Report, 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 Bank's loan portfolio position.

Operating Highlights

2020 operating highlights reflecting the expanding footprint of the business in Georgia

Retail Banking customers

2.6 MLN

+2.8% y-o-y

Retail Banking branches

206

-22.8% y-o-y

Number of cards

2.1 MLN

-0.3% y-o-y

Express Pay terminals

3,020

-6.1% y-o-y

POS terminals

27,184

+24.3% y-o-y

Market share by number of transactions in POS terminals

49%

+2 ppts y-o-y

Active digital users (mBank/iBank)¹

760K

+33.6% y-o-y

ATMs

960

+2.9% y-o-y

Number of mBank transactions

62.5 MLN

+74.0% y-o-y

Transactions through digital channels (%)

95.3%

+2.1 ppts y-o-y

Net Promoter Score (NPS) All-time high

46%

+9 ppts y-o-y

Employee Net Promoter Score (eNPS)

58%

+12 ppts y-o-y

¹ Users who log in to internet and mobile bank at least once in three months.

At a Glance

The Bank

The Bank is a Georgia-focused banking business with an impressive track record of delivering superior returns and maximising shareholder value. The Bank is a financially robust, innovative, and truly public financial institution, with exemplary corporate governance and transparency standards as well as powerful competitive advantage in the local market in terms of attracting financial and human capital.

By harnessing strong customer relationships, continuous digital innovation, and cutting-edge banking solutions, the Bank offers a full range of universal **Retail Banking** and **Corporate and Investment Banking** services in Georgia.

The leading bank in Georgia

Strong retail and corporate banking franchise

c.35-40% market shares in loans and deposits

Leader in payments business and financial mobile application

95%+ share of transactions via digital channels

High standards of transparency and governance

Sustainable profitability 20+ ROAE over the last four years (pre-COVID-19)

Retail Banking

Customer-centric and digital-solutions-based multi-brand strategy for more than 2.6 million customers

We are the leading retail banking player in Georgia, serving more than 2.6 million customers through one of the largest networks of 206 retail branches, 960 ATMs and 3,020 Express Pay (self-service) terminals as at 31 December 2020, along with diverse products and services. Our Retail Banking business (RB), the prominent component of our business, runs a customer-centric and solutions-based multi-brand strategy, with a focus on digital solutions to reach the entire spectrum of retail customers through three well-established and recognised business segments:

Mass Retail

Predicting and fulfilling customers' needs seamlessly through cost-efficient remote channels, such as mobile and internet banking, Express Pay terminals, and technology-intensive branches, in addition to providing traditional universal banking services.

SOLO

Providing mass affluent customers with a unique blend of banking and lifestyle products and services.

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

- excellence in customer services
- increased digitalisation
- tailor-made bundled offerings

MSME

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

Helping MSME customers achieve more of their potential by offering a wide range of financial services, combined with support and advisory programmes, and convenient digital channels.

Gross loan book
(GEL billion)

Market share¹

9.0

37.7%

+19.2% y-o-y

Client deposits
(GEL billion)

Market share¹

7.1

40.3%

+24.3% y-o-y

¹ Market shares by loans and deposits to individuals, respectively, based on standalone accounts of the banks published by the National Bank of Georgia as at 31 December 2020.

Corporate and Investment Banking

Integrated solutions for our Corporate and Investment Banking customers

Our Corporate and Investment Banking (CIB) segment comprises two directions: Corporate Banking and Wealth Management.

Corporate Banking

The Bank is a leading corporate lender in the country with deep sector-specific knowledge and local expertise. Corporate business accounts for around a third of the Bank's market share in gross loans and deposits. With outstanding flexibility in fulfilling our corporate customers' needs and offering one of the most comprehensive ranges of products and services in the country, we are proud to serve c.3,100 businesses in Georgia and play a role in developing key sectors of the local economy, including trade, energy, industry, and tourism, among others.

Our Corporate Banking business is a leading trade finance provider in Georgia.

The success of our Corporate Banking rests on four main pillars: operational excellence, sound credit quality, attraction and retention of great talent, and advisory mindset. Multifaceted financial and advisory services coupled with a relentless focus on best-in-class customer experience make us a universal bank of choice and top-of-mind advisor for Georgian corporates.

Gross CIB loan book¹
(GEL billion)

Market share²

4.6

32.0%

+24.3% y-o-y

Client deposits¹
(GEL billion)

Market Share²

6.4

37.3%

+67.2% y-o-y



¹ Includes Wealth Management gross loans and client deposits, respectively.

² Market shares by loans and deposits to legal entities, respectively, based on standalone accounts of the banks published by the National Bank of Georgia as at 31 December 2020.

Wealth Management

We are the established leader in wealth management services in Georgia.



Bank of Georgia has been active in asset and wealth management since 2005. Accommodating 1,578 local and international customers from 78 countries as at 31 December 2020, our Wealth Management (WM) business provides private banking services to high-net-worth individual customers and offers investment management products. The Bank has representative offices and subsidiaries in Eastern Europe, the Middle East, and the UK. Our superior service, coupled with local economic stability, a business-friendly environment, and the favourable tax regime in Georgia, provide our customers with unique opportunities to invest in Georgia.

Our strategic focus in Wealth Management business is delivering profitable growth, which we aim to achieve by diversifying wealth management offerings.

AUM¹
(GEL billion)

**Number of WM
customers**

1.6

+7.0% y-o-y

1,578

¹ We have amended the assets under management definition in 2020 to exclude certain illiquid assets that we hold in custody, and include only the most liquid assets that are being traded on an ongoing basis, and where we earn material fees on holding or trading such assets. The 2019 figure has been restated accordingly.

Strategy

**Market and Industry
Overview**

Strengths that make Georgia an attractive place

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

Doing business

#7  **THE WORLD BANK**
IBRD • IDA

Out of 190 countries

Economic freedom

#12  **The Heritage Foundation**

Out of 178 countries

Corruption perception

#45  **TRANSPARENCY INTERNATIONAL**
the global coalition against corruption

Out of 180 countries

Open budget index

#5  **International Budget Partnership**

Out of 117 countries

Business bribery index

#28  **TRACE** Anti-Bribery Compliance Solutions

Out of 194 countries

3rd-lowest tax burden globally

0%  **THE WORLD BANK**
IBRD • IDA

Corporate income tax on retained earnings



No downgrades from global rating agencies

FitchRatings

BB Negative affirmed
February 2021

MOODY'S
INVESTORS SERVICE

Ba2 Stable affirmed
August 2020

S&P Global
Ratings

BB Negative affirmed
February 2021

Source: Doing Business 2020, Economic Freedom Index 2021, Corruption Perception Index 2020, Open Budget Index 2019, Business Bribery Index 2020, Total tax and contribution rate (% of profit) according to Doing Business 2020

Strengths that make Georgia an attractive place

Georgia's strong record of economic reforms has supported robust economic growth, improved external balance, and reduced fiscal deficit over the last decade. Despite different global and regional economic shocks, real GDP has grown at an average annual rate of 4.9% in 2010-2019, with the country's current account deficit improving from 9.8% of GDP to 5.5% of GDP during the same period. The COVID-19 pandemic, however, has temporarily halted these gains, as the economy contracted by 6.2% in 2020, largely reflecting a significant reduction in international tourism, which generated inflows of more than 18% of GDP during the pre-COVID-19 period. The post-COVID-19 economic recovery is expected to be supported by Georgia's sound macroeconomic policy framework and attractive business environment. The Georgian authorities have mobilised sizeable financing from the International Monetary Fund (IMF) and other international partners to respond effectively to the economic crisis induced by the COVID-19 pandemic. This timely and significant support reflects Georgia's long-lasting ties with international institutions and their trust in the country's prudent economic policymaking. Georgia remains one of the most business-friendly countries globally, ranked 7th out of 190 countries in the World Bank's 2020 Doing Business report. The country enjoys a strong reputation as a global top reformer on governance and pro-business reforms, as well as anti-corruption measures.

The EU and Georgia's close relationship is based on the EU-Georgia Association Agreement, including a Deep and Comprehensive Free Trade Area (DCFTA) agreement, which entered into force in July 2016 and strives for political association and economic integration. Georgian citizens have benefited from visa-free travel to the Schengen area since March 2017. While committed to the EU integration agenda, Georgia has also managed to stabilise its relations with Russia, as the latter lifted its embargo on Georgian products in 2013. Moreover, Georgia-China economic ties are intensifying, and a free trade agreement, signed in 2017, is expected to further expand the Chinese market for Georgia's exports. The free trade arrangements with the EU and China position Georgia well to continue attracting foreign direct investments.

The largest credit rating agencies (Moody's, Fitch Ratings, and S&P Global Ratings) have acknowledged the country's economic and institutional strength and resilience to global shocks. Georgia's credit ratings have not changed during 2020 notwithstanding the pandemic.

Currently, the Georgian Government's emphasis is on overcoming the COVID-19-pandemic-related crisis, helping the economy recover, aspiring to European and Euro-Atlantic integration, and preparing Georgia institutionally, socially, and economically, to apply for EU membership by 2024. Furthermore, the introduction of the pension reform in 2019 has encouraged the mobilisation of savings for investment to support medium-term growth and provides an additional safety net for the elderly. The National Bank of Georgia (NBG) aims to reduce external vulnerabilities by reducing dollarisation in the economy and supporting capital market development.



Economic developments in 2020

Georgia's economy has been negatively affected by the COVID-19 pandemic, primarily as a result of lockdowns and the halt in international tourism. Georgia successfully contained the first wave of the pandemic in the spring of 2020 by introducing hard lockdown measures, including the overnight curfew and the ban on transportation, in the second quarter of 2020. From mid-May 2020, businesses gradually reopened, but international flights only resumed to a limited number of countries from August 2020. A surge in COVID-19 cases in the autumn of 2020 led to the reintroduction of lockdown measures in the retail and hospitality sectors in December 2020 and January 2021, as well as the overnight curfew and the ban on public transportation, while avoiding the full-scale lockdown for other areas of the economy, unlike in April-May of 2020.

The economy contracted by 6.2% in 2020, as the recovery dynamics of 3Q20 was reversed in the last quarter as a result of the partial second lockdown. Notably, despite some deceleration, the banking sector lending portfolio growth remained robust, increasing by 9.1% y-o-y in 2020 on a constant currency basis. The hospitality and other tourism-related sectors were hit the hardest in 2020, but there were still positive dynamics in other sectors of the economy, including mining, agriculture and education.

The current account deficit widened to 12.3% of GDP in 2020, as a result of the sharp drop in tourism revenues. The negative services balance was partly offset by the improved goods trade balance and better-than-expected remittances inflows. On the financing side, strong donor support was more than sufficient to meet external financing needs. The COVID-19-related support from IFIs fully covered the fiscal requirements in 2020; however, a fiscal stimulus package (higher healthcare spending, and support to households as well as tax exemptions and various funding mechanisms for businesses), estimated at 4% of GDP, led to a widened fiscal deficit of 9.1% of GDP.

Government support measures

- The Government implemented a series of support measures designed to mitigate the negative economic impact of the COVID-19 pandemic.
- Fiscal stimulus for affected businesses and households and the healthcare sector, stood at **c.4% of GDP** in 2020. The 2021 budget also targets the continuation of various stimulus measures in 1H21 at **2.1% of GDP**.
- Support measures comprise health-related spending, support to households, and support to SMEs and businesses in hard-hit sectors.
- Strong donor support was more than sufficient to meet the COVID-19-related fiscal needs in 2020 – **US\$ 1.7 billion** donor financing for the public sector.

COVID-19 fiscal support measures in 2020 and in the first half of 2021

Business support measures

- Personal income tax exemptions
- Property tax exemptions for the tourism sector
- Tax write-offs
- Loan interest subsidies for the tourism sector
- Micro grant programme
- Credit guarantee fund
- VAT refunds

Support to households

- Utility subsidies
- Compensation for private sector employees who lost their jobs
- Compensation for self-employed people who lost their jobs
- Transfers to vulnerable families
- Transfers to disabled persons

Healthcare

- Medical supplies, quarantine costs, testing and treatment costs

Due to the pandemic-related uncertainties, the local currency depreciated sharply against the US Dollar in March 2020, before regaining some of its value in summer 2020. The depreciation pressure renewed in autumn following the spike in the COVID-19 cases, negatively affecting expectations. The NBG interventions stabilised the local currency at the end of December 2020. Despite these interventions, international reserves increased to US\$ 3.9 billion (up 11.5% y-o-y) as at 31 December 2020, largely reflecting increased donor funding. The NBG maintained a moderately tight monetary policy to anchor inflation expectations and limit the pass-through impact from the local currency depreciation. Meanwhile, annual inflation dropped to 2.4% in December, from 3.8% in previous months, reflecting utility subsidies by the Government for lower energy consumers.

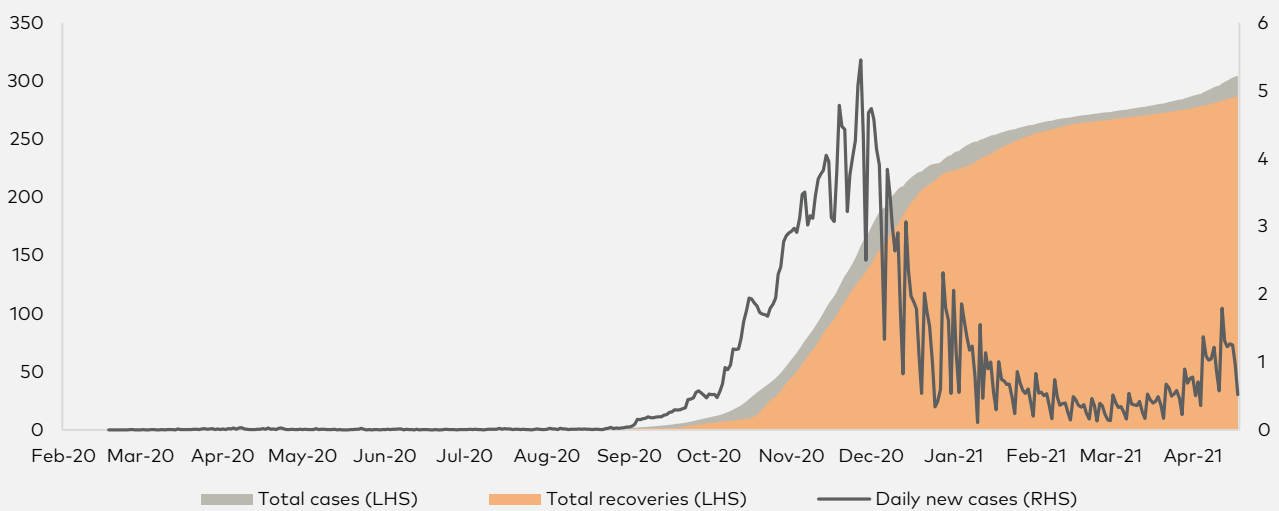
COVID-19 pandemic in Georgia

Georgia was among the first countries to introduce strict virus containment measures in early 2020, including border closures, the overnight curfew, the ban on transportation, quarantines, and closures of non-essential business, among others.

The swift response helped contain the spread of the virus in the first half of 2020, but the surge in virus cases in the autumn of 2020 prompted the second-round partial lockdown in December 2020 to January 2021, although this was not a full-scale lockdown like that in the spring of 2020.

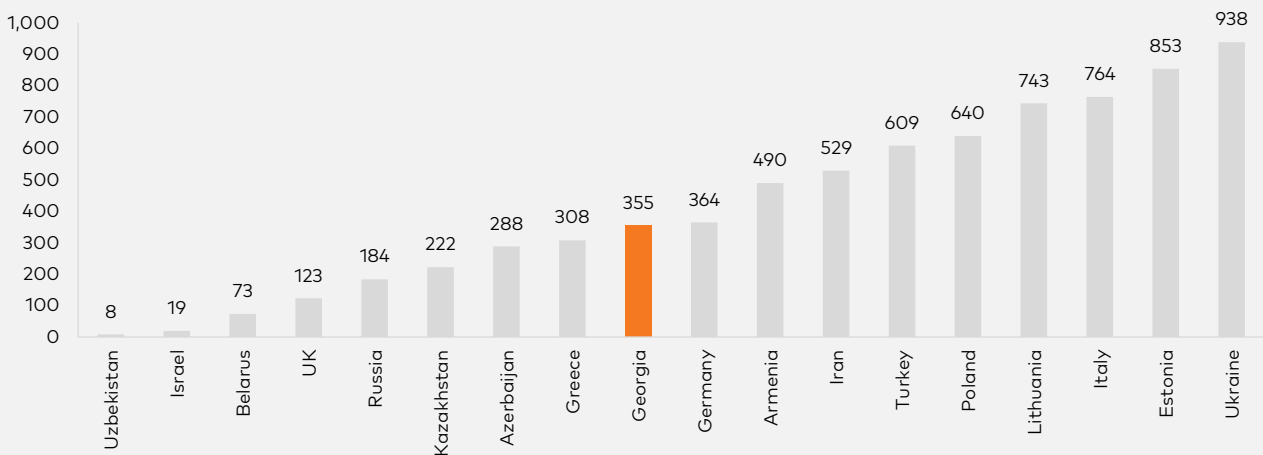
As the COVID-19 cases reduced significantly at the end of January 2021 (daily cases down to 479 from the peak of 5,450 during two months), the Government has started to gradually lift restrictions from 1 February 2021. Flights have also resumed to a number of countries. Notably, the Government maintains an informational website that provides live statistics on the spread of the virus in Georgia, as well as on restrictions and support measures – www.stopcov.ge.

COVID-19 statistics in Georgia, thousand persons



Source: NCDC, as of 26 April 2021, 12:00

COVID-19 active cases per 100,000 persons



Source: Johns Hopkins, Worldometer, as of 26 April 2021, 12:00

Prudently managed banking sector

The banking sector is one of the fastest-growing sectors of the Georgian economy, fully privately owned, with the two largest banks accounting for 73.8% of the total assets at 31 December 2020. Notably, prudent regulation and conservative oversight by the National Bank of Georgia resulted in stability and resilience of the financial sector during different shocks. Due to the NBG's conservative regulations, liquidity and capitalisation rates in the banking sector have been at historically high levels during the pre-COVID-19 period. Nevertheless, the sector's profitability has remained robust, with return on equity over 20% over the last three years pre-COVID-19.

The banking sector has entered the COVID-19-pandemic-related economic crisis with significant capital and liquidity buffers, which have ensured the resilience of Georgian banks during 2020. Banks' voluntary loan principal and interest payment moratorium and proactively offered restructuring opportunities for borrowers helped minimise the negative impact on loan portfolio quality. The NBG's measures introduced as part of its COVID-19 Response Supervisory Plan – the temporary release of capital buffers, the supply of local currency liquidity to the market, and the extension of the IMF programme, among others – have helped mitigate the negative impact of the pandemic on the financial sector and on the economy.

Credit growth moderated in 2020 due to the pandemic, but still remained strong, growing at 9.1% y-o-y on a constant currency basis. Deposits increased by 20.8% y-o-y in 2020, with local-currency-denominated deposits increasing by 41.3% y-o-y at 31 December 2020. Notably, the banking sector generated positive profitability since April 2020, though significantly reduced compared with the previous year. The profitability indicators were negatively impacted by the frontloading of expected credit losses for the full economic cycle recorded in March 2020.

The Georgian economy in 2021

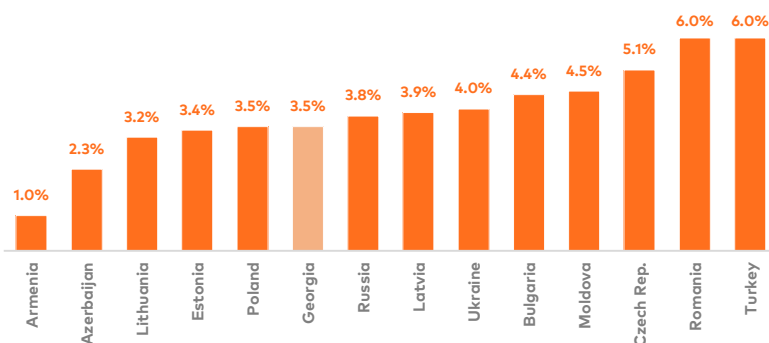
In 2021, the economic rebound in Georgia is expected to be driven by the epidemiological situation, the vaccination roll-out, improved domestic and external sentiments, and continued fiscal stimulus. Georgia successfully managed the second wave of the COVID-19 infections and expectation on vaccination and recovery in tourism supported optimism for economic recovery in 2021. That said, the pandemic still remains one of the key uncertainties in the growth outlook as potential for third wave of the COVID-19 in Georgia, slow vaccination process and delayed recovery in tourism increase a likelihood of a slower economic recovery in 2021. Based on the estimates of Bank of Georgia Group plc's brokerage and investment arm, Galt & Taggart, real GDP growth in 2021 is expected to be approximately 3.6%, revised downwards from 5% growth projected at the end of 2020 / the first quarter of 2021. IMF also revised Georgia's 2021 economic growth forecast downwards to 3.5% in April 2021, from previously projected 4.3% in December 2020.

Inflation: Georgia vs. regional economies



Source: Statistics Offices

Real GDP growth projections, 2021



Source: IMF's WEO, April 2021

Response to the COVID-19 Pandemic Outbreak

The COVID-19 global pandemic has significantly tested the resilience and character of Bank of Georgia, together with that of all of our colleagues and customers. The first case of COVID-19 in Georgia was confirmed on 26 February 2020, and since then the pandemic has impacted people, the economy, and the way we live and work in major ways.

In the wake of the global COVID-19 pandemic, the Bank has introduced a number of resilience protocols and a comprehensive Business Continuity Plan (BCP) aimed at curbing the spread of COVID-19 in Georgia, protecting the health and safety of all our employees and customers, and mitigating the negative impact on our business and communities. We had started to develop the BCP early on, at the end of January 2020, and therefore all of our operations were already successfully adapted to the new operating environment by the end of March 2020, when the full-scale lockdown was introduced in the country. Our BCP rested on the following four resilience pillars:

Resilience throughout the pandemic

Operational continuity

Supporting public health system and communities

Abundant liquidity

Strength of capital

Operational continuity

We have put in place a number of initiatives to reduce physical interactions and prevent spread of the COVID-19, whilst maintaining the full banking capabilities required to support and assist our customers.



Employees

- In light of pandemic developments in Europe in January and February of 2020, we anticipated national lockdown in Georgia and promptly shifted all of our 2,000+ back office employees to remote work, providing them with all necessary technical equipment to work from home.
- The Bank's main branches remained open with additional security measures. We temporarily closed customer service support areas in our Express branches during lockdown, with only self-service terminals and ATM areas remaining open.
- Extensive safety measures have been introduced in the front office, including glass barriers for tellers and operators, distribution of disinfectants, single-use gloves and face masks, among others. The Bank's premises, as well as ATMs and self-service terminals, were sanitised twice a day. All employees and customers entering the Bank's premises still have to undergo mandatory body temperature checks.
- Two-week shifts were introduced in the front office and other service areas across the business during lockdown to ensure ongoing safety and availability of team members.
- Banking services, where possible, were conducted via remote channels, including the call centre, which operated with significantly increased capacity. Fast-tracked resource reallocation and intensive trainings for transferred employees and new-hires were arranged to effectively manage increased customer traffic through this channel.
- Cash centre employees have stricter protocols for clothing and procedures to follow at work in order to minimise the infection risk as a result of handling of cash.
- We provided transportation for front office and cash centre employees when public transport was restricted.



Customers

- We offered a three-month payment holiday on principal and interest payments on retail loans in order to significantly reduce the requirement for customers to physically visit branches, and, thus, contain the virus spread, as well as to support our customers during highly uncertain times.
- Corporate customers and MSMEs operating in the tourism industry were given an immediate loan restructuring opportunity.
- We strengthened safety measures in cash vaults and ensured uninterrupted cash supply to the whole Georgian banking system during hard lockdown in the spring of 2020.
- We have further increased focus on the digitalisation strategy and introduced various initiatives to incentivise the migration of customer activity to digital channels, especially to our mobile bank (mBank).

Standing by customers and communities during lockdown

Enabling businesses to adapt and continue operations during lockdown

- The Bank has also set up a new online platform argacherde.ge to help businesses continue operations during lockdown by selling future-use coupons to customers. See more details on argacherde.ge on page 93.
- In addition to assisting the MSMEs financially, the Bank has also focused on providing educational opportunities for business customers and sharing knowledge and experience with them to contribute to their success. In 2020, the Bank organised a working meeting with companies to teach them to better market their products, sell their products via the largest global platforms, including Amazon, eBay and Etsy, and find new partners. See more details on page 112.

Enabling more retail customers to go digital

- We temporarily removed fees for transactions executed through our internet and mobile banking platforms for a two-month period during lockdown in the spring of 2020.
- We launched mBank (our mobile banking application) without data package, enabling our customers to access mBank without internet connection or mobile data.
- We have developed and shared educational videos to support more customers in using mBank and in benefiting from more of its embedded tools and features.

Supporting public health

- At an early stage of the pandemic, when it was needed the most, the Bank purchased and donated 20,000 COVID-19 laboratory tests, ten ventilators, 50,000 face masks, and 60,000 gloves to the Ministry of Health of Georgia to support the battle against COVID-19 and help prevent its spread.
- As mentioned above, we have introduced maximum safety measures in our branches to contain the virus spread across the country.

More details on the initiatives put in place by the Bank to support our customers and communities can be found on pages 93 to 112 in the Responsible Business section.





Ensuring abundant liquidity

Since the early stages of the pandemic outbreak, we have ensured that the Bank has sufficient liquidity to meet regulatory requirements, as well as to ensure operational continuity of the business and uninterrupted financial support to our customers.

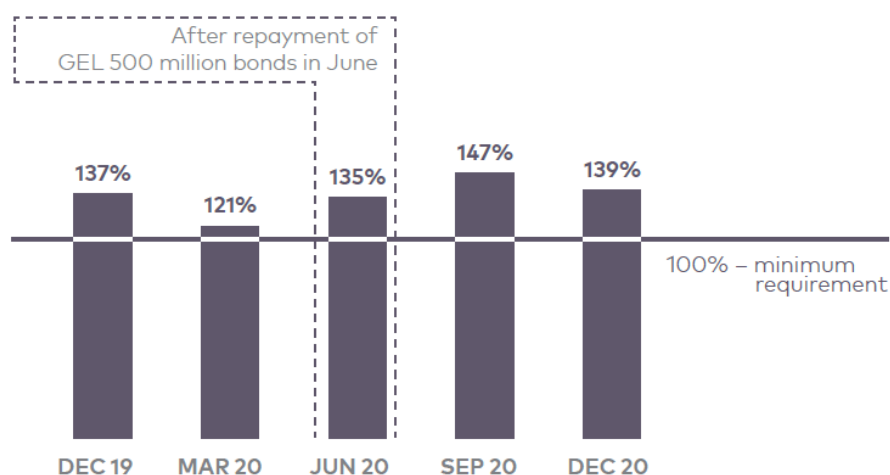
During 2020, the Bank's liquidity position remained strong and comfortably above minimum regulatory requirements. The Bank maintained substantial excess liquidity throughout 2020, primarily for:

- risk mitigation purposes on the back of the ongoing COVID-19 crisis, as an outflow of customer funds was expected at the early stage of the pandemic, which, however, did not materialise. Client deposit balances have continued to grow to date.
- repayment of GEL 500 million local currency bonds, due in June 2020.

Furthermore, the Bank has strong support from international financial institutions. During 2020, we attracted a number of new long-term borrowings in both local and foreign currencies, totalling c.US\$ 300 million, from the International Finance Corporation, the European Investment Bank, FMO – Dutch entrepreneurial development bank in collaboration with other participating lenders, and the European Bank for Reconstruction and Development. These facilities include undrawn committed lines as of the end of 2020 that will further enable us to proactively support our customers and the forthcoming economic recovery.

See pages 84 and 85 for more details on how the Bank monitors the liquidity risk, as well as the details on measures implemented by the National Bank of Georgia as part of its updated supervisory plan aimed at alleviating the negative financial and economic challenges created by the COVID-19 pandemic in Georgia.

Liquidity coverage ratio



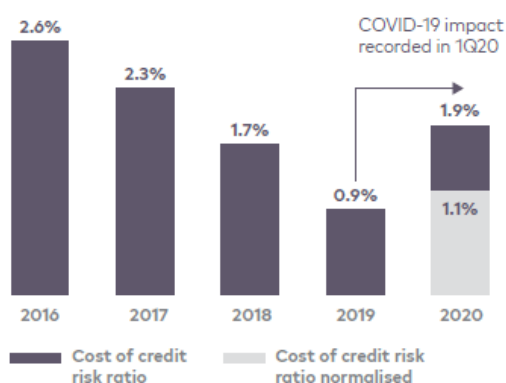
Ensuring a strong capital position

The Bank's capital position remains robust and comfortably above minimum regulatory requirements amid the COVID-19 pandemic. At 31 December 2020, the Bank's Basel III Common Equity Tier 1, Tier 1, and Total capital adequacy ratios stood at 10.4%, 12.4% and 17.6%, respectively, all comfortably above the minimum required levels of 7.4%, 9.2% and 13.8%, respectively.

Below is a list of factors that affected our capital position and the measures that ensured the strength of the Bank's capital in 2020:

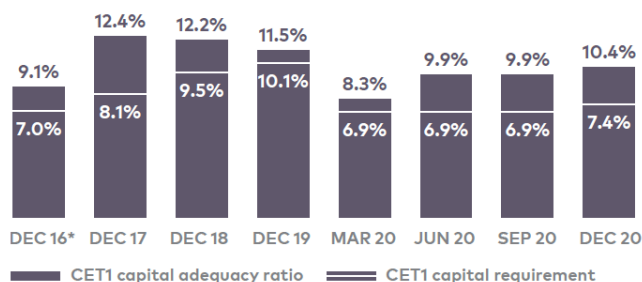
- Entering the COVID-19 environment with a de-risked banking sector:** introduction of responsible lending regulations in December 2018, followed by a shift in the loan portfolio mix to more secured lending, coupled with Bank of Georgia's robust risk management system, resulted in a consistent decrease in cost of credit risk over the last four years, from 2.6% in 2016 to under 1.0% in 2019. Going into 2020, we expected normalised cost of credit risk at around 1.0-1.2%. This meant that Georgia's banking system overall, and Bank of Georgia in particular, were able to face the pandemic with a healthy balance sheet and de-risked environment. Therefore, despite taking upfront provisions for expected credit losses for the full economic cycle in the first quarter of 2020, our cost of credit risk ratio remained at a manageable level of 1.9% in 2020.
- Upfront provisions for expected credit losses for the full economic cycle:** in March 2020, the Bank created a general provision of c.GEL 400 million under the Bank's local accounting basis, which is used for the calculation of capital ratios under the NBG Basel III framework. This represents approximately 3.3% of the Bank's lending book subject to provisioning under the local accounting standards. The NBG considers banks' capital ratios to be sufficiently in excess of expected minimum capital requirements to be able to absorb the upfront general provision for the full economic cycle whilst maintaining a sufficiently comfortable buffer over required minimum capital ratios. On an IFRS basis, the Bank similarly took an upfront provision, built to cover expected credit losses in both the Retail and Corporate and Investment Banking businesses for the full economic cycle.
- Release of capital buffers by the National Bank of Georgia:** in March 2020, the NBG introduced an updated Supervisory Plan for the banking sector, aimed at alleviating the negative financial and economic challenges created by the global COVID-19 pandemic. The measures on capital adequacy have allowed banks to use existing regulatory capital buffers to support customers in current, financially challenging circumstances, to continue normal business activities as much as possible, and to support the economy through ongoing lending operations. As part of the NBG's COVID-19 supervisory plan, during the period that banks partially or fully use Pillar 2 or conservation buffers, they are restricted from any form of capital distribution. See pages 86 to 87 for more details on the NBG's COVID-19 Supervisory Plan.
- Strong internal capital generation:** the Bank has a recent track record of strong profitability and capacity to generate high levels of internal capital. Our CET1 capital adequacy ratio was rebuilt to 10.4% as at 31 December 2020, after coming down to 8.3% as at 31 March 2020 as a result of upfront general provisions for expected credit losses over the full economic cycle.

Cost of credit risk ratio



NBG BASEL III CET1 capital adequacy ratio

* Basel II CET1 capital adequacy ratio and requirement



Our Mission

**We are here to help
people achieve more
of their potential**

We bring our mission to life every day by developing solutions and creating opportunities that empower our customers, employees, and the communities where we operate. We are committed to creating shared successes. By harnessing the power of our business, we help tackle some of the biggest societal challenges, uncover new opportunities, and drive sustainable development of our communities.

Given our footprint in Georgia, we recognise the role we do and can play in supporting the national commitment to the UN Sustainable Development Goals (SDGs) and the Paris Agreement. Throughout the report we have flagged the activities that contribute to achieving the SDGs. Given the scale of our business, each of the 17 SDGs have some relevance to the Bank's direct or indirect activities, but particular focus is given to the five goals which we consider most material to our business. For the five goals we have identified key themes where we believe we can deliver the most impact and that we, as a Bank, are committed to advance:



- Expanding access to financial services and promoting digitalisation as key enabler of financial inclusion
- Increasing financial literacy and promoting financial wellbeing



- Expanding access to quality education and education infrastructure
- Creating and promoting lifelong learning opportunities for customers and employees



- Promoting equal opportunities in the workplace
- Empowering women entrepreneurs



- Promoting entrepreneurial culture and fostering the development of local MSMEs
- Financing sectors critical for Georgia's economic growth and sustainable development
- Empowering our employees and building high-trust, values-based workplace
- Helping young people with employment and career development



- Reducing direct negative impacts from our operations
- Embedding climate-change-related risks into risk management framework and procedures
- Raising awareness of climate-change-related risks and opportunities

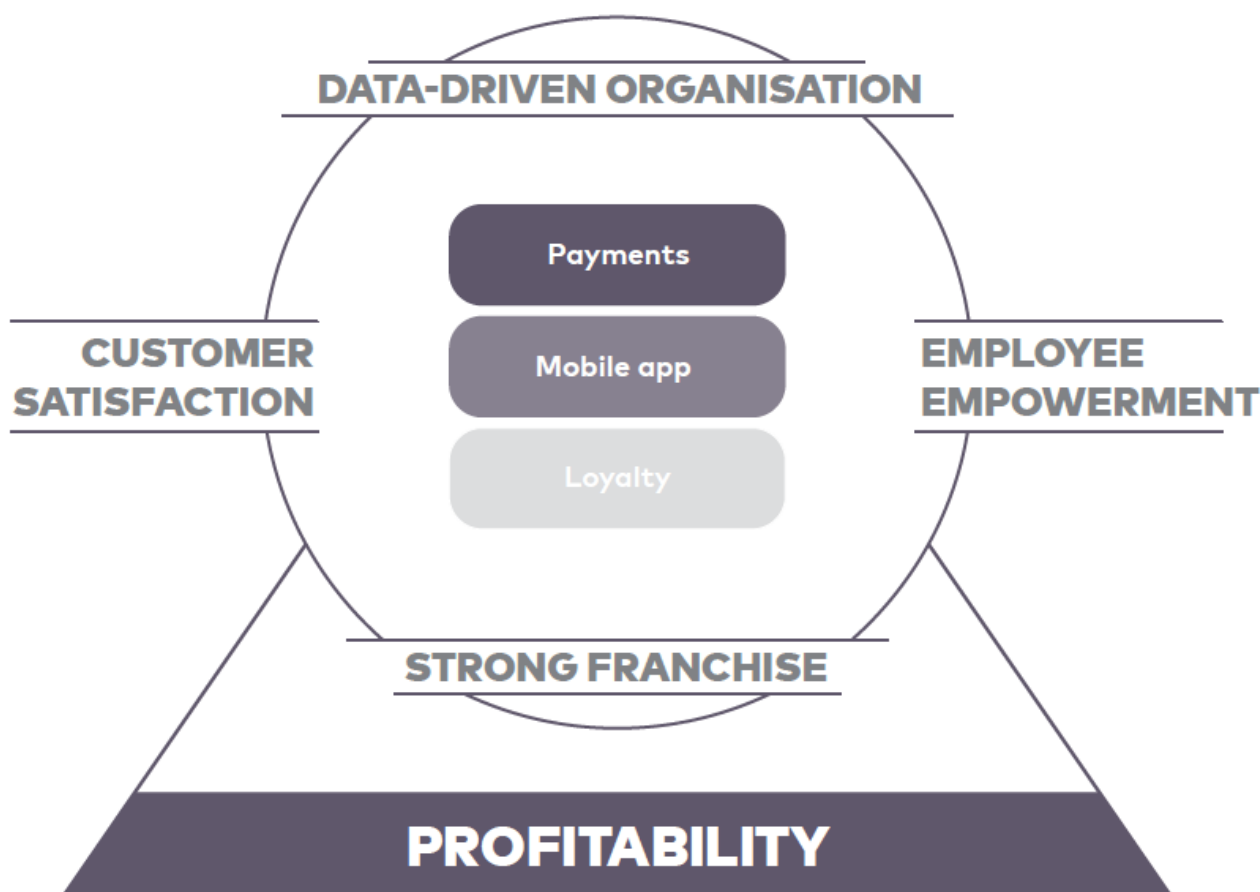
Archil Gachechiladze, General Director: "2020 was a challenging year, and the COVID-19 pandemic has amplified the role we play in helping our customers, employees, and communities through the pandemic as well as in supporting recovery and building resilient and sustainable communities that we can all be proud of. We are here to help people achieve more of their potential despite roadblocks, and our dedicated and united team actively listens to and engages with all our key stakeholders to deliver the best possible outcomes at all times and be a force for good in our communities."

Business Model and Strategy

Strategic focus

Bank of Georgia is a leader in payments business, financial mobile applications, and loyalty programmes in Georgia. By continuously focusing on digitalisation and expanding technological and data analytics capabilities, the Bank aims to anticipate customer needs and offer more personalised, seamless experiences. Employee empowerment, customer satisfaction, and data-driven decisions, coupled with the strong banking franchise, are key enablers in enhancing and developing our strategic objectives. With all these strategic building blocks we have laid the groundwork for the bank of the future, and we are committed to delivering strong profitability and maximising shareholder value.

BANK OF THE FUTURE



By harnessing strong customer relationships, continuous digital innovation, and a solutions-based banking approach, the Bank aims to deliver on its medium-term strategy, which is based on at least 20% ROAE and c.15% growth of the loan book.

Key medium-term strategic targets

Loan book growth

c.15%

ROAE

20%+

Dividend payout

25-40%

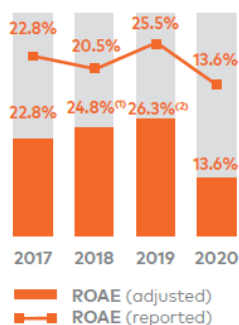
Delivering on Our Strategy

**Successful track record
of delivering promised
strong results, amid
challenging operating
environment**

Key medium-term strategic targets

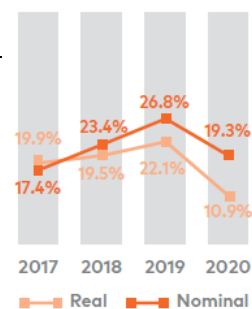
ROAE

20%+



Loan book growth

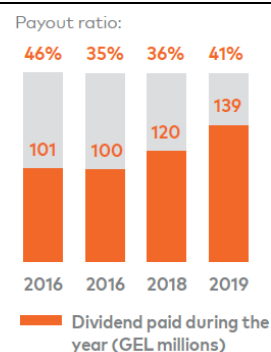
c.15%



Robust capital management track record

- **Capital position:** We aim to maintain a buffer of **c.200 basis points over minimum regulatory** requirements for CET1 and Tier 1 capital ratios in the medium term
- **Maintaining regular dividend payouts:** Aiming at **25-40%** dividend payout ratio. Resuming dividend payout depends on new capital requirements schedule to be released by the NBG
- **GEL 653mln+** cash dividend paid during 2013-2019, within the targeted **payout ratio range**

Regular dividends



2020 ROAE – 13.6%

The Bank has a track record of consistently delivering superior returns in excess of 20%. The Bank's 2020 results were significantly impacted by the COVID-19 pandemic outbreak:

- **Challenging operating environment affecting all quarters in 2020:** Whilst our second quarter results were significantly impacted by the environment and the measures we put in place to manage the crises, we have seen significant recovery in economic activity since June 2020. The recovery slowed down in 4Q20 on the back of the new partial lockdown restrictions introduced at the end of November 2020, which primarily affected our Retail Banking results. That said, the Bank's operating income only decreased by 2.0% y-o-y in 2020.
- **Operating expenses:** Our costs stood largely flat during 2020 (up 2.5% y-o-y), mostly as a result of a number of cost optimisation initiatives in the second quarter of 2020, which offset some one-off spend related to the COVID-19 mitigation measures. That said, we have continued investments in IT-related resources, digital and data capabilities, and marketing, as part of our key strategic priorities, and, at the same time, maintained our focus on efficiency and cost control. Our medium-term cost to income ratio target of c.35% remains unchanged.
- **Upfront expected credit losses:** The Bank recorded significant upfront ECL provisions on loans to customers and finance lease receivables created for the full economic cycle in the first quarter of 2020, related to the adverse macroeconomic environment and the expected negative impact on creditworthiness of borrowers as a result of the COVID-19 pandemic. These assumptions were further revisited during the year to reflect macroeconomic forecast updates, better visibility of the portfolio, and a detailed review of our borrowers' creditworthiness. As a result, the provisions created in 1Q20 overall proved to be sufficient.
- **Loss on modification of financial assets:** The Bank recorded a GEL 39.7 million one-off net loss on modification of financial assets in relation to the three-month payment holidays on principal and interest offered to our retail banking clients in March 2020, in order to reduce the requirement for customers to physically visit Bank branches and reduce the risk of the COVID-19 virus spread. The net loss incurred on these modifications has been classified as a non-recurring item in the income statement.

As a result, the Bank generated profit of GEL 298.7 million in 2020 (down 37.5% y-o-y), with ROAE of 13.6%.

2020 loan book growth – 19.3%

The loan book growth in 2020 was strong across all business lines and better than expected despite the challenging operating environment. Our loan portfolio increased by 19.3%, and by 10.9% on a constant currency basis in 2020. In the medium term, we expect customer lending growth to be around our 15% target level.

¹ The 2018 ROAE adjusted for GEL 45.4mln demerger-related costs, GEL 8.0mln demerger-related corporate income tax gain, GEL 30.3mln one-off impact of re-measurement of deferred tax balances, and GEL 3.9mln (net of income tax) termination costs of the former CEO.

² The 2019 ROAE adjusted for GEL 14.2mln (net of income tax) termination costs of the former CEO and executive management.

Retail Banking

Customer-centric and solutions-based multi-brand strategy

Over the past decade, Retail Banking has been the main driver of the Banking Business growth. We are a leading retail franchise in Georgia serving more than 2.6 million customers as at 31 December 2020. The Retail Banking segment demonstrated strong performance in 2020, notwithstanding the negative impact of the COVID-19 pandemic. The loan and deposit portfolio growth amounted to 17.6% y-o-y and 24.3% y-o-y as at 31 December 2020, respectively, and we delivered ROAE of 10.3% in 2020. We have substantially improved our customer value proposition and our positioning across key areas.

Our Retail Banking comprises the following segments: Mass Retail, SOLO for affluent retail customers, and MSME banking. Each segment serves and focuses on the specific needs of its respective clientele. The key priorities, strategic objectives, and major developments during 2020 for each sub-segment are described below.

Mass Retail

Our Mass Retail segment provides universal retail banking services, as well as cutting-edge industry solutions, to our emerging and mass retail customers through cost-efficient remote channels such as our Express Pay terminals, mobile and internet banking, and technology-intensive retail branches.

We are a strong retail banking franchise, a leader in the payments business and in the financial mobile application. We are the first-choice bank, especially for Generation Z. In all of the most recent surveys conducted in fall 2020, the Bank clearly comes out "top-of-mind" and is regarded as the most trusted financial institution across all age groups of the Georgian population.

Scale of our Retail Banking business

Strong customer base

2.3 MLN+

Mass Retail customers

298K

Payroll customers, c.36.% of employed (hired) population

Leading bank in payments and financial mobile banking application (mBank)

49%

Market share by number of transactions at POS terminals¹

c.6 MLN

Transactions in mobile application per month

Strong Retail Banking franchise

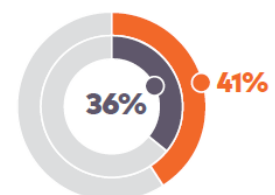
40.3%

Market share in deposits of individuals¹

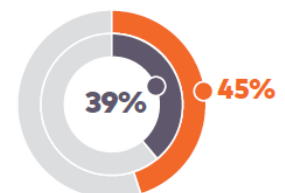
37.7%

Market share in loans to individuals¹

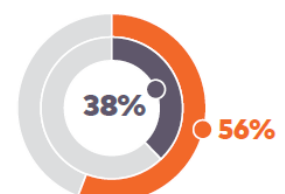
First-choice bank



Most trusted bank**



Main bank for majority**



Main bank for Generation Z**

● Bank of Georgia ● Peer Bank

¹ Market shares based on the data published by the National Bank of Georgia as at 31 December 2020.

** Based on fall 2020 research by IPM Georgia (independent research company).

Strategic focus and key priorities

Over the past several years the Bank has evolved from a product-focused to a customer-centric business model, resulting in more tailor-made offerings and solutions for our customers. We have focused on deepening our understanding of customer wants, needs, and behaviours so that we can provide personalised and relevant products and services where and when they are most needed.

Our objective is to be the bank that focuses on the success of our clients. This includes knowing what our customers' financial and non-financial needs are, what they expect, or what they plan for the future. This knowledge is key to delivering on our main strategic pillar — seamlessly predicting and satisfying customers' needs by offering them personalised packaged solutions, through digital channels.

To deliver on the main strategic pillar, we have developed a digital ecosystem where our clients can fulfil a variety of needs in an integrated experience. Our payments ecosystem and convenient channels, including mBank and iBank, are keys to smooth and enjoyable banking experiences. We harness advanced data analytics tools and other technologies, such as Medallia and, going forward, Salesforce, to better anticipate customers' needs and continuously improve customer journeys across all channels. All of this, together with our loyalty programme, enables us to build and maintain ever stronger customer relationships.

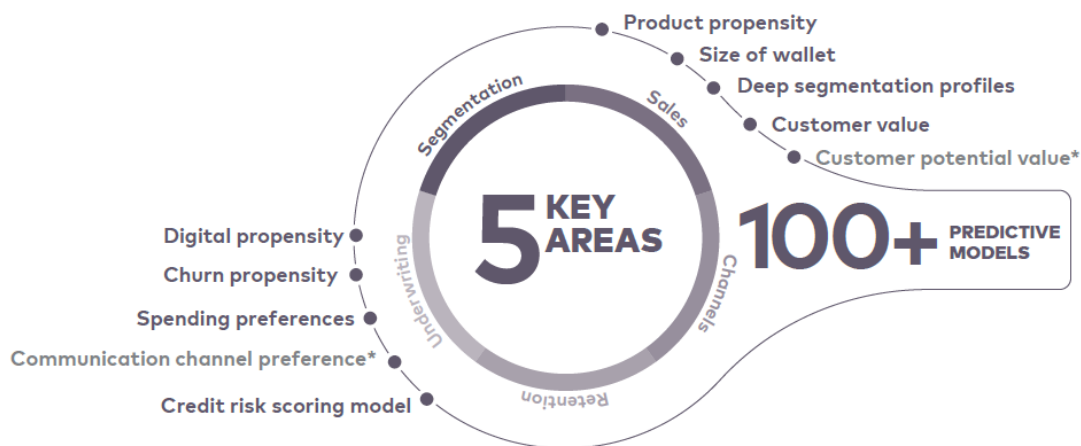
Predicting and satisfying customers' needs seamlessly through digital channels



Advanced analytics

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

We have been using advanced analytics tools for several years and have incrementally improved our understanding of customer behaviour. With big data we look to the future, that is, we focus on developing predictive models that will enable us to offer our customers what they want and need in the exact moment. Currently we use more than 100 predictive models with high GINI coefficient, an indicator of model quality. We cover the five key areas of our business: sales, channels, retention, underwriting, and segmentation. We will continue to invest in and expand our advanced analytics capabilities to deliver innovative solutions and superior experiences to our clients in real time. See more details on data analytics on page 55.



Campaign management

One of the key areas where we use advanced data analytics is campaign management. We focus on three areas: **sales, offloading, and payments**. The 2020 initiatives in campaign management and respective outcomes are summarised below:

Sales

17 MLN+

Unique offers to customers

10

Offers per unique customer

15%+

Contribution in total sales

Offloading

17 MLN+

Unique offers to customers

8

Offers per unique customer

1 MLN+

Offers converted

Payments

4 MLN+

Unique offers to customers

4

Offers per unique customer

6%+

Conversion rate

Loyalty programme

In order to unlock customers' full potential and boost Mass Retail product to client ratio, we run the loyalty programme – Plus+. The programme is an unmatched value proposition on the Georgian market, underpinning Bank of Georgia's strong retail franchise. The loyalty programme offers customers different status levels and reward points, which can be accumulated through payments activity and then redeemed in exchange for partner companies' products or services, cash, or mobile top-ups. Our loyalty campaigns boost the sales of the partner businesses which are involved in the programme. We apply data analytics tools to develop these campaigns, and as we refine our advanced analytics capabilities, we aim to generate campaigns and offerings on a much more personalised basis.

Plus loyalty programme – one of the strengths of Bank of Georgia

c.1.4 MLN

Active loyalty programme members

c.124K

Loyalty points exchange operations per month

44%

Average increase in sales volume during merchant campaigns

Personalised campaigns

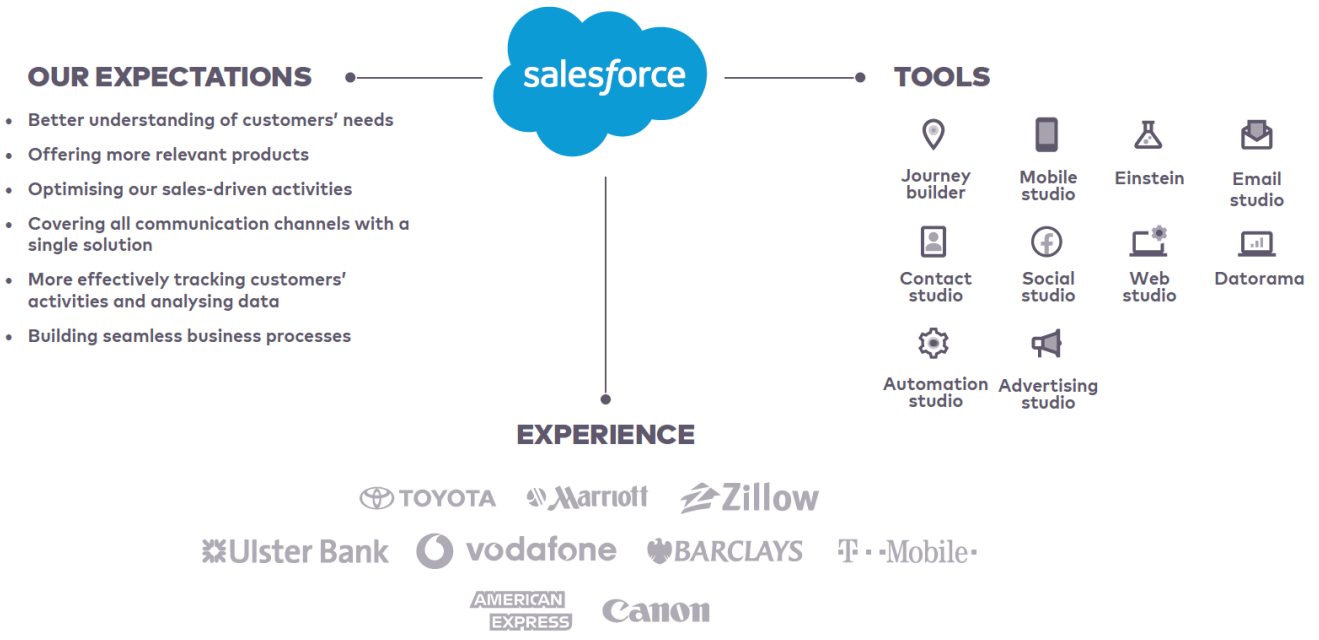
Advanced analytics for partner merchants

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

In 2020, Bank of Georgia unveiled a new collaboration with the world's leading customer relationship management company, Salesforce, to enhance customer experiences across the Bank's digital channels. With this collaboration we are taking our customer focus a step further, towards the full digital transformation that will further enable the Bank to provide more and better tailored solutions and experiences to its customers.

The multichannel functionalities of Salesforce will facilitate the integration of customer experiences throughout their entire journeys within a single platform. Having a complete, 360 degree view of customers as they interact with the Bank will allow us to better respond to changing customer needs and wants and to shape more positive and connected experiences across touchpoints.

Collaboration with the world's leading customer relationship management company

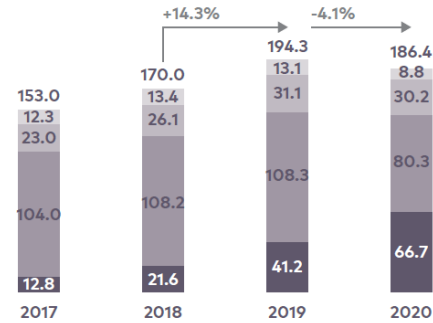


Convenient channels

Digitalisation is one of our key priorities, and we continuously update and upgrade our digital channels based on the concerns and preferences of our customers to enhance digital customer experiences (see more details on the new services and functionalities in mBank and iBank in Digital Banking Experience section on pages 52 to 56). The number of active users of mBank and iBank has increased markedly, and the number of transactions executed via mBank and iBank were up 62% in 2020 compared with the prior year.

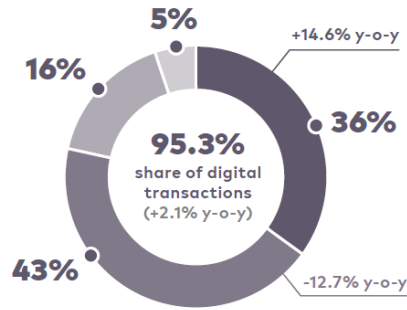
Multichannel performance

Number of transactions in millions



Transactions breakdown by channel

2020 results



Legend: iBank/mBank, Self-service terminals, ATMs, Branches, Other

Going forward, our focus is to accelerate sales growth in digital channels and turn mBank into the main sales channel. Currently, 38% of sales-related transactions are executed in the Bank's branches. We view our self-service terminals as a key transition channel from physical to digital. The migration has been significant over the past few years. The next step is shifting customers' activity from self-service terminals to mBank. The overall offloading ratio was more than 95% in 2020, a 2 ppts improvement from the prior year.

Payments ecosystem

Our payments ecosystem is one of the cornerstones of our business. Considering that over two million people interact daily with the Bank's channels, one of the three fundamental pillars in the payments business is customer satisfaction. The second pillar, data, enables us to digest more than 800,000 different types of information on customer behaviour per day and develop tailor-made offerings. In terms of profitability, the third pillar, the payments business generated around 28% of the Bank's net fee and commission income in 2020.

Customer experience

Over two million people interact with the Bank on a daily basis

Data source

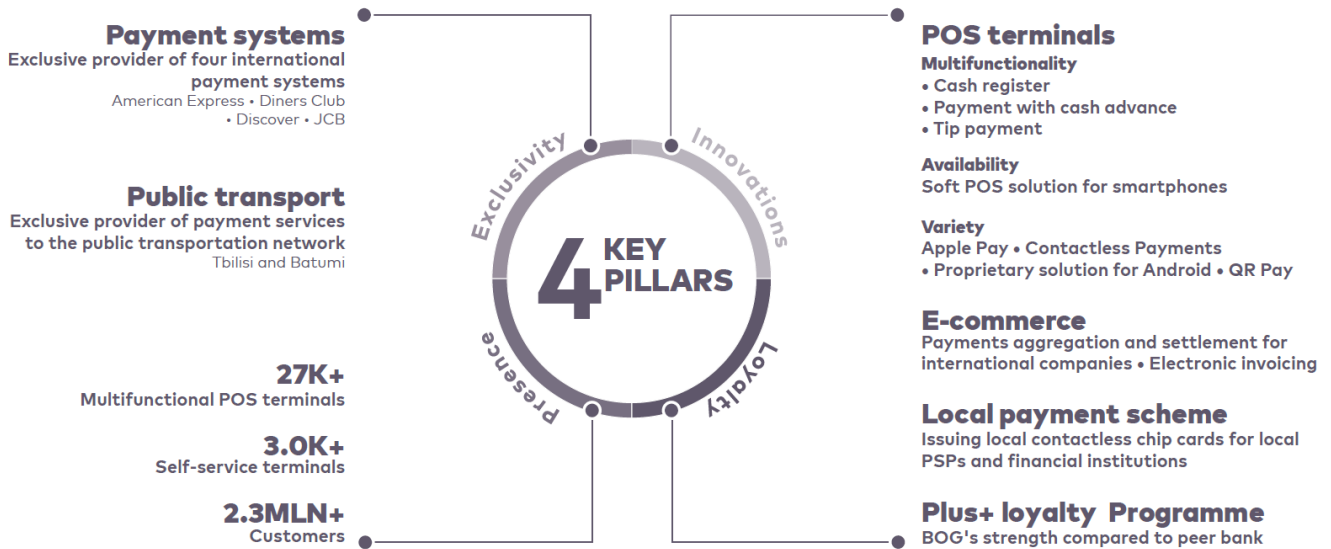
More than 800,000 different types of information on customer behaviour per day

Revenue contributor

28% of total net fee and commission income in 2020

Our payments ecosystem rests on four values: innovation, presence, exclusivity, and loyalty. Innovation is crucial in the payments ecosystem, and we showcase it in our digital channels: mBank, iBank, iPay, POS terminals, self-service terminals. See pages 52 to 56 for additional information on the Digital Banking Experience. We have the biggest presence in Georgia through our POS and self-service terminals. We have exclusive partnerships with four international payment systems (American Express, Diners Club, Discover, and JCB), in addition to our partnerships with Visa and MasterCard. We are also an exclusive payments services provider in public transportation in Tbilisi and Batumi. As for our loyalty programme, it is one of our key strengths, which we leverage to boost engagement of our retail customers and merchants.

Scale of our payments ecosystem



Acquiring business was significantly impacted by the COVID-19 pandemic, especially during the second quarter of 2020. However, starting from the third quarter we have seen a rebound in economic activity. The Bank's team tried its best to tap opportunities during the crisis. We acquired new merchants and saw a major increase in e-commerce merchants in 2020.

The outcomes of our initiatives are reflected in the 2020 full-year results as outlined below:

Newly acquired merchants
+32%
in 2020



Growth of e-commerce merchants
in 2020



New partnership contracts signed
with international companies in 2020



New products and services
launched in 2020



Number of payments transactions at BOG terminals in 2020

100 MLN

+20.3% y-o-y

Market share by number of payments transactions in POS terminals in 2020¹

49%

+2 ppts y-o-y

Volume of payments transactions at BOG terminals in 2020

GEL 2.7 BLN

+4.5% y-o-y

Market share by volume of payments transactions in POS terminals in 2020¹

47%

+1 ppts y-o-y

¹ Market shares are based on the data published by the National Bank of Georgia as at 31 December 2020.

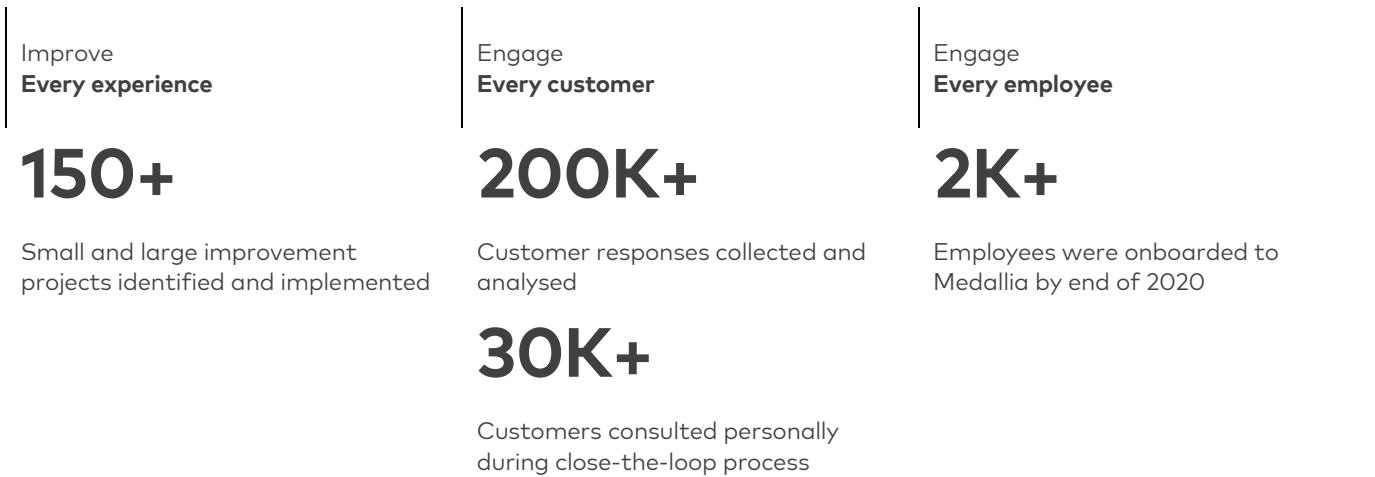
Customer experience

The success of our strategy depends on how happy our customers are with the experiences they have as they interact with Bank of Georgia across different channels. In 2019, we invested in the leading customer experience management platform, Medallia, to support the Bank's team in optimising customer experience efforts, capturing, understanding, and prioritising large amounts of customer feedback in real time, sharing actionable insights across the Bank, and driving actions to improve the overall customer experience.

The objective of customer experience management is to engage every customer by capturing her input across journeys and channels, to efficiently "close the loop", to identify the root causes of problems and resolve open issues that emerge based on customer feedback. We also aim to engage our employees by providing them with timely data and tools to act promptly to deliver improved solutions for our customers.

We first launched Medallia in digital channels in October 2019 and expanded it to the call centre and the branches in March 2020 to cover all of the key touchpoints. Across each channel and journey, we measure the Net Promoter Score (NPS) and Customer Satisfaction (CSAT), as well as the main drivers of each score, on a daily basis. We obtain additional insights through the efficient close-the-loop process, which helps us provide our customers with on-the-spot resolutions and identify the root causes of the issues that arise.

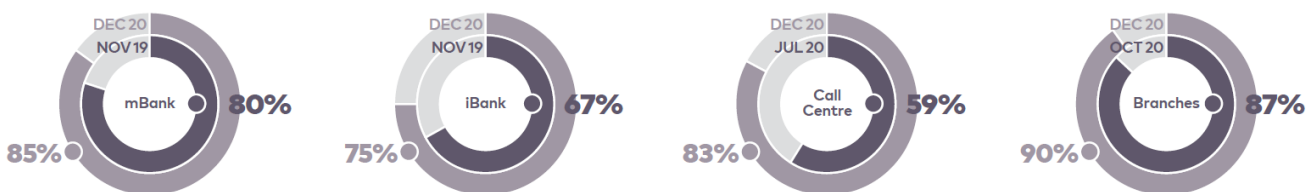
In 2019 we invested in #1 customer experience management platform



The vast amount of feedback from our customers helps us be continuously aware of our progress as well as of opportunities to further develop and innovate. Multiple improvement projects have been identified and implemented based on customer feedback since October 2019. Customer voice also provides us with important insights on the coaching and training needs of our employees, a crucial component of successful customer experience management with Medallia.

As a result of our commitment to customer-centricity, we saw significant improvements in our channel satisfaction scores in 2020:

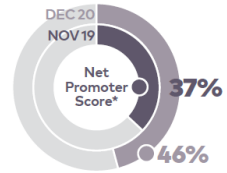
Channel satisfaction



In order to design superior customer experiences, our customer experience management programme will be evolving, and, in 2021, we will be moving non-trigger-based segment and product satisfaction processes to Medallia.

Net Promoter Score

A key metric that we monitor in terms of customer satisfaction is the NPS. We measure the Bank's NPS using an external service provider. We are very proud to report major improvements in customer satisfaction with NPS reaching all-time high of 46%.



Opportunities for future growth

We focus on the three sub-segments in Mass Retail to unlock opportunities for future growth:

Youth

Premium
Mass Retail customers

Georgian emigrants

Youth

We aim to gain new customers and keep them loyal for a long time by offering exclusive products and services to pupils and students. We already have 298,000 active users between the ages of 7 and 25. Based on independent third-party research surveys, we are **"top-of-mind"** and the **main bank** for students in Georgia. Going forward, we plan to continue our active partnerships with leading Georgian universities, a bridge between the Bank and students, and sharpen our focus in this direction to maintain our position as the main bank for students, especially for Generation Z.

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

Exclusive
Products

290+

Cards for students and pupils with additional exclusive benefits

Special
campaigns

56+

Special campaigns for students and pupils in 2020

10+

Collaborative projects with universities

Partnership
with universities

21

Universities participate in BOG payroll programme

Out of the top six largest universities (with 85k+ students, 50%+ of total number of students), five are in BOG payroll programme

Premium Mass Retail customers

Using our data analytics capabilities we have identified more than 40,000 customers with high income and potential. Bank of Georgia's share in these customers' wallet is only 66%. To unlock the potential, we have introduced a new full-coverage service model, under which a dedicated relationship manager will remotely serve our customers and help them fulfil their financial needs by offering a full spectrum of needs-based banking products and services.

* Based on IPM research (independent research company).

40K customers with high income and potential – BOG’s share of wallets – 66%

<p>Dedicated remote RM</p> <p>Simple and convenient banking experience provided by dedicated remote Relationship Manager</p>	<p>360° financial planning</p> <p>RM provides expert solutions that meet customers’ financial needs</p>	<p>Full coverage</p> <p>RM helps customers fulfil their financial needs by offering a full spectrum of banking products and services</p>
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Goal

BOG share of wallet	Product to client ratio	Net Promoter Score
<p>85%</p>	<p>4.2</p> <p>Increase by 30%</p>	<p>80%</p>

Georgian emigrants

We see significant potential in this segment given the number of Georgians living abroad and the volume of remittances transferred by them. Through the easy process of digital onboarding, convenient tools, and personalised product and service offerings, we aim to unlock the estimated market potential of this segment.

c.1.3 MLN

Georgians living abroad in need of daily banking services

US\$ 1.9 BLN

Transferred in 2020
+8.8% y-o-y



<p>Digital Onboarding</p> <p>Enabling Georgians living abroad to open bank accounts and use various services and products</p>	<p>Convenient tools</p> <p>Convenient and varied options for account top-ups through partnerships with international companies</p>	<p>Tailored products</p> <p>Special deposit and loan products tailored to emigrants’ needs</p>
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Market potential

Active customers	Loan portfolio	Deposit portfolio
<p>350K</p>	<p>GEL 1.7 BLN</p>	<p>GEL 1.5 BLN</p>

* More than three transfers in the last 12 months.

SOLO – a fundamentally different approach to premium banking

The SOLO brand offers a distinct experience, never seen before on the Georgian financial market, to mass affluent customers. The Bank's SOLO clients are given access to exclusive products and the finest concierge-style environment at our 11 specially designed SOLO lounges located across Georgia. SOLO is a unique banking concept in one space, combining privileged financial and advisory services and unlimited lifestyle experiences.

To qualify for SOLO services, a customer needs to have a monthly income of at least GEL 3,000. At SOLO lounges, personal bankers serve our clients and, in addition to providing banking solutions, offer luxury goods and other lifestyle experiences, such as exclusive events, concerts of world-famous artists, special travel tours, SOLO boutique, exclusive benefits, and other hand-picked lifestyle products and services. This unique blend of banking and lifestyle offerings sustains the strong interest in the SOLO franchise.



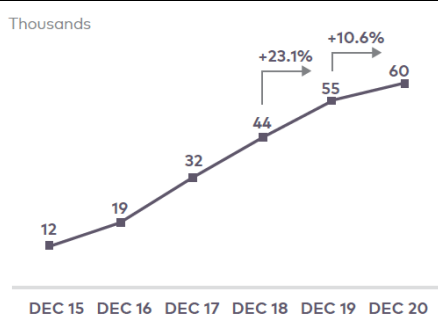
Strong growth in customer base and portfolios

Since 2015, after SOLO rebranding, we have seen the steady growth of our client base. As at 31 December 2020, SOLO served 60,330 customers, up 10.6% y-o-y, notwithstanding the COVID-19 pandemic outbreak. The share of new customers acquired in 2020 accounted for 16.2% of total SOLO customers at the end of 2020, which clearly demonstrates the ongoing popularity of the franchise in our domestic market.

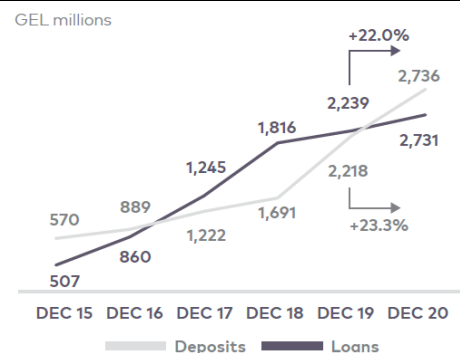
SOLO Club, a membership group within SOLO launched in 2017, offers exclusive access to SOLO's products and offerings ahead of other SOLO clients, at a higher fee. One such exclusive product is American Express Platinum card, available to SOLO Club members only. Since 2019, SOLO Club members have also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

Third bank in Georgia by portfolios

Number of customers



Loan and deposit portfolios



SOLO is a fully self-funded franchise. Despite the COVID-19 pandemic in 2020, SOLO's gross loan book and deposit portfolios demonstrated impressive growth, each reaching more than GEL 2.7 billion at 31 December 2020, up 22.0% and 23.3% y-o-y, respectively. By the size of loan and deposit portfolios, SOLO is ahead of the third largest bank in Georgia.

Strategic focus

In 2019, we defined the three key pillars – excellence in customer service, increased digitalisation, and tailor-made bundled offerings – as part of our strategic focus to further strengthen SOLO's customer-centric model and deliver on our target of doubling 2018 profit to c.GEL 112 million in three years' time (2018-2021). We have achieved major improvements in strategic objectives in 2020:

Excellence in customer service

- New customer relationship model introduced in 2019, focusing on customer-centric approach maximisation, implemented in 2020
- Significant improvement in SOLO's NPS in 4Q20:

75%

NPS based on internal survey of Bank of Georgia customers
+3 ppts y-o-y

Increased digitalisation

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

89%

of SOLO customers use mBank/iBank

24.2

monthly transactions per customer in mBank in December 2020
+19% y-o-y

Tailor-made bundled offerings

- Shift from reactive sales to data-driven proactive sales strategy in 2019-2020 – actively using data analytics tools to identify more targeted audiences with specific and common needs and offer them more needs-based products and services (investment loans, needs-based SOLO loyalty, interests-based lifestyle experiences, among others)
- Focus for 2021 – extensively using improved data analytics tools and collaborating with the world's leading customer relationship management company Salesforce to provide tailor-made bundled offerings to SOLO customers (see details on Salesforce on page 34)

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



Medium-term key objective still valid, notwithstanding the pandemic

SOLO's operations, like those of other business segments of the Bank, have been significantly impacted by the COVID-19 pandemic outbreak. 2020 results were hit by the upfront loan loss provisions and the net modification losses incurred on loan restructurings during the year. As such, SOLO's profit amounted to GEL 57.5 million in 2020, down 28.4% y-o-y. Profit per SOLO client was GEL 1,007 in 2020, over 50 times more than what we had in the Mass Retail segment.

We aim to further strengthen our key strategic pillars – **excellence in customer service** and **increased digitalisation**, which enable us to provide **tailor-made bundled offerings**, to shift SOLO to the next stage of development. Moreover, despite the impact of the pandemic, we reiterate our medium-term key objective – **doubling SOLO's 2018 profit to c.GEL 112 million in three years' time (2018-2021)**.

Micro, small and medium-sized enterprise banking

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

The MSME segment has been impacted the most by the COVID-19 pandemic. Despite the challenging operating environment, we saw a solid growth in customer base (229,780 MSME clients as at 31 December 2020, up 4.2% y-o-y), as well as in loan and deposit portfolios in 2020. The 2020 results were significantly hit by the upfront loan loss provisions and the net modification losses incurred on loan restructurings during the year.

Market share¹

31.6% MSME

+0.9 ppts y-o-y

38.3% MICRO

+1.6 ppts y-o-y

26.5% SME

+1.0 ppts y-o-y

Significant upside potential in SME

Gross loans

GEL 3.3 BLN

+22.2% y-o-y

Deposits

GEL 958 MLN

+18.6% y-o-y

ROAE

6.3%

-20.1² ppts y-o-y

Key initiatives in 2020

Our approach towards the MSME segment rests on two pillars — **client at the centre of everything** and **data behind every decision** — and we keep this in mind when interacting with our clients and making decisions. Despite the fact that MSMEs have suffered the most from the economic fallout, we have made significant progress on two major initiatives during 2020: the **service model transformation** and the **lending process transformation**. The benefits of these initiatives have not been unlocked yet, but we are well prepared to unleash their full potential as the economy starts to recover in 2021.

Service model transformation

We have introduced a new value- and need-based segmentation model for the SMEs, which will enable us to improve the coverage of the segment, enhance relationships with our customers, and develop more tailored product and service offerings. We have transformed our credit and non-credit-related bankers into relationship managers and centralised most of the credit analysis process. The new coverage model comprises three customer segments:

¹ Market share by loans to MSME customers. Source: internal estimation as at 31 December 2020 based on IFRS consolidated data, annual reports and data exchange with several Georgian banks.

² The 2019 ROAE adjusted for one-off employee costs related to the former CEO and executive management termination benefits.

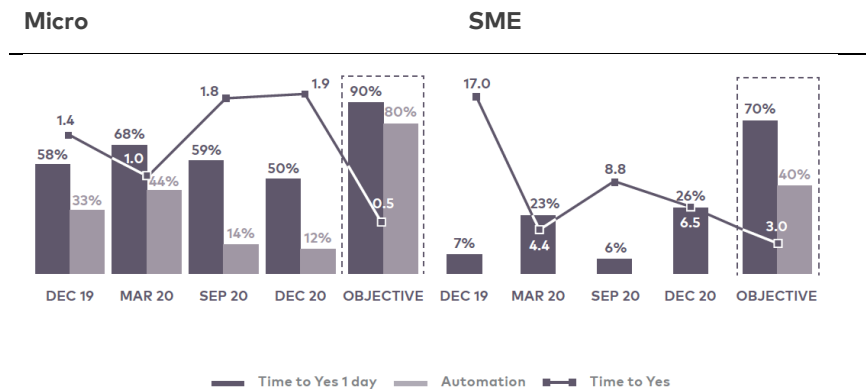
New coverage model

Champions	<p>Relationship manager</p> <ul style="list-style-type: none"> Highly skilled relationship managers with deep industry expertise provide our most valuable clients – Champions– with banking services, as well as value-added services Each relationship manager, with industry expertise, covers a portfolio of ~40-50 customers
Aspirants	<p>Business banker</p> <ul style="list-style-type: none"> Business bankers work with Aspirants to support their development and turn them into Champions Business bankers serve ~100-150 customers in the branches <p>Remote banker</p> <ul style="list-style-type: none"> In the medium term, remote bankers will increase the segment coverage
Participants	<ul style="list-style-type: none"> Mostly inactive customers, or customers with a very small share of wallet at Bank of Georgia Primary focus is to incentivise the migration of these customers to digital channels

In 2020, we opened the Business branch, 4B, designed around the banking concept similar to that of SOLO, focused on creating outstanding experiences for our customers. At 4B the most experienced relationship bankers with deep understanding of customer needs offer innovative financial products, value-added advisory services, and networking opportunities to our top SME clients, the Champions.

Lending process transformation

We continued to improve the lending transformation process in 2020. We aim to achieve the high level of automation in the lending process so that we are able to make most of the credit decisions in a day. Our objective is to achieve the maximum "Time to Yes" of a half-day in the Micro segment and three days in the SME segment.



To achieve these objectives we have developed the seven critical tools and enablers of the lending journey:

Tools

- Process flow
- Workflow
- Credit decision engine
- Pricing engine
- Monitoring system

■ Implemented ■ MVP launched

Other enablers

- Data warehouse
- IT front-end, back-end, and digitisation

We continue to work on further improvements to the lending transformation process to deliver seamless experiences to our customers.



Supporting MSMEs at every stage of their development

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

Onboarding

The onboarding process in Bank of Georgia requires only one visit and takes as little as an hour. SME clients can register businesses, receive a tax identification number and a full package of our services, including an account, a business card, iBank, and POS and cash terminals. In 2020, we launched digital onboarding MVP for SMEs to further simplify the onboarding process. Around 10% of businesses eligible for digital onboarding have already opened an account digitally. Our medium-term goal is to increase the digital onboarding rate to 35-40%.

To support the seamless start of a business we launched a few innovative solutions in 2020:

Innovative solutions launched

POS

Innovative payment solutions

- Combined POS and cash terminal
- Soft POS solution
- Tip POS payments
- E-commerce with instalments

IBANK

Internet bank with innovative modules

- Payroll management module
- Business Finance Manager

CASH BOX

Cash management solution

- Cash Box new infrastructure

We are dedicated to helping MSMEs build and develop successful enterprises, which is why we also incorporate educational, advisory, and networking solutions into the value proposition. We believe that education, information sharing and professional network development are crucial during the entire lifecycles of MSMEs. In December 2020, we launched a new e-learning platform businesscourse.ge, where we provide educational and practical courses as roadmaps to effective business actions, tailored to the needs of MSMEs. We have launched new webinar series where field experts share knowledge and most up-to-date data with our MSME customers, so that they have a holistic view of the country’s economic sectors and recent market developments. Going forward, we plan to provide MSMEs with sector and need-based advisory and educational programmes, designed to help solve sector-specific business tasks. For more information on value-added offerings to MSME customers, see pages 97 and 98.

Growth

Enabling our SME clients to grow their businesses entails offering the right financial solutions. In 2020, we launched a factoring software, **the first digital factoring solution in Georgia**, which is the fastest way to finance working capital projects. Based on our internal estimate, the market potential is several billion GEL in Georgia, and in the first few months of operation, financing through this channel has already amounted to GEL 17.4 million.

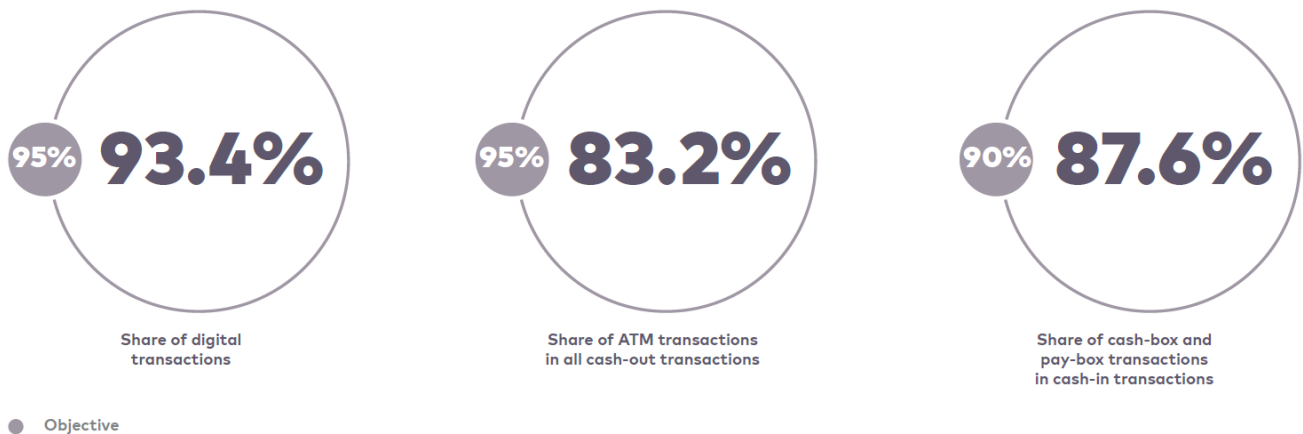
We also launched two **supply chain finance** products in agro business, for almond production and livestock farming. Through the involvement of sector professionals, who will support the full agro cycle and minimise knowledge and process risks, we aim to make business and financial processes less costly and more efficient for our customers.

To empower businesses during their growth phase, we offer several value-added services, such as Women in Business, #Icreate, advisory services, and business support. For more information on these value-added offerings, see pages 97 and 98.

Channels

We consider the multichannel coverage of MSME clients one of our core strengths. We have a strong presence in Georgia through our branch network, with 206 retail branches, 960 ATMs and 3,020 self-service terminals, and our superior call centre with sales competence. That said, digitalisation and offloading is our top priority, and we focus on migrating our MSME customers to digital channels. We aim to achieve this by offering best-in-class digital platforms: Business iBank was fully updated in 2019 and now enables customers to use a single credential to navigate and manage multiple businesses and personal accounts; and Business mBank, which was launched in the first quarter of 2021, offers the full digital experience to our business customers. For more information of business digital platforms, see page 54.

High offloading rate achieved in 2020



Key medium-term objectives

Going forward, our focus on customer needs in the MSME segment will be even more profound. Our medium-term objectives, with digitalisation and offloading as top priorities, are outlined below:

DEC 20

- NPS 70%¹
- 31.6% MSME market share in loans to customers
- ROAE 2020 – 6.3%

Medium term

- Most preferred MSME bank
- MSME market share of 35%+ in loans to customers
- Keep 20%+ ROAE during growth

¹ Based on internal survey of BOG clients.

Corporate and Investment Banking

Bank of Georgia's CIB business is a leading provider of corporate and investment banking solutions in Georgia. Our strong franchise leverages its best-in-class expertise in product design and 360° view of every customer to execute profitable transactions and offer excellent services to its customers. Given our scale, a rich portfolio of banking products and services, and the deep industry and product-specific expertise that we possess, we are the universal bank of choice and top-of-mind advisor for Georgian corporates. We are also the established leader of wealth management services in Georgia.

In 2020, we accelerated the customer deposit growth while being cautious on the lending side, given the challenging operating environment on the back of the COVID-19 pandemic. As at 31 December 2020, CIB's net loan book increased to GEL 4.5 billion, up 22.8% y-o-y, and our deposit portfolio reached GEL 6.4 billion, up 67.2% y-o-y. The top ten CIB client concentration was 8.9% of the total loan book at the end of 2020, compared with 9.1% at 31 December 2019. While aiming for a healthy growth of the Corporate and Investment Banking loan book, Bank of Georgia prudently manages the concentration risk so that the exposure to its top ten clients is maintained at around 10% of the total loan book.

The 2020 profit from the CIB segment was significantly impacted by the COVID-19 pandemic. The upfront loan loss provisions, the net modification losses incurred on loan restructurings, the cost of local currency funding at the early stage of the pandemic, and a decline in operating activity during the year significantly hit CIB's profitability. However, the resilience of operating income, coupled with our prudent cost management, liquidity management, and risk control initiatives, enabled us to deliver ROAE of 20.7% in 2020.

Gross CIB loans

GEL 4.6 BLN

+24.3% y-o-y

Market share¹ – loans

32.0%

+1.0 ppts y-o-y

ROAE

20.7%

-6.4 ppts² y-o-y

CIB client deposits

GEL 6.4 BLN

+67.2% y-o-y

Market share¹ – deposits

37.3%

+6.4 ppts y-o-y

Medium-term strategic objective

Bank of Georgia has built a strong corporate and investment banking franchise, with solid profitability and operational excellence, that has demonstrated great resilience during the pandemic. We have built a strong foundation for the future, and we are well positioned to deliver 20%+ profitability going forward.

Strategic objective – ROAE – 20%+

Strong CIB franchise

Solid profitability

Operational excellence

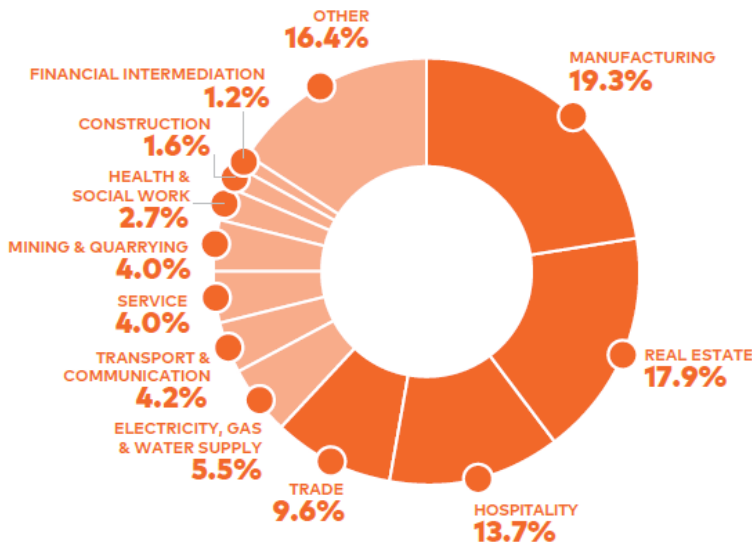
¹ Market shares by loans and deposits to legal entities, respectively, based on standalone accounts of the banks published by the National Bank of Georgia as at 31 December 2020.

² The 2019 ROAE adjusted for one-off employee costs related to the former CEO and executive management termination benefits.

Corporate Banking

With c.3,100 customers by the end of 2020, Bank of Georgia is a leading corporate lender in the country, with deep sector knowledge and local expertise. We have a well-diversified loan portfolio with strong presence in all major sectors of the Georgian economy.

Diversified CIB loan portfolio



Our Corporate Banking business is also a leading trade finance provider in Georgia with well-established partnerships with large counterparty banks and international financial institutions.

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

Key strengths of our Corporate Banking business

The success of our Corporate Banking franchise rests on four pillars, which enable us to deliver on our key financial targets and continuously develop our team. This positions us as the universal bank of choice and top-of-mind advisor for Georgian corporates.

Sound credit quality

Prudent lending policy and team expertise

Operational excellence

High quality and innovative product and service offerings

Attraction of great talent

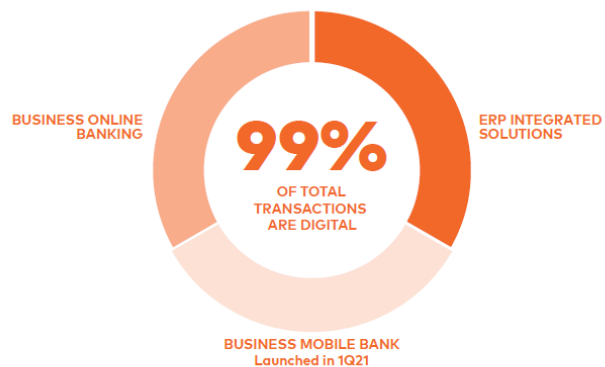
Unique programme on the Georgian market to attract and develop top talent

Advisory mindset

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

Convenient digital platforms

Core to operational excellence is our state-of-the-art online banking platform, which enables us to fulfil most of our customers' banking needs. The online platform can be integrated with the corporate clients' ERP systems, giving them the unique user experience and convenience. We also launched our business mobile application in the first quarter of 2021, which will further contribute to superior digital customer experiences. Currently, 99% of Corporate Banking transactions are executed digitally.



Special programme for young talent development

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

In order to fuel our business with top young talent, we run Leaderator, a student development programme highly recognised on the Georgian labour market among students and recent graduates. For more details on the programme, see page 103. Leaderators can be promoted to associates and can then move up to managerial positions.

Leaderators

- A six-month internship programme for students and recent graduates
- Promotion rate – 79%
- Retention rate – 86%

Associates

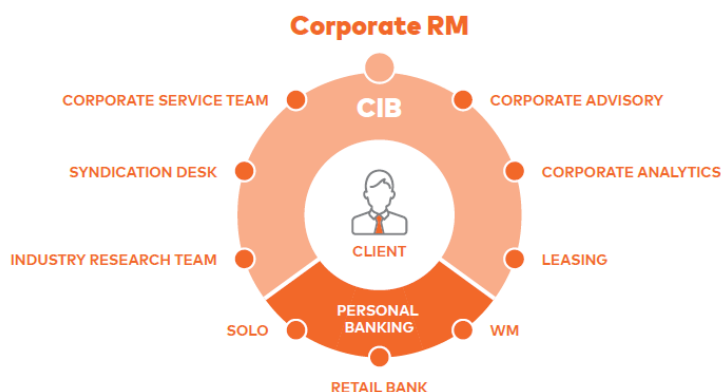
- Industry-specific knowledge development
- In-depth training programmes
- Defined promotion schemes

Line managers

- 89% internally promoted managers
- In-depth industry-specific knowledge
- Advisory mindset

Customer coverage model

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



Wealth Management

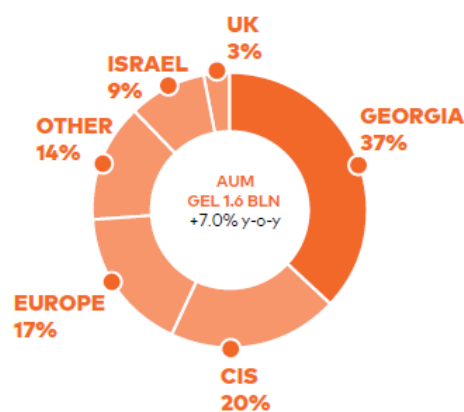
Leading regional franchise

Our strong franchise comprises our regional Wealth Management practice.

Bank of Georgia's Wealth Management is a private banking arm of our Corporate and Investment Banking, serving high-net-worth individuals through its WM office in Tbilisi. It also has representative offices in London, Budapest, Istanbul, and a subsidiary in Tel Aviv. Since its launch in 2005, our customer base in Wealth Management has reached 1,578 clients from 78 countries as at 31 December 2020.

Despite the challenging market environment and our strict AML approach, we have maintained good momentum in our assets under management, coupled with the robust profitability profile. Our AUM¹ reached GEL 1,611.8 million at 31 December 2020, up 7.0% y-o-y, and continue to be diversified, underlining the regional nature of this business.

Strong international presence and diversified customer base across multiple geographies



¹ We have amended the assets under management definition in 2020 to exclude certain illiquid assets that we hold in custody, and include only the most liquid assets that are being traded on an ongoing basis, and where we earn material fees on holding or trading such assets. The 2019 balances have been restated accordingly.

Strategic objective

Focus on profitable growth, through diversifying the wealth management offerings

Diversifying the wealth management offerings

Our aim is to turn Georgia into a regional hub for private banking and extend our client base to nearby countries. Our WM brand identity is based on the virtues of both Georgia and the Bank itself. Bank of Georgia is the leading and highly trusted bank that delivers strong returns and constantly innovates to offer better customer experiences. A stable business environment in Georgia coupled with Bank of Georgia's reputation and expertise make us the perfect bank for affluent individuals to do business with.

Interest rates globally have been declining, and our cost of funding has been declining as well. Over time, we have decreased the yield that we offer to our customers on the depositary products, and, as a result, we have seen a sustained shift from banking products towards investment products. The securities take-up among the Wealth Management customers has increased from 13% in 2015 to around 30% in 2020. We expect this trend to continue in the future.

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

Financial products offerings

Diversifying our portfolio to basic structured securitised products:

- Structured products
- Securitised products
- Asset management
- Third-party products

Advisory products offerings

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

- Private investment opportunities
- Portfolio structuring
- Succession planning

Lifestyle products offerings

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

- WM exclusive offers
- Business Club
- Concierge service

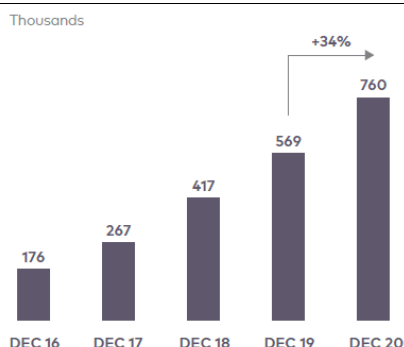
Digital Banking Experience

We regard the digital experience as inherent to our brand identity and core to our strategy. We have been actively investing in information technology and building digital capabilities to offer our customers best-in-class digital channels that make the management of their daily lives and businesses easier and smarter. To keep pace with the speed of digital innovation globally and provide relevant and up-to-date digital solutions to our customers, we continuously analyse the latest trends and practices, consider potential novelties and leverage our agile delivery model to quickly turn new knowledge into the services and experiences our customers need.

Retail digital channels

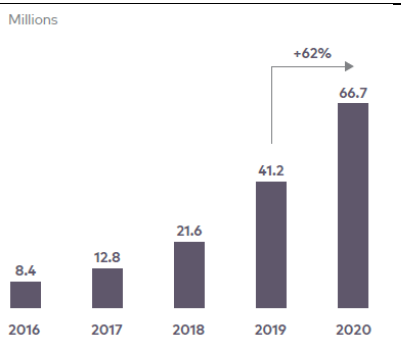
We are the leader in retail digital channels in Georgia. Our key focus is on mobile and internet banking platforms, and we continuously update and upgrade them to address the preferences of our customers. We saw strong performance in 2020, notwithstanding the slowdown in customer activity due to the COVID-19 pandemic outbreak.

Number of mBank and iBank active users



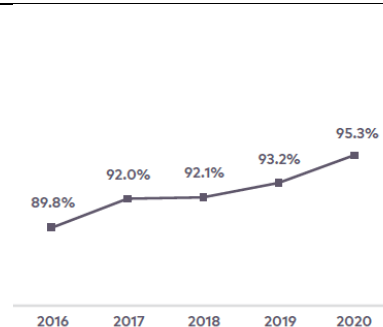
Active user – at least one login in the past three months

Number of mBank and iBank transactions



Number of transactions excludes digital product and service sales

Transactions offloading rate



All digital channels (mBank, iBank, SSTs, ATMs, other)

The most popular financial mobile app – mBank



★★★★★ 4.8



★★★★★ 4.7

NEXT STEP

BUILDING THE SUPERAPP

Transactions per month

c.6 MLN

Active digital users

c.760K

Customer Satisfaction Score

84.8%

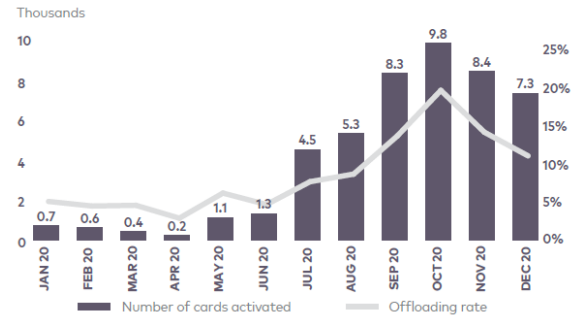
DAU/MAU

39.2%

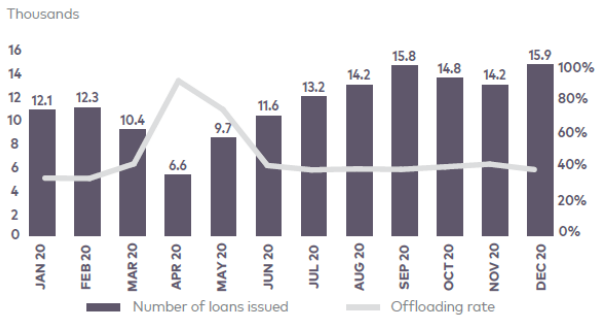
Product offloading to digital channels

Having achieved significant progress in offloading retail banking transactions to digital channels, our aim now is to accelerate product offloading to digital channels. **Our product offloading rate in 2019 was 12%, and by boosting our mBank and iBank capabilities and offering new features and innovative products, our product offloading rate reached 18.5% in 2020.**

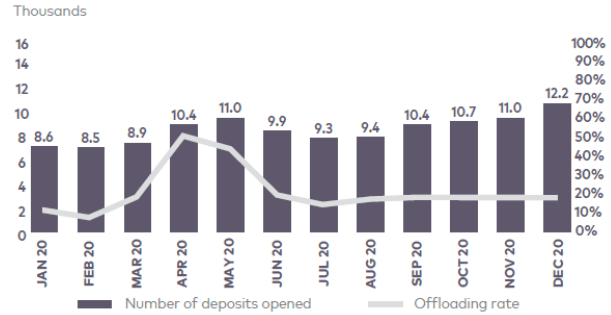
Cards



Loans



Deposits



Development of retail digital products

We continue to develop our digital products and refine end-to-end digital journeys. Our digital channels' functionalities are updated every two to three weeks. We highlight a few features which we added to digital channels in 2020:



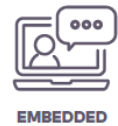
DIGITAL CARD



FULLY DIGITAL CONSUMER LENDING PROCESS



FULLY REDESIGNED IBANK



EMBEDDED ONLINE CHAT



BILL SPLITTING AND MONEY REQUEST



SECURITY DESIGN WITH STRONG AUTHENTICATION



PEER-TO-PEER PAYMENTS



DIGITAL ONBOARDING

Our achievements have been recognised by external stakeholders. Global Finance Magazine named Bank of Georgia Best Consumer Digital Bank in Georgia 2020 and Best Online Product Offerings in Central and Eastern Europe 2020.

Best Consumer Digital Bank in Georgia 2020

Best Online Product Offerings in Central and Eastern Europe 2020



Future of mBank and iBank

We see our mBank and iBank as primary all-in-one channels, covering customers' financial and non-financial needs. Transactional banking is already well covered through digital channels, but we still see opportunity to offload activity from self-service terminals to mBank and iBank. Digital product sales is one of the key priorities for us now. Currently, our product offloading rate is around 20%, and we aim to accelerate sales growth in digital channels and turn mBank into the main sales channel.

We also see major upsides in incorporating non-banking financial services, including retail brokerage services and insurance offers, as well as non-financial services into mBank and iBank.



Business digital channels

In 2019, we released a brand-new business internet banking platform – Business iBank – for our MSME and corporate customers. It comes with plenty of handy features designed to make its use an intuitive and smooth experience. In 2020, we redesigned many of the existing features, while adding new ones, taking into account customer preferences and best practices. We have focused our efforts on making the Business iBank even more useful for business transactions, accounting, payments, money transfers, and administration.

Business iBank



Features added in Business iBank in 2020

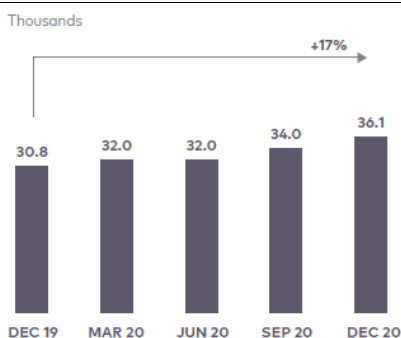
- Business finance management
- Payroll management
- Business digital onboarding
- **Business mBank launched in the first quarter of 2021**

Next steps

- Application Programming Interface (API) marketplace
- Payments as a service
- Data as a service
- Banking as a service

As a result, our Business iBank has demonstrated strong performance during 2020, notwithstanding the reduced customer activity on the back of the COVID-19 outbreak. We have seen a significant increase in the number of active users and in the number of transactions executed via Business iBank.

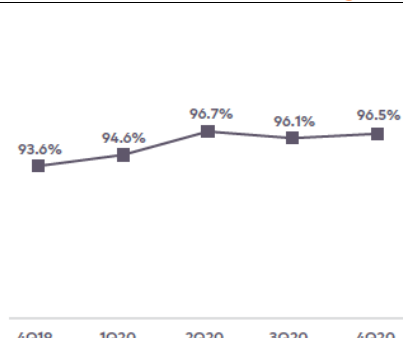
Number of Business iBank active users



Number of Business iBank transactions



Transactions offloading rate



Managing digital ecosystem

Our aim is to build a best-in-class, industry-leading digital ecosystem. To achieve this, we focus on the following enablers:

People

Processes

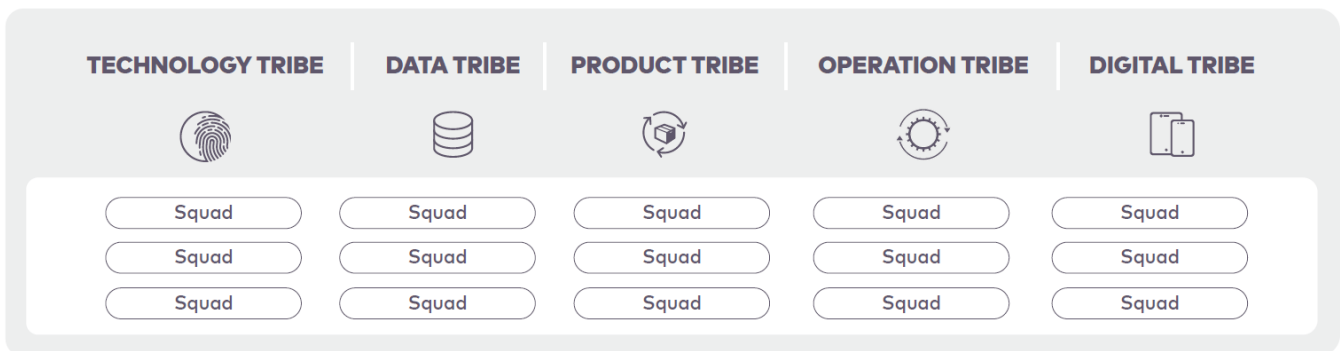
Data

Technology

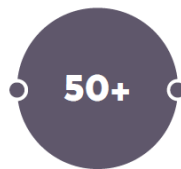
People and processes

At the beginning of 2019, as part of the agile transformation of the Bank, we fully redesigned the product delivery process. During 2020, we have continued to scale up the agile delivery model and have introduced five tribes – a group of squads arranged around the same objective – technology, data, product, operation, and digital. This has helped us further unlock the efficiencies in the product delivery process:

SCALE-UP OF AGILE DELIVERY MODEL



Increase in number of employees in IT and digital



Squads in Agile Delivery



Releases per month
3x increase as a result of transformation

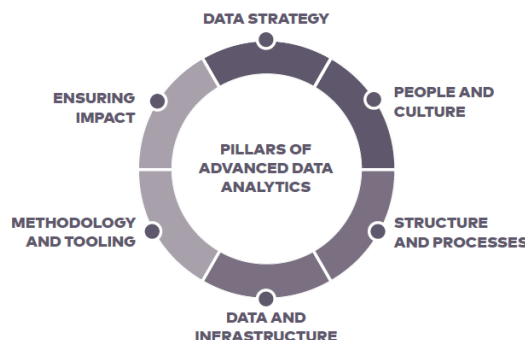
Data

We have introduced Data as a standalone tribe and defined the organisation-wide data strategy. It not only includes the ways we are building data models, but also the strategy on using data in different banking and beyond-banking processes, training and awareness programmes for our business users, the ways we are delivering data models from process, infrastructure, and methodology perspective and the ways we are measuring our success in advanced data analytics.

Data models online

56 in 2019

100+



Data specialists

50+

Technology

On the technology side, we have defined key initiatives on which we will be focusing in 2021:

Open banking Provide banking as a service to third parties	Cloud adoption strategy Provide different types of services from the cloud	Modern data warehouse and BI Data available throughout the organisation
Microservice-based architecture More scalable, reliable, and secure platforms	Big data-processing environment Data available throughout the organisation	Data-driven campaign management platform Boost in digital sales

Orchestrator of the digital ecosystem

Bank of Georgia's digital ecosystem rests on payments, data, single sign-on, and loyalty, and we plan to further harness our capabilities in these areas to strengthen the Bank as a data-driven organisation.

Payments

- Bank of Georgia is a leader in payments with 49% market share by number of transactions in POS terminals in 2020
- We have access to extensive and valuable data on customer behaviour

Data

- One of the best teams in advanced data analytics
- Now using only around 20% of the data analytics capacity, but planning to unlock further potential

Single sign-on

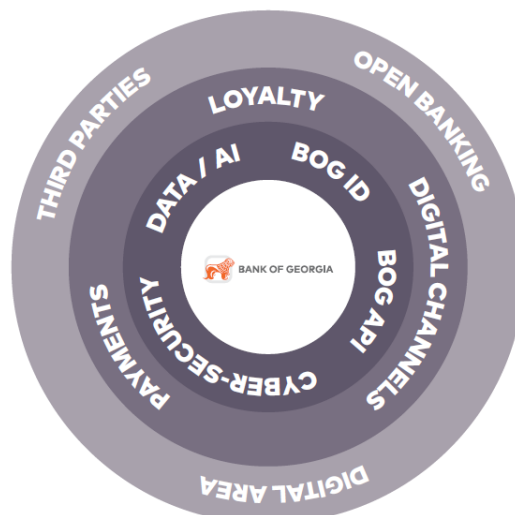
- More than 800,000 users using single sign-on solution in the Bank's different digital channels

Loyalty

- Unmatched loyalty programme with 1.4 million active loyal members

Bank of Georgia is becoming a technology company, which builds different digital products, manages its own digital channels, and orchestrates a digital ecosystem. With all these activities we are laying a strong foundation for the bank of the future.

Orchestrator of the digital ecosystem



**Superior Access to
Funding**

Bank of Georgia Group has superior access to both equity and debt capital. This provides flexibility with liability management and is one of our key competitive advantages in realising our ambition to capture attractive opportunities in Georgia. Since the Initial Public Offering of our shares on the London Stock Exchange (LSE) in 2006 when we raised c.US\$ 160 million, we have attracted a total of c.US\$ 1.3 billion in Eurobonds and notes issued (including AT1 notes issued in 2019) and more than US\$ 1.3 billion from international finance institutions and investment funds (in the form of senior loan facilities, as well as subordinated debt facilities that qualify for classification as Tier 2 capital instruments under the NBG regulations).

The financial institutions and IFIs we have partnered with are Citi, the European Bank for Reconstruction and Development (EBRD), the International Finance Corporation (IFC), FMO – Dutch entrepreneurial development bank, DEG – Deutsche Investitions- und Entwicklungsgesellschaft, the European Fund for Southeast Europe (EFSE), Green for Growth Fund (GGF), the Black Sea Trade and Development Bank (BSTDB), the European Investment Bank (EIB), the Asian Development Bank (ADB), the U.S. International Development Finance Corporation (DFC), responsAbility, Symbiotics Group, the Finnish Fund for Industrial Cooperation (Finnfund), Obviam, the Swedish Development Finance Institution – Swedfund International AB, BlueOrchard Microfinance Fund, and Oesterreichische Entwicklungsbank AG (OeEB), among others.

Over the last five years, along with the de-dollarisation initiatives introduced by the NBG, Bank of Georgia raised local currency funding from credit institutions and foreign investors in the amount of more than GEL 1.3 billion. In 2017, Bank of Georgia pioneered the first GEL-denominated bond issuance to a broad base of investors on the Irish Stock Exchange. The issuance of GEL 500 million was the first international local currency bond offering from the wider CIS region, excluding Russia, in the past ten years and represented a landmark transaction for Georgia.

In 2019, Bank of Georgia issued its inaugural US\$ 100 million Additional Tier 1 capital perpetual subordinated notes callable after 5.25 years and on every subsequent interest payment date, subject to prior consent from the National Bank of Georgia, which are listed on the Irish Stock Exchange. The issuance was the first international offering of Additional Tier 1 Capital Notes from Georgia and the South Caucasus region.

The strong support from International Financial Institutions is especially important during periods of crises. In 2020, following the COVID-19 pandemic outbreak, we have secured a number of long-term commitments from IFIs, which further strengthened our liquidity and funding, and capital positions to be able to meet regulatory requirements, as well as ensure uninterrupted support to our customers. See more details on our initiatives on pages 22 and 23 in the section on Response to the COVID-19 Pandemic Outbreak.

The strength of our franchise and brand name translates into pricing power by driving down the cost of deposits. The ability to replace more costly borrowings with cheaper funding also leads to improved funding costs:

- cost of client deposits and notes 3.5% in 2020, down from 7.5% in 2010.
- cost of funds 4.7% in 2020, down from 8.2% in 2010.

At 31 December 2020, the Bank's share of local currency deposits in total deposits reached 41.3%, up from 32.9% in 2019, and the share of local currency loans in total loan portfolio was 43.6%, compared with 44.3% in 2019.

Key Performance Indicators

Strong underlying
performance across all
segments amid COVID-19
impact

The Bank's KPIs reflect a continuing track record of strong performance, demonstrating excellent customer franchise growth with stable margins, a strong balance sheet and profitability, as well as the Bank's response to the COVID-19 pandemic outbreak to maintain robust business continuity and operational efficiency, and thus ensuring the long-term stability, strength and profitability of the Bank.

Our ongoing performance continues to be affected by the economic impact of COVID-19, however, our balance sheet has demonstrated robustness, asset quality is resilient, and the Bank is very well positioned for the future, with strong liquidity, funding, and capital resources.

In 2021 and beyond, we will continue to focus on profitable earnings growth, to be driven by sustainable levels of customer lending growth without compromising asset quality, to increase the share of income from fee-generating operations and to enhance cost efficiencies. All these will be targeted through our continued focus on digitalisation and expansion of our technological and data analytics capabilities to be able to anticipate customer needs and offer more personalised, seamless experiences. Bank of Georgia continues to play a fundamentally important role in supporting our customers, the communities in which we live, and the Georgian economy.

With our market-leading payments franchise and the popularity of our financial mobile app, combined with our clear focus on customer satisfaction and employee empowerment, we have laid the groundwork for the bank of the future.

The KPIs are closely aligned with our medium-term strategy and ensure that the Bank delivers on its key strategic targets. The KPIs could be affected if any of the principal risks and uncertainties, set out on pages 77 to 90, materialise.

For more information on our 2020 financial results, see pages 120 to 126.

Profitability KPIs

Our financial performance has been robust during 2020, despite the impact of the COVID-19 outbreak. The Bank has demonstrated efficient management throughout the pandemic, quickly adapting its operations to the new environment. Significant upfront ECL provision to cover expected credit losses for the full economic cycle, and one-off net loss on modification of financial assets incurred on payment holidays granted to customers at the early stage of pandemic, significantly impacted the Bank's profitability in 2020. That said, the balance sheet has remained strong with better than expected levels of growth, operating income has been resilient, our lending portfolio has performed better than expected with robust asset quality, and operating costs have been well managed. These were the main drivers that enabled the Bank to deliver solid profitability in 2020, despite the challenging environment.

Profit adjusted for one-offs¹ (GEL million)

298.7

-39.3% y-o-y

2018	<u>404.8</u>
2019	<u>492.0</u>
2020	<u>298.7</u>

Profit adjusted for one-offs is calculated in accordance with IFRS and represents operating income and profit from associates, less operating expenses adjusted for one-off costs, cost of risk, non-recurring items adjusted for one-off costs and income tax expense.

Return on average Equity (ROAE) (adjusted)¹

13.6%

-12.7 ppts y-o-y

2018	<u>24.8%</u>
2019	<u>26.3%</u>
2020	<u>13.6%</u>

Profit adjusted for one-off costs attributable to shareholders divided by monthly average total equity adjusted for one-off costs attributable to shareholders. Total equity attributable to shareholders is made up of share capital, additional paid-in capital, treasury shares, retained earnings adjusted for one-off costs and other reserves

Profit (reported) (GEL million)

298.7

-37.5% y-o-y

2018	<u>333.3</u>
2019	<u>477.7</u>
2020	<u>298.7</u>

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

Return on average equity (ROAE) (reported)

13.6%

-11.9 ppts y-o-y

2018	<u>20.5%</u>
2019	<u>25.5%</u>
2020	<u>13.6%</u>

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

¹ The 2019 adjusted profit and ROAE exclude GEL 14.2mln one-off employee costs (net of income tax) related to former CEO and executive management termination benefits. The 2018 adjusted profit and ROAE exclude demerger-related expenses, one-off impact of re-measurement of deferred tax balances and one-off employee costs related to the former CEO termination benefits.

Net interest margin

4.5%

-1.2 ppts y-o-y

2018	<u>6.6%</u>
2019	<u>5.7%</u>
2020	<u>4.5%</u>

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

Basic earnings per share (GEL)

10.67

-37.5% y-o-y

2018	<u>11.98</u>
2019	<u>17.07</u>
2020	<u>10.67</u>

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

Efficiency KPIs

Our technology-intensive digital banking channels, such as mBank and iBank, as well as Express Pay terminals, are the main drivers of efficiency for our business. Our ongoing investment in IT-related resources as part of the agile transformation process, digital and data capabilities, as well as investments in marketing, have been main contributors to the operating costs during 2020. Furthermore, we have incurred extraordinary expenses during the year in relation to safety measures implemented as a response to the COVID-19 pandemic outbreak. Starting from the second quarter, we have initiated cost optimisation measures to adjust to the new operating environment, which have already been reflected in our results in the second half of the year, and that enabled us to keep costs well managed and broadly flat during 2020.

Our development of fully integrated digital strategy is translating into both strong franchise growth and profitability. This has already been reflected in a significantly higher number of mobile banking transactions, which increased by 74.0% in 2020 to 62.5 million transactions, as we continue to incentivise a shift towards mobile banking from other channels. Overall, more than 95% of daily transactions of individual customers are now performed through digital channels.

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

Cost to income ratio (adjusted)¹

36.2%

+1.6 ppts y-o-y

2018	<u>34.6%</u>
2019	<u>34.6%</u>
2020	<u>36.2%</u>

Operating expenses divided by operating income

Operating leverage (adjusted)¹

-4.5%

2018	<u>5.9%</u>
2019	<u>-0.1%</u>
2020	<u>-4.5%</u>

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

Cost to income ratio (reported)

36.2%

+0.3 ppts y-o-y

2018	<u>34.6%</u>
2019	<u>35.9%</u>
2020	<u>36.2%</u>

Operating expenses divided by operating income

Net loan book growth

19.3%

2018	<u>23.4%</u>
2019	<u>26.8%</u>
2020	<u>19.3%</u>

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

Growth KPIs

The balance sheet has remained strong with better than expected levels of growth. The 19.3% loan book growth in 2020 was driven by 17.6% growth in Retail Banking loan book and 22.8% increase in the Corporate and Investment Banking loan book. We expect customer lending growth for the medium term to be at around 15%.

Asset quality KPIs

Against the backdrop of the economic downturn, the quality of our customer lending has been resilient, reflecting the significant reduction in the portfolio risk over the last few years. We entered the COVID-19 environment with a de-

¹ The 2019 cost to income ratio and operating leverage are adjusted for GEL 12.4mln one-off employee costs (gross of income tax) related to termination benefits of the former executive management.

risk banking sector – at the beginning of the pandemic our non-performing loans were at historically low levels. This was driven by the prudent application of the Bank’s risk management policies, as well as the shift in the loan portfolio mix from high-yielding unsecured to more secured consumer lending that followed the introduction of responsible consumer lending regulation by the National Bank of Georgia in 2018. The absence of high levels of corporate leverage, and the strong Government support programmes for both individuals and businesses is also expected to partially mitigate the negative economic impact of COVID-19.

We have taken a significant ECL provision in the first quarter of 2020 to cover all expected credit losses through the full economic cycle. Following the lockdown and subsequent reopening of the economy, we have now individually reviewed all of our SME and corporate borrowers, and the provision estimated in the first quarter has proved to be sufficient. Our corporate, SME, and SOLO segment portfolios all continue to perform better than initially expected. As a result, cost of credit risk ratio increased from 0.9% in 2019 to 1.9% in 2020.

NPLs to gross loans increased from 2.0% at 31 December 2019 to 3.7% at 31 December 2020. NPL coverage ratio decreased to 75.1% at the end of 2020, largely reflecting the shift in the loan portfolio mix from high-yielding unsecured to more secured consumer lending since 2019 on the back of the consumer lending regulation, and is supported by the high level of collateralisation of our loan book.

NPL coverage ratio adjusted for discounted value of collateral

126.7%

-7.5 ppts y-o-y

2018	<u>129.3%</u>
2019	<u>134.2%</u>
2020	<u>126.7%</u>

NPL coverage ratio adjusted for discounted value of collateral equals allowance for expected credit loss of loans and finance lease receivables net of discounted value of collateral, divided by NPLs.

Cost of credit risk ratio

1.9%

+1.0 ppts y-o-y

2018	<u>1.7%</u>
2019	<u>0.9%</u>
2020	<u>1.9%</u>

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

Capital and liquidity KPIs

Capital and liquidity positions have been one of the main focuses of the Bank’s BCP plan during 2020 on the back of the COVID-19 pandemic outbreak.

The Bank’s capital adequacy ratios have remained robust, and comfortably above the minimum regulatory requirements. A y-o-y decline in capital ratios was primarily due to a c.GEL 400mln general provision created in March 2020 under the local regulatory accounting basis in agreement with the NBG (and consistent with the NBG’s guidance for the Georgian banking sector in general) that covers its expectations of estimated credit losses on the Bank’s lending book for the full economic cycle. We continue to generate high levels of internal capital as a result of both the Bank’s high return on average equity, and the improved risk-asset intensity of our lending growth on the back of the new regulatory environments. Over the medium term, we aim to maintain around 200 basis points buffer for CET1 and Tier 1 capital adequacy ratios over the minimum regulatory requirements.

The Bank’s liquidity and funding positions have remained strong. The Bank maintained substantial excess liquidity in 2020, primarily for 1) risk mitigation purposes on the back of the ongoing COVID-19 crisis, as outflow of customer funds was expected at an early stage of the pandemic outbreak, which however did not materialise; client deposit balances continue to grow to date; and 2) the repayment of local currency bonds in June 2020. The Bank has strong support from international financial institutions and has secured c.GEL 635 million undrawn long-term loan facilities from DFIs at 31 December 2020 with up to seven years of maturity.

CET1 capital adequacy ratio (NBG, Basel III)

10.4%

Minimum regulatory requirement – 7.4%

2018	<u>12.2%</u>
2019	<u>11.5%</u>
2020	<u>10.4%</u>

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

Leverage (times)

7.4

2018	<u>6.9</u>
2019	<u>7.4</u>
2020	<u>7.4</u>

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

Liquidity coverage ratio (NBG, Basel III)

138.6%

Minimum regulatory requirement – 100%

2018	<u>120.1%</u>
2019	<u>136.7%</u>
2020	<u>138.6%</u>

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

Net stable funding ratio (NBG, Basel III)

137.5%

Minimum regulatory requirement – 100%

2018	<u>133.6%</u>
2019	<u>132.5%</u>
2020	<u>137.5%</u>

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

Non-financial KPIs

The Bank tracks customer satisfaction with multiple survey channels and several key performance indicators on an ongoing basis, followed by an effective "close-the-loop" process. The Bank is responsive to the customer feedback which it collects on a daily basis, and has been consistently working on integrating the customer experience in its processes.

We are also committed to employee engagement. We started to measure our eNPS score in 2019 and continue to monitor the measure once every six months.

By the end of 2020, our NPS reached an all-time high level, and we have seen outstanding improvement in our eNPS score compared to previous year.

Going forward, we aim to improve these non-financial KPIs.

Net Promoter Score (NPS)

46.0%

Bank of Georgia

2018	<u>38.8%</u>
2019	<u>36.6%</u>
2020	<u>46.0%</u>

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

Employee Net Promoter Score (eNPS)

58.0%

Bank of Georgia

2019	<u>46.0%</u>
2020	<u>58.0%</u>

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

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 mBank 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.

Active digital users (Thousands)

760

Bank of Georgia

2018	<u>417</u>
2019	<u>569</u>
2020	<u>760</u>

Number of retail mBank and iBank active users – users who have at least one log-in during past three months.

Transactions through digital channels (%)

95.3%

Bank of Georgia

2018	<u>92.1%</u>
2019	<u>93.2%</u>
2020	<u>95.3%</u>

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

Risk Management

Creating a culture of integrity and accountability

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

Overview

Our Supervisory Board, supported by its Audit and Corporate Governance and Risk Committees and the Management Board, is ultimately responsible for the Bank's risk management and internal controls. We believe that in order to have an effective risk management framework, there needs to be a strong risk management culture within the Bank. In this section we demonstrate how we ensure that managing risk is ingrained in our everyday business activities. We seek to create an environment where there is openness and transparency in how we make decisions and manage risks, and where business managers are accountable for the risk management and internal control processes associated with their activities. Our culture also seeks to ensure that risk management is responsive, forward-looking and consistent.

Our framework

The Supervisory Board's mandate includes determining the Bank's risk appetite and risk tolerance as well as monitoring risk exposures to ensure that the nature and extent of the main risks we face are consistent with our overall goals and strategic objectives. The Supervisory Board is accountable for reviewing the effectiveness of the systems and processes of risk management and internal control, with the Audit and Corporate Governance and Risk Committees assisting in the discharge of this responsibility. At the Supervisory Board, Committee and Management Board levels, we develop formal policies and procedures which explain the way in which risks need to be systematically identified, assessed, quantified, managed and monitored. Each business participates in the risk management process by identifying the key risks applicable to its business. The principal risks and uncertainties faced by the Bank are identified through this bottom-up process.

On a day-to-day basis, the Bank's Management Board is responsible for the implementation of the Bank's risk management and other internal control policies and procedures. Based on our risk culture, managers "own" the risks relevant to their respective function. For each risk identified at any level of the business, the risk is measured, mitigated (if possible) in accordance with our policies and procedures, and monitored. Managers are required to report on identified risks and responses to such risks on a consistent and frequent basis. The Management Board regularly reviews the output from the bottom-up process by providing independent challenge and assessing the implementation of the risk management and internal control policies and procedures. Our reporting process enables key risks to be escalated to the appropriate level of authority and provides assurance to the Committees and the Supervisory Board. Key developments affecting our principal risks and associated mitigating actions are reviewed quarterly (or more often if necessary on an ad hoc basis, outside of the regular reporting process) by the Audit and Corporate Governance and Risk Committees, as appropriate, and the Supervisory Board. The principal risks and uncertainties faced by the Bank are identified through the above processes.

A description of these Principal Risks and Uncertainties, including recent trends and outlook, as well as mitigation efforts, can be found on pages 77 to 90 of the Report.

Internal control

The Supervisory Board is responsible for reviewing and approving the Bank's system of internal control, and its adequacy and effectiveness. Controls are reviewed to ensure effective management of risks we face. Certain matters – such as the approval of major capital expenditure, significant acquisitions or disposals and major contracts – are reserved exclusively for the Supervisory Board. For other matters, the Supervisory Board is often assisted by both the Audit and Corporate Governance and Risk Committees.

With respect to internal control over financial reporting our financial procedures include a range of system, transactional and management oversight controls. The Bank prepares detailed monthly management reports that include analyses of results along with comparisons, relevant strategic plans, budgets, forecasts and prior results. These are presented to, and reviewed by, the Management Board. Each quarter, the Bank's Deputy CEO – Chief Financial Officer, and other members of the Finance team discuss financial reporting and associated internal controls with the Audit and Corporate Governance Committee, which reports significant findings to the Supervisory Board. The Audit and Corporate Governance Committee also reviews the quarterly, half-year and full-year financial statements and corresponding results announcements, and advises the Supervisory Board. The external and internal

auditors attend each Audit and Corporate Governance Committee meeting, and the Audit and Corporate Governance Committee meets them regularly both with and without the Management Board present.

Our Audit and Corporate Governance and Risk Committees monitor internal control over operating and compliance risk through discussions with the Bank's Deputy CEOs – Chief Risk Officer, Chief Operating Officer and Chief Financial Officer, Head of AML and Compliance, Head of Internal Audit and other Management Board members, on a quarterly basis. Any key issues identified are escalated to the Supervisory Board. The Supervisory Board also receives regular presentations directly from the head of each risk unit of the Bank. Principal risk and internal control issues are addressed in such presentations. The Internal Audit reviews a number of areas of risk pursuant to an annual programme approved by the Audit and Corporate Governance Committee. Any significant issues or risks arising from an internal audit are reported to the Audit and Corporate Governance Committee, which monitors that appropriate actions are undertaken to ensure satisfactory resolution. The Head of Internal Audit has a direct reporting line to the Chairman of the Audit and Corporate Governance Committee.

Our systems of internal control are also supported by our Whistleblowing Policy, which allows employees to report concerns on an anonymous basis. Responsibility for the Whistleblowing Policy resides with the Supervisory Board, and both the Supervisory Board and Audit and Corporate Governance Committee receive annual and quarterly reports on the operation of the policy from the Head of AML and Compliance of the Bank on any significant issues raised.

Effectiveness review

Each year, we review the effectiveness of our risk management processes and internal control systems, with the assistance of the Audit and Corporate Governance and Risk Committees. This review covers all material systems, including financial, operational and compliance controls. The latest review covered the financial year to 31 December 2020 and obtained assurance from the Management Board and the Internal Audit. The Supervisory Board is able to conclude with reasonable assurance that the appropriate internal controls and risk management systems were maintained and operated effectively throughout 2020, and that these systems continued to operate effectively up to the date of approval of this Report. The review did not identify any significant weaknesses or failings in the systems. Although we did not identify any significant weaknesses or failings, we continuously strive to improve our framework and focus on further mitigating our key risks, especially as they evolve.

Bank risk management

Management of risk is fundamental to the Bank and is an essential element of the Bank's operations. The main risks inherent in the Bank's operations are credit risk, liquidity risk, market risk (including currency and foreign exchange rate risks), operational risk and legal risk. The following is a description of the Bank's risk management policies and procedures in respect of those risks. Business risks, such as changes in the environment, technology and industry, are monitored through the Bank's strategic planning process.

The Bank's risk management framework is based on the principle of continually assessing risk throughout the life of key operations and includes such stages as:

- risk identification;
- risk assessment – qualitative and quantitative assessment of a particular risk;
- risk appetite – determination of an acceptable risk level;
- risk treatment – monitoring and mitigation;
- risk monitoring and reporting – ongoing monitoring and control allowing efficient adjustments in case of any changes in the conditions on which the preliminary risk assessment was made; and
- analysis of the effectiveness of the risk management system.

Risk management structure

In 2019, the Bank commenced the implementation of its new Risk Management Framework and Risk Appetite Framework policies, which are based on Enterprise Risk Management's three lines of defence model and mirror the requirement of the Corporate Governance Code adopted by the NGB. The new framework and policies were fully implemented by the end of 2020. The three lines of defence model enhances the understanding of risk management and control by clarifying roles and duties within the Bank of different risk management bodies and units in order to increase the effective management of risk and control. The underlying premise of the new model is that through the oversight of the Bank's Management Board and Supervisory Board, the following three lines of defence are identified (and ascribed relevant responsibilities) for the effective management of risk and control:

First line of defence

- The first line of defence is handled by relevant business unit's front-line and mid-line managers, the Risk Owners, who have day-to-day ownership and management over relevant business units of the Bank.
- The Risk Owners are accountable for initial identification, assessment, management, monitoring and reporting of risks in terms of products, activities, processes and systems under their management.
- The first line of defence also: (i) participates in defining the Bank's risk appetite approaches; (ii) integrates risk appetite approaches and risk culture into daily activities; (iii) introduces controls and processes to effectively manage risks; and (iv) introduces awareness-raising activities related to risk culture.

Second line of defence

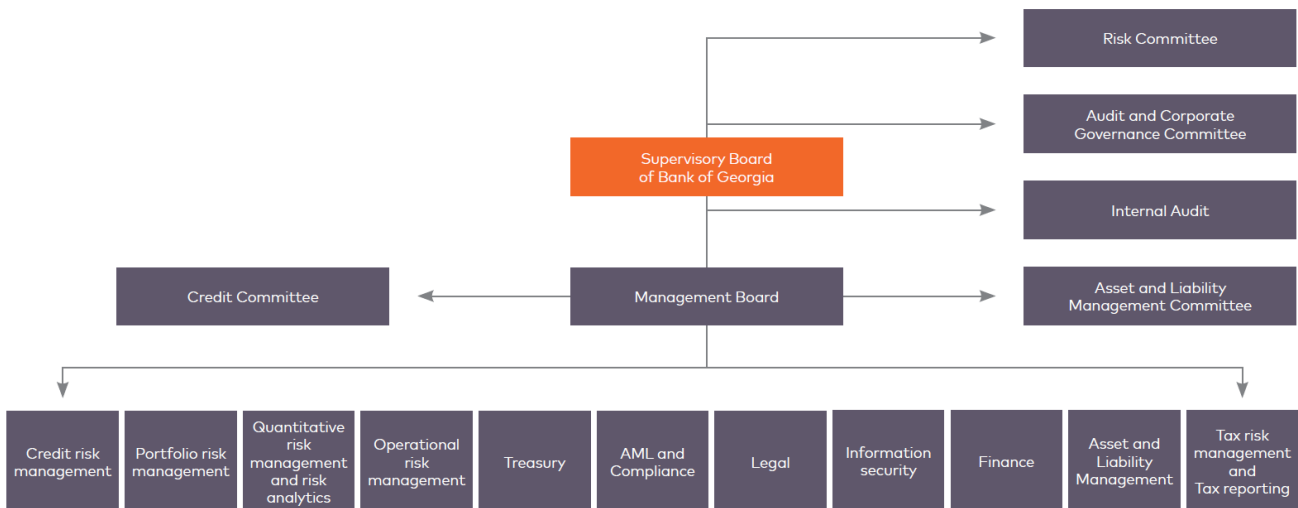
- The second line of defence provides an additional level of support to the first line of defence, with senior management who bring an additional level of expertise to the risk management process, and provide additional support to, and monitoring of, Risk Owners to ensure that risks and controls are properly managed.
- The second line of defence comprises the Bank's risk management function and compliance units, both of which are independent of the first line of defence and have the power to monitor the Bank's risk-taking processes and assess risks and related matters independently of the relevant business lines and Risk Owners.
- The risk management function is represented by an organised structure under the Deputy CEO - Chief Risk Officer, comprising Credit Risk department, a Portfolio Risk Management department, Quantitative Risk Management and Risk Analytics department, Operational Risk Management department, Informational Security department, and Legal department. The Deputy CEO – Chief Risk Officer has a leading role in operating the second line of defence. They coordinate risk management processes, and implement appropriate policies.
- The second line of defence for the Bank's AML risk management is undertaken by the AML and Compliance Department under the Bank's Deputy CEO – Chief Operations Officer, which is responsible for managing and monitoring the Bank's products and processes and ensuring compliance with the applicable regulations.
- Managing compliance risk in the field of financial reporting, as well as managing the Bank's tax risks, is the responsibility of the Bank's finance function, under the Bank's Deputy CEO – Chief Financial Officer.
- The aforementioned structural units also participate in adherence to compliance requirements, and in the organisation of the general control environment as part of the second line of defence.

Third line of defence

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

Together with three lines of defence, the risk function of the Bank has produced the Bank's Risk Appetite Framework Policy, which serves as the primary guideline for each line of defence when treating and managing identified risks. The risk management bodies described below have been brought into line with the Risk Appetite Framework Policy and have their relevant responsibilities categorised under the Risk Management Framework Policy and the Risk Appetite Framework Policy.

Risk management bodies of Bank of Georgia



Risk management bodies

The principal risk management bodies of the Bank are the Supervisory Board, Audit and Corporate Governance Committee, Risk Committee, Management Board, Internal Audit, Credit Committee, Asset and Liability Management Committee (ALCO), AML and Compliance, and the Legal department. The Supervisory Board, Audit and Corporate Governance Committee and Risk Committee perform similar roles as Bank of Georgia Group plc's Board of Directors, Audit Committee and the Risk Committee, respectively, only at Bank level.

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

Internal Audit function. The Bank's Internal Audit function (Internal Audit) is responsible for the independent assurance of the Bank's operations, activities, systems and processes, in order to evaluate and provide reasonable, independent and objective assurance and consulting services designed to add value and improve the Bank's operations. Internal Audit is independent of the Management Board. The Head of the Internal Audit, also known as Chief Audit Officer, is appointed by the Bank's Supervisory Board and reports directly to the Bank's Audit and Corporate Governance Committee. Internal Audit discusses the outcomes of all assessments with the Management Board and reports its findings and recommendations to the Bank's Audit and Corporate Governance Committee. Internal Audit's scope of work is to determine whether the Bank's overall risk management framework, internal control and corporate governance processes, as designed and implemented by the Management Board, are adequate and functioning in a manner to ensure:

- material risks – financial and non-financial (including strategic, credit, compliance, regulatory, Environmental, Social and Governance, market, liquidity, reputational, operational risks, as well as emerging risks) – are appropriately identified, assessed and managed across the Bank, including in its outsourced activities;
- interaction between the various governance and risk management groups occurs efficiently and effectively;
- material financial, management and operational reporting is accurate, reliable and timely;
- the Bank's and its employees' conduct is of high integrity and their actions are in compliance with the Bank's policies, standards, procedures, as well as applicable laws and regulations;
- resources are acquired economically, used efficiently, and protected adequately;
- programmes, plans and objectives are achieved in line with predetermined expectations; and
- significant legislative or regulatory issues impacting the organisation are recognised and addressed in a timely and proper manner.

In order to fulfil its function, Internal Audit has unrestricted access to all the Bank's records, property and personnel.

Credit Committees. The Bank has five credit committees (together, the "Credit Committees"), each responsible for supervising and managing the Bank's credit risks in respect of loans for retail and wealth management clients, micro loans, SME loans, corporate loans and counterparty loans. These committees are: the Retail Banking Credit Committee, Micro loans Credit Committee, SME loans Credit Committee, the Corporate Banking Credit Committee and the Financial and Governmental Counterparty Risk Management Committee (FGCRMC). FGCRMC manages,

monitors and controls counterparty risk in relation to financial and governmental counterparties of the Bank. Each Credit Committee approves individual loan transactions.

Each Credit Committee comprises tiers of subcommittees. The FGCRMC comprises two tiers of subcommittees. The Committee consists of six members – the Bank's Deputy CEO – Chief Risk Officer, Deputy CEO – Chief Financial Officer, Deputy CEO – Corporate and Investment Banking, Head of Quantitative Risk Management Department, Head of Treasury and Head of Global Banking Business Direction. A majority of votes is enough for approval. If the net exposure exceeds US\$ 10.0 million, then the decision is deferred to the ALCO.

The Credit Committee for retail loans comprises three tiers of subcommittees (for risk management purposes, loans for wealth management clients are classified as retail loans), for micro loans of one tier and for SME loans three tiers of subcommittees. Micro loans and SME loan applications of less than US\$ 1.0 million are approved by credit risk managers of the relevant Credit Risk department. The SME loans of more than US\$ 1.0 million are approved by the Head of SME Credit Risk Analysis unit. The Credit Committee for corporate loans comprises three tiers of subcommittees. Participation by the Bank's CEO is required for exposures exceeding US\$ 10.0 million, which are also subject to the Supervisory Board approval. All exposures to single group borrowers over US\$ 35.0 million require approval by the Supervisory Board. Lower tier subcommittees meet on a daily basis, whereas higher tier ones meet as needed, typically two to three times a week. Each of the subcommittees of the Credit Committees makes its decisions by a majority vote of its members.

The Problem Assets Committee is chaired by one of the following: the Head of the Problem Loan Management department (first level pertains to loans of up to GEL 500,000), the Bank's Deputy CEO – Chief Operations Officer (second level pertains to the loans in the range of GEL 500,000 – 1,000,000) and the Bank's Deputy CEO – Chief Risk Officer (third level pertains to loans above GEL 1,000,000). The Problem Loan Management department manages the Bank's exposures to problem loans and reports to the Bank's Deputy CEO – Chief Operations Officer. Decisions in terms of all corporate loans managed by the Problem Loan Management department are made by Deputy CEO – Chief Operations Officer and Deputy CEO – Chief Risk Officer.

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

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

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

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

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

Legal direction. The Bank's Legal direction's principal purpose is to ensure: (i) the Bank's business and/or structural units receive due legal support; (ii) the Bank's activities conform to applicable legislation; and (iii) the possible losses from the materialisation of legal risks are minimised. The Legal department is responsible for the application and development of mechanisms for identifying legal risks in the Bank's activities in a timely manner, the investigation of the Bank's activities in order to identify any legal risks, the planning and implementation of all necessary actions for the elimination of identified legal risks, participation in legal proceedings on behalf of the Bank, where necessary, increasing the effectiveness of the legal structures of the Bank's transactions and systemisation/standardisation of the Bank's legal documentation with a view to optimise and achieve easier and more automated and de-risked transacting process in the Bank's daily activities. The Legal department is also responsible for providing legal support to structural units of the Bank and/or its subsidiaries.

Anti-Money Laundering (AML) and Compliance. The Bank's AML and Compliance department is responsible for the implementation of the Bank's AML and compliance programme (including the development of AML policies and procedures, transaction monitoring/screening and reporting systems, establishment of correspondent relationship and ongoing monitoring procedure, employee training and management of regulatory compliance process) throughout the Bank and its subsidiaries. The Bank's ML/FT framework is based on recommendations, directives and requirements of international organisations, including FATF/Basel, as well as local regulations. The Bank's Internal Audit conducts annual assessments of the Bank's ML/FT framework and controls, and provides independent assurance of internal controls.

The Bank has adopted a risk-based approach towards ML/FT risks, including a general anti-money laundering policy, ML/FT risk management policy, risk appetite statement, KYC (Know Your Customer) and customer acceptance policy, and financial sanctions compliance policy. The Bank's risk-based approach means that it applies enhanced due diligence towards higher ML/FT risks by determining high-risk categories of products, customers, services and jurisdictions. The Bank has in place a risk assessment tool for identifying high ML/FT risks throughout the Bank.

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

The Bank has in place a regulatory change management process ensuring timely compliance with new regulations, including the preparation of specific action plans, monitoring the implementation process and increasing the awareness through the employee training programme.

Bodies implementing the risk management system. The Bank's risk management system is implemented by the Bank's Credit Risk department, Portfolio Risk Management department, Quantitative Risk Management and Risk Analytics department, ALM unit, Treasury, Operational Risk Management, Legal, AML and Compliance and Security departments, Finance direction, the Tax Reporting and Tax Risks Management unit, the Information Security department and other departments. The Credit Risk, Quantitative Risk Management and Risk Analytics, Portfolio Risk Management, Operational Risk Management, Information Security, and Legal departments report to the Bank's Deputy CEO – Chief Risk Officer. The Finance direction, the Treasury department and the Tax Reporting and Tax Risks Management unit report to the Bank's Deputy CEO – Chief Financial Officer. The AML and Compliance department reports to the Bank's Deputy CEO – Chief Operations Officer.

The Quantitative Risk Management and Risk Analytics department, in coordination with the ALM unit and Treasury, implements the Bank's market risk policies by ensuring compliance with established open currency position limits, counterparty limits, value-at-risk (VAR) limits on possible losses and the interest rate policy set by the ALCO.

The ALM unit, under the Finance direction, is responsible for managing the Bank's assets and liabilities and its overall financial structure, and is also responsible for managing funding and liquidity and interest rate risks of the Bank.

The Treasury department manages foreign currency exchange, money market, securities portfolio and derivatives operations, and monitors compliance with the limits set by the ALCO for these operations. It is also responsible for management of short-term liquidity and treasury cash flow, and monitors the volumes of cash in the Bank's ATMs and at its service centres.

The Credit Risk department manages credit risks with respect to particular borrowers and assesses overall loan portfolio risks. It is responsible for ensuring compliance with the Bank's Credit Policies and management of the quality of its loan portfolio.

The Portfolio Risk Management department manages and assesses credit risk with respect to the overall loan portfolio and is responsible for providing recommendations on the improvement of loan portfolio quality to minimise

credit losses. It develops the Bank's portfolio quality control models/methods and ensures compliance with the Bank's Credit Policies and established limits.

The Operational Risk Management department identifies and assesses operational risk within the Bank's processes and operations. It also detects critical risk areas or groups of operations with an increased risk level, and develops internal control procedures to address these risks, through (among other things) business-process redesign schemes, including document circulation, information streams, distribution of functions, permissions and responsibility.

The Information Security Department monitors and manages the Bank of Georgia's cyber-security and information systems.

The Legal department monitors all changes in relevant laws and regulations. It also disseminates information on legislative changes to all relevant departments within the Bank. The Legal department actively participates in drafting laws and regulatory documents upon request of legislators and regulators, certain associations and other professional bodies.

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

Each of these departments is provided with policies and/or manuals that are approved by the Bank's Management Board and/or the Supervisory Board (as required). The manuals and policies include comprehensive guidance for each stage of a transaction, including, but not limited to, manuals outlining asset and liability management policies, foreign exchange operations procedures, fixed income investment guidelines, Retail Banking operations procedures, the deposit policy and Credit Policies.

Risk measurement and reporting. The Bank measures risk using a method that reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on different forecasting models. These models use probabilities derived from historical experience, adjusted from time to time to reflect the economic environment. The Bank also models scenarios simulating the impact of extreme events.

Monitoring and controlling of risks are primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank, as well as the level of risk that it is willing to accept, with additional emphasis on selected industries. The Bank also conducts ongoing monitoring and control, allowing efficient adjustments in case of any unexpected changes in the conditions on which the preliminary risk assessment was made. In addition, the Bank monitors and measures overall risk-bearing capacity in relation to aggregate risk exposure across all risk types and activities.

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

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

Risk mitigation and excessive risk concentration. As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from forward transactions. While these derivatives are intended for hedging, they do not qualify for hedge accounting.

The Bank actively uses collateral to reduce its credit risks.

In order to avoid excessive concentrations of risks, the Bank focuses on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Concentrations arise when a number of counterparties, or related shareholders, are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations also involve combined, aggregate exposures of large and significant credits compared with the total outstanding balance of the respective financial instrument(s).

Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Definition: Credit risk is the risk that a borrower or counterparty will be unable to pay amounts in full or in part when due. Credit risk arises mainly in the context of the Bank's lending activities.

Mitigation: The general principles of the Bank's credit policy are outlined in the Credit Policies. The Credit Policies also outline credit risk control and monitoring procedures, and the Bank's credit risk management systems. The Credit Policies are reviewed annually, or more frequently if necessary. The Bank also uses the NBG's provisioning methodology in order to comply with National Bank of Georgia's requirements.

The Bank manages its credit risk by placing limits on the amount of risk accepted with respect to individual corporate borrowers or groups of related borrowers, liability of insurance companies, types of banking operations and by complying with the exposure limits established by the NBG. The Bank also mitigates its credit risk by obtaining collateral and using other security arrangements. The Bank monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for expected credit loss (ECL). The exposure to financial institutions is managed by limits covering on and off-balance sheet exposures and by settlement limits with respect to trading transactions such as foreign exchange contracts.

The Credit Committees approve individual transactions and the Credit Risk department establishes credit risk categories and the provisioning rates, which are set as per the provisioning methodology. The Bank's Deputy CEO – Chief Risk Officer, the Credit Risk department and the Portfolio Risk Management department review the credit quality of the portfolio on a monthly basis.

The Bank's credit quality review process provides early identification of possible changes in the creditworthiness of counterparties, including regular collateral revaluations. Counterparty limits are established by the use of a credit risk classification system, which assigns a risk rating to each counterparty. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and to take corrective action. The Bank makes available to its customers guarantees/letters of credit, which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the guarantee/letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

Loan approval procedures. The procedures for approving loans, monitoring loan quality and for extending, refinancing and/or restructuring existing loans are set out in the Bank's Credit Policies which are approved by the Supervisory Board and/or the Management Board of the Bank. The Credit Committees approve individual transactions.

The Bank evaluates Corporate and Investment Banking clients on the basis of their financial condition, credit history, business operations, market position, management, social and environmental risks, level of shareholder support, proposed business and financing plan, legal documents and on the quality of the collateral offered. The appropriate level of the relevant Credit Committee is responsible for making the decision for loan approval based on credit memorandum and, where appropriate, the Credit Risk Manager's report.

The loan approval procedures for Retail Banking loans depend on the type of retail lending products. Applications for consumer loans, including credit cards and auto loans up to GEL 50,000, are approved by the internal scoring system. Applications for mortgage loans of Retail Banking clients are completed by the Mortgage Loan Officer and submitted to the Credit Risk Manager, who evaluate the credit risks and determine the amount, terms and conditions of the loan, which must be approved at the appropriate level of the Credit Committee. In the case of micro financing loans and SME loans of less than US\$ 1.0 million, loan officers evaluate loan applications, prepare a project analysis and submit proposals to the relevant Credit Risk Manager, who makes the final decision. Loans of more than US\$ 1.0 million to SMEs are approved by the Head of SME Credit Risk Analysis unit. Micro loans up to GEL 40,000 are approved by the internal scoring model.

Collateral. The Bank typically requires credit support or collateral as security for the loans and credit facilities that it grants. The main forms of credit support are guarantees and rights to claim amounts on the borrower's current account with the Bank or other assets. The main forms of collateral for corporate lending are charges over real estate properties, equipment, inventory and trade receivables. The main form of collateral for retail lending is a mortgage over residential property. In the case of corporate loans, the Bank usually requires a personal guarantee (surety) from the borrower's shareholders. Under the Bank's internal guidelines, collateral should be provided (where it is required) to cover outstanding liabilities during the entire duration of a transaction. As at 31 December 2020, 84.6% of loan to customers was collateralised. An evaluation report of the proposed collateral is prepared by the Asset Evaluation department or by the reputable third-party asset appraisal company and submitted to the appropriate Credit Committee, together with the loan application and Credit Risk Manager's report.

Measurement. Exposure and limits are subject to annual or more frequent review. The Bank's compliance with credit risk exposure limits is monitored by the Credit Risk department on a continuous basis. The allowance is based on the Expected Credit Loss (ECL) associated with the probability of default in the next 12 months, unless there has been a significant increase in credit risk since the loan origination, in which case the allowance is based on the ECL over the life of the asset. The allowance for credit losses is based on forward-looking information, which takes into consideration past events, current conditions and forecasts of future economic conditions.

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

Under the Bank's internal loan loss allowance methodology, which is based upon IFRS requirements, the Bank categorises its loan portfolio into significant and non-significant loans. Significant loans are defined as loans in excess of US\$ 1.0 million and non-significant loans are defined as loans below US\$ 1.0 million. The Credit Risk department makes an individual assessment of all defaulted significant loans. Non-defaulted significant loans are given a collective assessment rate. For the purposes of provisioning, all loans are divided into different groups (such as mortgage, consumer and micro loans).

In 2005, the Bank, jointly with certain other Georgian banks and with the CreditInfo Group hf, an international holding of credit information bureaus and a provider of credit information solutions, established JSC Credit Information Bureau CreditInfo Georgia (CIG) to serve as a centralised credit bureau in Georgia. Most Georgian banks have shared negative customer information since July 2006. Since 2009, they also share and contribute positive and negative customer credit information to CIG.

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

Liquidity risk

Definition: Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances.

Monitoring: Liquidity risk is managed through the ALCO-approved liquidity framework. Treasury manages liquidity on a daily basis. In order to manage liquidity risk, it performs daily monitoring of future expected cash flows on customers' and banking operations, which is a part of the assets/liabilities management process. The Finance direction/the ALM unit prepare and submit monthly reports to the ALCO. The ALCO monitors the proportion of maturing funds available to meet deposit withdrawals and the amounts of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The liquidity risk management framework models the ability of the Bank to meet its payment obligations under both normal conditions and extreme circumstances. The Bank has developed a model based on the Basel III liquidity guidelines. This approach is designed to ensure that the funding framework is sufficiently flexible to secure liquidity under a wide range of market conditions. The liquidity management framework is reviewed from time to time to ensure it is appropriate to the Bank's current and planned activities. Such review encompasses the funding scenarios,

wholesale funding capacity, limit determination and minimum holdings of liquid assets. The liquidity framework is reviewed by the ALCO prior to approval by the Bank's Management Board.

The ALM unit, Treasury and Funding departments also undertake an annual funding review which outlines the current funding strategy for the coming year. This review encompasses trends in global debt markets, funding alternatives, peer analysis, estimation of the Bank's upcoming funding requirements, estimated market funding capacity and a funding risk analysis. The annual funding plan is reviewed by the Bank's Management Board and approved by the Bank's Supervisory Board as part of the annual budget. The ALM unit, Funding and Treasury departments also review, from time to time, different funding options and assess the refinancing risks of such options.

Mitigation: The Bank's capability to discharge its liabilities is dependent on its ability to realise an equivalent amount of assets within the same period of time. The Bank maintains a portfolio of highly marketable and diverse assets that it believes can be easily liquidated in the event of an unforeseen interruption of cash flow.

It also has committed lines of credit that it can access to meet its liquidity needs. Such lines of credit are available through the NBG's refinancing facility. The Bank maintains sufficient liquidity to comply with the NBG liquidity requirements: Liquidity Coverage Ratio (LCR) $\geq 100\%$ and Net Stable Funding Ratio (NSFR) $\geq 100\%$. For the purposes of LCR calculation the run-off ratios applied by the NBG are stricter than recommended by the Basel requirements. In addition, the Bank has more conservative internal limits on liquidity. For the purposes of compliance with the NSFR, the Bank maintains a sufficiently stable funding base considering the term profile of the assets. The ALM unit and the Quantitative Risk Management and Risk Analytics departments regularly forecast LCR and NSFR positions for up to three-month period. In addition, the Bank maintains a cash deposit (mandatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted. As at 31 December 2020, in line with the NBG's requirements, 25% of customer deposits in foreign currencies were set aside as minimum reserves. In addition, the Bank maintains a minimum average balance of 5% of its customers' deposits in Georgian Lari on its correspondent account at the NBG. For wholesale funding and Certificates of Deposits, the NBG requires the Bank to set aside 25% of its unsubordinated foreign currency wholesale funding for borrowings with a remaining maturity of less than one year, 15% for borrowings with a remaining maturity of one to two years and 5% of its unsubordinated Georgian Lari wholesale funding for borrowings with a remaining maturity of less than one year. There is no minimum reserves requirement for Georgian Lari Certificates of Deposits.

Funding: In the Georgian marketplace, the majority of working capital loans are short-term and granted with the expectation of renewal at maturity. As such, the ultimate maturity of assets may be different from the analysis presented elsewhere. In addition, the maturity gap analysis does not reflect the historical stability of current accounts.

The Bank's principal sources of liquidity are deposits, borrowing from international credit institutions, inter-bank deposits, debt issuances, proceeds from sale of securities, and principal repayments on loans.

As at 31 December 2020, the Bank's client deposits and notes were GEL 13,496.5 million, compared with GEL 9,537.2 million and GEL 7,815.8 million as at 31 December 2019 and 2018, respectively, and represented 73.9% of total liabilities, compared with 62.4% and 64.4% as at 31 December 2019 and 2018, respectively. In accordance with Georgian legislation, the Bank is obliged to repay such deposits upon demand of a depositor. In the case of early withdrawal, the interest on the deposit is foregone or reduced. As at 31 December 2020, total amounts owed to credit institutions and debt securities issued were GEL 4,281.3 million, compared with GEL 5,478.2 million and GEL 4,195.2 million as at 31 December 2019 and 2018, respectively, and represented 23.4% of total liabilities, compared with 35.8% and 34.6% as at 31 December 2019 and 2018, respectively. Amounts owed to credit institutions and debt securities are taken from a wide range of counterparties.

The Bank's Management Board believes that the Bank's liquidity is sufficient to meet the present requirements. For information on the Bank's liquid assets, liabilities and the maturity profile of the Bank's financial liabilities, as well as further information on the liquidity risk of the Bank, see Note 27 and 29 to the Separate Financial Statements.

Borrowed funds repayment schedule

US\$ million	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Eurobonds and notes	-	-	339	-	-	-	-	-	-	-
Senior loans	164	35	83	48	43	9	-	-	-	-
Subordinated loans	-	-	-	-	90	-	-	-	127	-
Total	164	35	422	48	133	9	-	-	127	-
% of total assets	2.6%	0.6%	6.7%	0.8%	2.1%	0.1%	0.0%	0.0%	2.0%	0.0%

Market risk

Definition: The Bank is exposed to market risk (including currency exchange rate risk and interest rate risk), which is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables. Market risk exposure arises from mismatches of maturity and currencies between the assets and liabilities, all of which are exposed to market fluctuations.

Mitigation: The general principles of the Bank's market risk management policy are set by the ALCO. The Bank aims to limit and reduce the amount of possible losses on open market positions which may be incurred by the Bank, due to negative changes in currency exchange rates and interest rates. The Bank classifies exposures to market risk into either trading or non-trading positions. Trading and non-trading positions are managed and monitored using different sensitivity analyses. In order to address these risks, the ALCO specifically establishes Value at Risk (VAR) limits on possible losses for each type of operation (currently the VAR limit is set for foreign currency exchange operations and counterparty risk) and the Quantitative Risk Management and Risk Analytics department monitors compliance with such limits.

Currency exchange rate risk: Currency exchange rate risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. The Bank is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates on its financial position. The Bank's currency risk is calculated as an aggregate of open positions and is controlled by setting a VAR calculation (established by the ALCO) with respect to the Bank's currency basket.

The Bank uses the historical simulation method based on 400-business-day statistical data. Its open currency positions are managed by the Treasury department on a day-to-day basis and are monitored by the Quantitative Risk Management and Risk Analytics department. The ALCO sets open currency position limits with respect to both overnight and intra-day positions and stop-loss limits. Currently, the Bank's proprietary trading position is limited by the ALCO to a maximum of 10% of the Bank's total regulatory capital as defined by the NBG. In addition, open positions in all currencies except for GEL are limited to a maximum of 1% of the Bank's total regulatory capital as defined by NBG. The open currency position is also limited by the ALCO to an annual VAR limit of GEL 50 million with a 98.0% "tolerance threshold".

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

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

Similar to other Georgian banks, the majority of the Bank's assets and deposits have fixed interest rates. In order to minimise interest rate risk, the Bank monitors its interest rate (re-pricing) gap and maintains an interest rate margin (net interest income before impairment of interest earning assets divided by average interest earning assets) sufficient to cover operational expenses and risk premium. Within limits approved by the Bank's Supervisory Board, the ALCO approves ranges of interest rates for different maturities at which the Bank may place assets and attract liabilities. The Quantitative Risk Management and Risk Analytics department analyses duration gap and capital sensitivity to interest rate changes. Interest rate risk levels for each currency are monitored by Finance direction/the ALM unit, Treasury and Quantitative Risk Management and Risk Analytics departments. The Bank calculates a possible change of Economic Value of Equity (EVE) using a calculation method published by the NBG. This method is based on predefined shock and stress scenarios. The NBG has limited the maximum EVE change by 15% of the core capital.

As at 31 December 2020, the Bank's floating rate borrowings accounted for 9.9% of the total liabilities.

Prepayment risk: The Bank is also subject to prepayment risk, which is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rates fall. The Bank reviews the prior history of early repayments by calculating the weighted average effective rate of early repayments across each credit product, individually, applying these historical rates to the outstanding carrying amount of each loan product as of the reporting date and then multiplying the product by the weighted average effective annual interest rates for each product. This allows the Bank to calculate the expected amount of unforeseen losses in the case of early repayments.

For further information on the Bank's market risk see Note 27 of the Notes to the Separate Financial Statements.

Operational risk

Definition: Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a risk management and integrated control framework and by monitoring and responding to potential risks, the Bank aims to manage the risks. Cyber risk, AML and compliance risk, and certain operational risks, are discussed in Principal Risks and Uncertainties on pages 77 and 90.

Mitigation: The Bank manages its operational risks by establishing, monitoring and continuously improving its policies and procedures relating to the various aspects of the Bank's cash, payments, accounting, trading and core processing operations and data back-up and disaster recovery arrangements.

The Bank has a framework, which is in compliance with normative acts defined by Georgian legislation and international standards. Regular review of, and amendments to, the policy are performed by the Bank's Management Board and overseen by the Risk Committee, which are also responsible for setting an overall risk appetite.

The Operational Risk Management department is responsible for development of policies, processes and procedures for managing operational risks in all products, activities, processes and systems, consistently implementing an operational risk framework throughout the Bank.

The department is responsible for the identification and assessment of operational risks, detecting critical risk areas or groups of operations with an increased risk level, developing escalation processes, considering business recommendations and mitigation action plans.

The Operational Risk Management Committee is responsible for setting and overseeing qualitative and quantitative parameters of operational risk appetite and tolerance.

Operational risks are identified and assessed by using several methodologies, including: internal loss database collection and analysis; scenario analysis; Risk and Control Self-Assessment (RCSA); new products assessment; and Key Risk Indicators (KRIs) analysis. To mitigate the impact of operational risk, the Bank applies approaches, including the implementation of control elements in a business process, segregation of duties, access, authorisation and reconciliation procedures, and development of preventive control tools within operating systems.

To ensure that adequate risk management competency levels are achieved and maintained, the Bank provides regular staff education and training courses as part of the risk management process. Specific risk management training sessions are held on an annual basis, aimed at providing an overview of the risk management framework.

The Head of Operational Risk Management, who reports to the Bank's Deputy CEO – Chief Risk Officer, is responsible for the oversight of the Bank's operational risks.

Emerging risk

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

We recognise the challenges posed by climate change. The Bank has identified Climate Risk as an emerging risk (see page 90). As such, we intend to integrate climate change-related risks into our credit risk framework and our business resilience assessments. In 2021, we will be describing and managing climate-related risks in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. See more details on the Bank's planned actions on this matter on page 116.

Principal Risks and Uncertainties

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

We outline the principal and emerging risks and uncertainties that are most likely to have an impact on our strategic objectives, business model, operations, future performance, solvency and liquidity. These principal and emerging risks are described in the table below, together with the relevant strategic business objectives, key drivers/trends, material controls that have been put in place to mitigate the risks, and the mitigation actions we have taken. It is recognised that the Bank is exposed to risks wider than those listed. We disclose those that we believe are likely to have had the greatest impact on our business and which have been discussed in depth at the Bank's recent Supervisory Board, Audit and Corporate Governance or Risk Committee meetings.

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

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 Bank'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. Georgia's economy contracted by 6.2% in 2020, according to Geostat, as the country faced a pronounced economic shock due to the COVID-19 pandemic. Halt in international tourism has widened the current account deficit to 12.3% of GDP in 2020. Rising global risk aversion has reduced private financial inflows and delayed investment. The authorities have sought to contain the COVID-19 pandemic and cushion its economic impact, and attracted IFI funding in the face of a balance of payments gap. Notably, the real GDP growth was 5.0% 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 2020, the Lari depreciated against the US Dollar by 14.3%, after depreciating by 7.1% in 2019. The volatility of the 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.

As at 31 December 2020, approximately 78.8% and 44.9% of our net Corporate and Investment Banking and Retail Banking loans, respectively, were denominated in foreign currency, while 7.2% of Retail Banking gross loans and 38.3% 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 Bank created 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 year to reflect the macroeconomic forecast scenarios published by the NBG in May 2020, and better visibility of the portfolio and the detailed review of creditworthiness of the borrowers in the third and fourth quarters of 2020. Based on these analyses, additional reserves created in the first quarter proved overall to be sufficient. As a result, our cost of credit risk ratio was 1.9% in 2020 compared to 0.9% in 2019.

There still is uncertainty over the magnitude of the global slowdown that will result from the COVID-19 pandemic.

Mitigation

The Bank 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 NBG, 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 requirements, we assign up to 75% additional risk weighting to the foreign currency loans of clients, whose source of income is denominated in Lari (this requirement was temporarily decreased to 25% since April 2020 by the NBG on the back of the COVID-19 outbreak; see details in the section on Capital risk on pages 86 and 87; however, we have not modified our approach with regard to underwriting principles and this change has not affected our pricing decisions).

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, the 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. The NBG eased the above mentioned regulation from April 2020 as part of its response to the COVID-19 pandemic. The changes mostly apply to hedged borrowers, while the PTI and LTV thresholds for unhedged borrowers remain more conservative.

Since 2016, the NBG has actively implemented various measures to de-dollarise the Georgian economy. In January 2019, in order to hedge borrowers against foreign currency risks, the NBG raised a threshold of small-sized loans that must be issued only in the local currency, from GEL 100,000 to GEL 200,000.

Among the NBG's initiatives towards de-dollarisation and increasing access to long-term lending in the local currency is Liquidity Coverage Ratio (LCR) under the 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 foreign currency as well as for all currencies in total.

Moreover, since June 2018, in order to encourage the financial institutions to raise funding in the local currency, the NBG mandated changes in minimum reserve requirements on funds attracted in national and foreign currencies several times. Currently, 25% of customer deposits in foreign currencies are set aside as minimum reserves. In addition, the Bank maintains a minimum average balance of 5% of its customers' deposits in Georgian Lari at its correspondent account at the NBG. For Certificates of Deposit (CDs) and unsubordinated funding, the NBG requires the Bank to set aside 25% of CDs and borrowings in foreign currency with a remaining maturity of less than one year, 15% of CDs and borrowings in foreign currency with a remaining maturity of one to two years, and 5% of its unsubordinated local currency wholesale funding for borrowings with a remaining maturity of less than one year. There is no minimum reserves requirement for CDs denominated in local currency.

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 GEL 500 million to support local currency lending.

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 the second quarter of 2020 as part of the NBG's response to the COVID-19 pandemic.

The Government and the NBG have appropriate tools to help mitigate the economic threat to a degree, and to try to support economic recovery to resume growth quickly. 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. We continue to monitor the COVID-19 pandemic outbreak's impact and to consider our continued business resilience.

Regional instability

Principal risk/ The Georgian economy and our business may be adversely affected by regional tensions and instability.

Uncertainty

The Bank'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, which 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 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 contribute to tensions. The Government has taken certain steps towards improving relations with Russia but, as of the date of this Management Report, 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 affected the Georgian tourism sector; however, it also provided more incentives to further diversify the country's tourist base.

We note that, after a two-month war between Azerbaijan and Armenia over Nagorno-Karabakh region, a ceasefire agreement was signed on 10 November 2020. The agreement confirmed territorial gains of Azerbaijan, opening a direct land link with Turkey. Soon after the agreement, the Turkish Government announced plans to build a railway connecting to Azerbaijan directly. This decision may shift transportation routes in the region in the long term, which could negatively affect Georgia's aspiration to become the transport and logistics hub of the region. However, at this stage we do not assume that cargo flows will shift from the Georgian corridor in the medium term, considering the difficult landscape of this potential new route and uncertainties related to security.

In addition, Georgia is currently going through some political challenges. Domestic political situation escalated following the parliamentary elections in October 2020. The situation may exacerbate uncertainty and negatively impact the recovery.

Mitigation

The Bank 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.

Although the COVID-19 pandemic had an adverse impact on the Georgian economy, which is highly dependent on tourism revenues, a series of state support measures coupled with financial assistance from international financial institutions have partly mitigated the negative consequences of the pandemic. As a result, the Georgia economy contracted by 6.2% in 2020. Georgia is expected to return to economic growth during 2021 as more people get vaccinated, tourism gradually comes back, and various sectors of the economy are revived. We believe that Georgia's efforts to further diversify its economic linkages, use the potential of new large markets – the EU and China – and further enhance its institutions will 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 external financing gap. On 16 December 2020, the Executive Board of the IMF completed the Seventh Review of Georgia's programme. The completion of the review released SDR 79 million (about US\$ 113.9 million) to help Georgia meet balance of payments needs stemming from the COVID-19 shock. Total disbursements so far under the arrangement amount to SDR 406 million (about US\$ 585.4 million).

Based on IMF's Executive Board 1) the authorities have taken appropriate steps to alleviate the adverse economic and social impact of the shock given the pronounced economic slowdown, and 2) macroeconomic policy discipline and decisive implementation of structural reforms will be critical to support the recovery and limit scarring from the COVID-19 shock. The NBG has appropriately maintained a moderately tight monetary stance to anchor inflation expectations, while safeguarding exchange rate flexibility. Inflation pressures have abated as the output gap widened and the nominal effective exchange rate stabilised. The tight monetary policy stance and continued foreign-exchange intervention may need to be sustained to prevent disorderly market conditions and bring inflation towards the 3% target. Macroeconomic policy discipline and donor support is expected to keep foreign exchange reserves at an adequate level. The proactive monitoring of financial risks and actions to preserve banks' capital until the economy rebounds would support the recovery.

The fiscal response to the pandemic has helped alleviate its adverse economic and social impact, with higher healthcare spending, targeted and temporary support to households and businesses, and sustained public investment. The 2021 Budget will further support the economic recovery while starting fiscal consolidation consistent with Georgia's fiscal rule. The authorities' proactive monitoring of fiscal risks stemming from power purchase agreements and state-owned enterprises are expected to help safeguard debt sustainability. Plans to reform state-owned enterprises will help to improve the efficiency of the public sector.

Notably, Fitch Ratings and S&P Global maintained Georgia's sovereign credit ratings unchanged in 2020 and 1Q21, respectively, despite the COVID-19-induced economic crisis and sharp reduction of external earnings on the back of halt in international tourism. Both agencies underline Georgia's relatively strong institutional arrangements, in the regional context, and an ability to mobilise concessional financing from international financial institutions.

The Bank closely monitors the current domestic political situation, related risks and the Georgian Government's response thereto. The international community is closely involved in the process and act as mediators between the government and the opposition parties. The desire to join the EU is likely to encourage Georgia's political players to put their differences behind them act more collaboratively.

Loan portfolio quality

Principal risk/ The Bank may not be able to maintain the quality of its loan portfolio.

Uncertainty

The quality of the Bank's loan portfolio may deteriorate due to external factors beyond the Bank'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 Bank's Corporate and Investment Banking loan portfolio is concentrated and to the extent that such borrowers enter into further loan arrangements with the Bank, this will increase the credit and general counterparty risk of the Bank, with respect to those counterparties and could result in deterioration of the Bank's loan portfolio quality.

Furthermore, the collateral values that the Bank holds against the loans may decline, which may have an adverse effect on the business and financial position of the Bank.

**Key drivers/
trends**

Expected credit loss and, in turn, the Bank's cost of credit risk could increase if a single large borrower defaults or a material concentration of smaller borrowers default. The Corporate and Investment Banking loan portfolio is concentrated, with the Bank's top ten Corporate and Investment Banking borrowers accounting for 8.9% of gross loans to customers and finance lease receivables at 31 December 2020, as compared with 9.1% at 31 December 2019.

As at 31 December 2020, the Bank held collateral against gross loans covering 84.6% of the total gross loans to customers. 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 Bank'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 Bank to accurately value collateral it holds. If the fair value of the collateral that the Bank 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 2020, the Bank's cost of credit risk ratio was 1.9%, as compared to 0.9% in 2019. The increase was driven by additional expected credit losses created for the full economic cycle in both Retail and Corporate and Investment Banking segments, primarily related to deterioration of macroeconomic environment and expected creditworthiness of borrowers as a result of the impact of the COVID-19 pandemic. As of 31 December 2020, 2019 and 2018, the Bank's non-performing loans accounted for 3.7%, 2.0% and 3.2% of gross loans to customers and finance lease receivables, respectively.

Mitigation

The Bank 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 Bank continuously monitors the market value of the collateral it holds against the loans. When evaluating collateral for provisioning purposes, the Bank 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 Bank strictly adheres to PTI and LTV ratios set by the 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.

To respond to challenges caused by the COVID-19 pandemic, the Bank has adjusted the credit assessment criteria in 2020, both for business as well as household loans. The Bank applied sector specific discounts to financial forecasts, increased discounts applied to rental income and increased LTV requirements prior to these adjustments materialising into real impact. The Bank also actively monitored portfolio of impacted customers and offered suitable loan payment schedule modifications to meet customers' cash flow needs for them to be able to meet their credit obligations. In addition, in order to manage the risk at an appropriate level, the Bank has temporarily ceased the lending to high-risk retail and micro-express loans segment.

In terms of Corporate and Investment Banking loan portfolio concentration, the Bank 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 Bank 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 the 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 ultimate parent company of the Bank 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 Bank is also subject to relevant laws and regulations in Georgia.

Mitigation In order to ensure full compliance with relevant regulations, the Bank has established systems and processes, which are embedded in all levels of the Bank'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.

The Bank has taken further steps to effectively and efficiently mature its compliance risk management framework, including development of a robust toolkit for timely implementation of new regulatory requirements, and establishing a formal link and coordinated process of communication with the regulator. The Bank has re-designed its policies and processes for identifying, assessing, and monitoring the related party transactions. Our compliance risk management framework, at all levels, is subject to regular review by the Bank's Internal Audit department and external assurance service providers.

Liquidity risk

Principal risk/ Uncertainty The Bank is exposed to liquidity risk when the maturities of its assets and liabilities do not coincide, as well as funding risk.

Although the Bank expects to have sufficient funding over the next 12 months and beyond to execute its strategy and to have sufficient liquidity over the next 12 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 Bank, operating in any of these markets.

**Key drivers/
trends**

The Bank's current liquidity may be affected by unfavourable financial market conditions. If assets held by the Bank in order to provide liquidity become illiquid or their value drops substantially, the Bank 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 Bank'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 Bank's financial and credit condition, as well as general market liquidity.

In terms of current and short-term liquidity, the Bank 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 Bank'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 Bank's liquidity and funding positions.

Mitigation

The Bank manages its liquidity risk through the liquidity risk management framework, which models the ability of the Bank to meet its payment obligations under both normal conditions and crisis.

The Bank has developed a model based on the Basel III liquidity guidelines. It maintains a solid buffer on top of the Liquidity Coverage Ratio (LCR) requirement of 100%, mandated by the NBG since September 2017. A strong LCR enhances the Bank's short-term resilience. Moreover, the Bank holds a comfortable buffer on top of the Net Stable Funding Ratio (NSFR) requirement of 100%, which came into effect on 1 September 2019. A solid buffer over NSFR provides stable funding sources over a longer time span. This approach is designed to ensure that the funding framework is sufficiently flexible to secure liquidity under a wide range of market conditions. Notably, both LCR and NSFR measures as implemented by the NBG are already more conservative compared with the minimum levels required under the Basel III framework. As of 31 December 2020, 2019 and 2018, the LCR was 138.6%, 136.7%, and 120.1%, respectively, while NSFR was 137.5% and 132.5%, at 31 December 2020 and 2019, respectively, all comfortably above the NBG's minimum regulatory requirements.

Among other things, the Bank maintains a diverse funding base comprising short-term sources of funding (including Retail Banking and Corporate and Investment Banking customer deposits, inter-bank borrowings and borrowings from the NBG) and longer-term sources of funding (including term Retail Banking and Corporate and Investment Banking deposits, borrowing from international credit institutions, and long-term debt securities).

Client deposits and notes are one of the most important sources of funding for the Bank. As at 31 December 2020, 2019 and 2018, 88.7%, 90.1%, and 91.0%, respectively, of client deposits and notes had contractual maturities of one year or less, of which 49.4%, 57.1%, and 56.9%, respectively, were payable on demand. As of the same dates, the ratio of net loans to client deposits and notes was 97.8%, 116.0%, and 111.7%, respectively, and the ratio of net loans to client deposits and notes and DFIs was 87.0%, 102.0%, and 96.5%, respectively.

The Bank has strong support from International Financial Institutions. It has already attracted a number of new local and foreign currency long-term borrowings during 2020 of more than US\$ 200 million from the International Finance Corporation, the European Investment Bank, FMO – Dutch entrepreneurial development bank in collaboration with other participating lenders, and the European Bank for Reconstruction and Development, part of which has been drawn-down during 2020. As of 31 December 2020, the Bank had c.GEL 635 million undrawn long-term facilities from DFIs with up to seven years of maturity.

Furthermore, as part of its updated supervisory plan for the 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, the 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, the NBG has also introduced the FX swap instruments, and 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/ The Bank faces the risk of not meeting the minimum capital adequacy requirements set by the NBG.

Uncertainty

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 requirements may have a material adverse effect on the Bank 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 the Basel III guidelines of the Basel Committee of Banking Supervision, with regulatory discretion applied by the NBG due to the specifics of the local banking industry. The new increased requirements are phased-in gradually with fully loaded requirement of capital adequacy ratios of risk-weighted assets effective by end of March 2023 (as amended in March 2020, and subsequently, as described below as part of the NBG's response to the COVID-19 pandemic outbreak).

Our ability to comply with existing or amended the 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 the emerging COVID-19 pandemic, in agreement with the NBG, the Bank created a c.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 expectation of estimated credit losses on the Bank's lending book for the full 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 Bank's capital adequacy position.

Mitigation

The Bank 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 Supervisory 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 US\$ 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 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 December 2020, the Bank signed an amendment to the syndicated Tier 2 facility on increasing the loan exposure by additional US\$ 20 million.

In March 2020, given the level of uncertainty with regard to the global impact of COVID-19 and the potential length of time of that impact, the Supervisory Board decided not to recommend a dividend for the 2019 year to shareholders at the 2020 Annual General Meeting.

Furthermore, as part of its updated supervisory plan for the Georgian banking sector, aimed at elevating the negative financial and economic challenges created by COVID-19 in Georgia, the 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%.
- Pillar 2 requirements:
 - Currency induced credit risk buffer (CICR) requirement reduced by two-thirds.
 - The phase-in of additional credit portfolio concentration risk buffer (HHI) and net general risk assessment programme (GRAPE) buffer requirements on Common Equity Tier 1 (CET1) and Tier 1 capital, planned at the end of March 2020, has been postponed indefinitely; however, the phase-in of additional HHI and GRAPE buffer requirements were postponed till end of March 2021 as subsequently instructed by the NBG.
 - The possibility of fully or partially releasing the remaining requirements of Pillar 2 buffers (HHI, CICR, net GRAPE), if necessary, remains open.
- During the period the banks are allowed to partially or fully use the Pillar 2 and conservation buffers, the banks are restricted to make capital distribution in any form.

-
- The banks will be given sufficient time to build up capital buffers back to pre-crisis level.

The Bank's capital position remains robust, and comfortably above our minimum regulatory requirements. At 31 December 2020, having absorbed the full upfront c.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 10.4%, 12.4% and 17.6%, respectively, all comfortably above the minimum required levels of 7.4%, 9.2% and 13.8%, respectively.

Operational risk, cyber-security, information systems and financial crime

**Principal risk/
Uncertainty** We are at risk of experiencing cyber-attacks, attempts to gain unauthorised access to our systems, and financial crime, as well as 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.

We may also be adversely affected by internal fraud risks considering the increased complexity of our operations, including digitalisation.

**Key drivers/
Trends** 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 lead to enforcement action by the regulator, which can result in a pecuniary penalty and negatively impact the Bank's reputation.

Mitigation We have an integrated control framework encompassing operational risk management, IT systems, and 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 preventive 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 is 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 (NIST) and the International Organisation for Standardisation (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 a 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 general principles such as least privilege access, separation of duties, defence in depth, and privileges commensurate with a particular role's duties. We continuously strive towards keeping 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 vendors' 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 programmes: 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 the onboarding process, and afterwards once a year. On a quarterly basis, the 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, the Information Security department sends awareness emails and shares posts through internal channels regarding current information security threats.

In response to the 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 emails claiming to contain information about COVID-19, among others).

As an organisation that is fully committed to the prevention of bribery and corruption, Bank of Georgia ensures that appropriate internal controls are in place and operating effectively. The Bank also has Know Your Employee (KYE) procedures in place, based on which the Bank conducts different screening procedures at recruitment, employment and departure stages of the employment. In 2020, there was no incident registered in the Bank, and the Bank did not incur any bribery or corruption fines.

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 Supervisory Board level.

COVID-19 pandemic impact risk

Principal risk/ Uncertainty **The COVID-19 outbreak was declared as a global pandemic at 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 a 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.

The outbreak in Georgia at its early stage was not 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, and continued with complete restrictions of all economic activities, other than essential stores and services. From mid-May, businesses gradually reopened, but international flights resumed only to a limited number of countries from August 2020. A surge in COVID-19 cases in autumn resulted in further lockdown measures put in place in retail and hospitality sectors at the end of November 2020, as well as a curfew and a ban on public transportation, while avoiding a full-scale lockdown for other areas of the economy, unlike in April-May. We are monitoring the impact on our business, customers and employees on an ongoing basis.

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, then a significant negative impact on the hospitality sector in Georgia is

expected. This may also impact other areas of the Georgian economy, such as real estate. A prolonged COVID-19 spread, protectionism, and a protracted slowdown in major trading partners, along with intensified regional conflicts and security risks could harm investment and reduce external demand, especially tourism, for longer. Delays in structural reforms may deepen the damaging effects from the crisis. An opposition boycott of the new Parliament may exacerbate uncertainty and harm the recovery.

Key drivers/ trends

Economic activity in Georgia has slowed down significantly in the wake of the COVID-19 pandemic. Based on Geostat, real GDP contracted by 6.2% in 2020 on the back of the lockdown and the halt in international tourism. Strict lockdown measures, including curfew and a two-week ban on private vehicle travel introduced at the end of March 2020, initially kept COVID-19 cases subdued. By mid-June 2020, businesses reopened, and international flights resumed to a limited number of countries. A surge in COVID-19 cases in autumn forced the Government to announce a new lockdown in the retail and hospitality sectors for December 2020 and January 2021, including a curfew. The Government responded quickly to support businesses and households during each lockdown phases, including health-related spending, transfers targeting vulnerable households, and support to SMEs and businesses in hard-hit sectors. Annual inflation declined to 3.8% in November 2020, after peaking at 6.9% in April 2020, primarily due to increased food prices during the lockdown reflecting domestic supply disruptions. 2020 year-end inflation retreated further to 2.4%, reflecting the Government's subsidy of utility bills for low energy consumers. The current account deficit widened to 12.3% of GDP in 2020. The trade deficit narrowed as imports decreased more than exports. Tourism inflows came to a standstill since the pandemic hit. By contrast, remittances increased, as transfers from EU, Turkey, Ukraine and other countries rebounded since May 2020. External funding has been secured through borrowings from IFIs, while FDI stood at US\$ 616.9mln (3.9% of GDP in 2020), down 52.9% y-o-y. In 2020, Georgian Lari depreciated by 14.3% against the US Dollar. The NBG started foreign currency sales to reduce the pressure on local currency and anchor inflation expectations. Despite foreign currency sales international reserves increased, replenished by donor support.

The outlook remains subject to significant uncertainty. The path of the pandemic, the availability of effective treatments, and the associated impact on economic activity, are inherently difficult to predict. Consequently, economic activity in services will continue to suffer in the near term. On the upside, a faster than expected development and distribution of an effective vaccine could boost confidence, support a rebound in tourism and investment, and accelerate the recovery.

At the end of March 2020, the 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 15 to 17 for a detailed outline of initiatives implemented by the Government of Georgia and the National Bank of Georgia as a response to the COVID-19 pandemic outbreak.

Mitigation

The Bank has introduced a number of resilience protocols and a comprehensive Business Continuity Plan (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 four main pillars: operational continuity (employees and customers), supporting the public health system and communities, abundant liquidity, and strength of capital.

Operating continuity and supporting communities: We have put in place a number of initiatives to reduce physical interaction and prevent the spread of the COVID-19, 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. In the fourth quarter of 2020, following the emergence of the second wave of the COVID-19 cases, the Bank again adjusted accordingly, moving a large part of its back office staff to remote work and reintroducing two-week shifts for certain departments and the front office staff. See pages 18 to 21 for a detailed outline of initiatives implemented as part of the BCP by the Bank to respond to the COVID-19 pandemic outbreak.

Capital, liquidity and funding positions: As a result of extensive stress and scenario testing analysis, we have put in place certain initiatives to ensure the Bank has sufficient liquidity and capital to meet regulatory requirements and to ensure the operational continuity of the business and the financial support of its customers. Furthermore, the 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 the NBG's response to the COVID-19 crisis, above, in the sections on Mitigation of Capital risk and of Liquidity risk.

Furthermore, as mentioned above, through mobilisation of financing from international organisations and through its anti-crisis stimulus plan, the Government announced a series of support measures and packages for individuals and businesses 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 proactively 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. We also understand that it is increasingly important to integrate climate risk to improve overall credit risk and responsible decision-making process.

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 Bank and deepening our understanding of climate risks and opportunities. The Bank's Environmental and Social Policy governs its environmental and social risk management procedures that allow identifying, assessing, managing and monitoring environmental and social risks.

Through Environmental and Social Risk Management (ESRM) procedures, the Bank ensures that transactions are reviewed and evaluated against the applicable Georgian environmental, social, health and safety, and labour laws and regulations, and follows international best practices.

In 2020, the Bank conducted an extensive Environmental and Social Due Diligence (ESDD) on its clients and provided support where needed. We ensure that sustainable finance principles are integrated into to credit risk management procedures with our dedicated Environmental and Social team being a part of our credit review process.

Furthermore, we expanded the Bank's consideration of climate change issues and risks in 2020, and considered suitable next steps. We intend to integrate climate-related risks into our credit risk framework and to develop our disclosures in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

An initial Road Map has been prepared by the Bank in 2020 for implementation in 2021 and beyond. See page 116 for further information on these initiatives.

We continue to regularly monitor the environmental and social risks associated with the Bank's activities and support our customers in environmental and social sustainability.

Furthermore, going forward, we will be further enhancing our Environmental and Social Risk Management framework. We are embarking on a journey to educate ourselves and our communities on environmental and social risks and opportunities and integrating into our risk management and strategic decision-making, and we will be advancing our reporting efforts in this direction to better communicate our environmental and social impacts.

**Responsible
Business**

Sustainability at the heart of our business

As a leading financial institution in Georgia, we are committed to doing business responsibly, which means looking at all decisions and business processes through the prism of sustainability. Sustainability for us is rooted in the understanding that by driving positive social and environmental impacts, we make our business more resilient and create long-term value for all of our stakeholders.

Operating with a sustainability mindset requires that we prudently manage risks as well as tap opportunities that support the wants and needs of our customers, empower our employees, and enhance the economic and social welfare of local communities while mitigating negative impacts on people and the environment.

Evolving strategy

In 2020, the Bank aligned its corporate purpose and mission with the UN Sustainable Development Goals 2030 (SDGs). Recognising that each of the 17 SDGs have some relevance to the Bank’s direct or indirect activities, particular focus is given to the five goals which we consider material to our business. See more details on the selected SDGs on page 25. The Bank’s contributions to these goals in 2020 are signposted by the relevant icons throughout this report.

External recognition of our performance

In December 2020, The Banker named Bank of Georgia Bank of the Year 2020 in Georgia. When selecting the winners the judges placed particular emphasis on the ways banks have met customers’ needs and maintained resilience in the face of the COVID-19 pandemic.

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

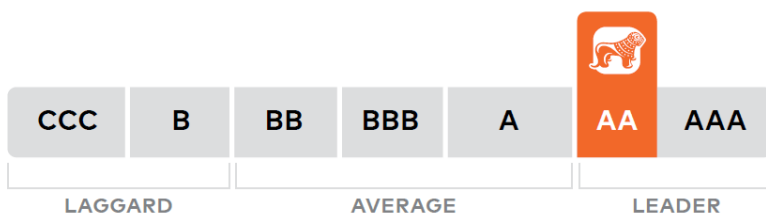
The Bank’s ESG performance in 2020 has also been given high scores by the independent ratings agencies assigned to the Bank’s ultimate parent company, Bank of Georgia Group plc.

ISS*



MSCI**

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



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

Going forward, we will further advance the themes identified under the selected SDGs and improve our reporting to better communicate our environmental and social impacts. We are also embarking on a journey to educate ourselves and our communities on climate change and embed climate change-related risks and opportunities into risk management and strategic decision-making.

* ISS uses 1-10 scale. 1 indicates lower governance risk, while 10 indicates higher governance risk versus its index or region. 1 indicates higher E&S disclosure, while 10 indicates lower E&S disclosure. Scores are as of 1 January 2021.
 ** MSCI score is as of 18 November 2020.

Customer empowerment

Success of our customers and their businesses is our success.

Supporting customers through the pandemic

2020 was an overwhelming year for our customers. The new reality and the economic fallout of the COVID-19 pandemic meant that we had to promptly address new needs and unique challenges facing our customers. We anticipated hard lockdown in March 2020 and quickly adapted our operations and service model to ensure uninterrupted delivery of our products and services. Most of the branches remained open with robust health and safety measures in place. At the same time, we accelerated digitalisation and launched initiatives to support more customers to use digital channels. To mitigate the pandemic-induced anxiety and give customers time to deal with and adapt to the new environment, we also offered three-month payment holidays on retail loans. See pages 19 to 21 for more information.

The MSMEs have been hit hard by the pandemic. To help our MSME clients weather the storm, we granted payment holidays on loans and actively participated in state support programmes, channelling finances to enable businesses to continue operations. In total, the Bank financed c.2,750 loans in the amount of c.GEL 164 million in 2020, as part of these programmes.

In addition, we have held webinars to provide information on selling products on the world's largest platforms, such as Amazon and eBay. We have also set up a platform, **argacherde.ge**, so that businesses could sell future-use coupons to their customers and continue operations amid hard lockdown.

For more information on how we have supported our customers during the pandemic, see pages 19 to 21.

Digital acceleration



Digitalisation is at the core of the Bank's strategy. We invest resources and dedicate our efforts to bringing cutting-edge digital tools and solutions to our customers across all business segments as quickly as possible.

The Georgian banking sector still experiences difficulties in overcoming economic and geographical barriers in expanding financial services in remote regions and among low-income segments of the population. To expand access to financial services, we continuously develop convenient and affordable digital banking channels and improve E2E digital journeys for our customers.

In 2020, we partnered with local telecommunications providers to launch **mBank**, our financial mobile app, without data package, enabling customers without access to internet or mobile data to get the financial services they need.

To facilitate the uptake of mobile banking during hard lockdown in the spring of 2020, we removed the fees on transactions executed through mBank/iBank for two months.

In 2020, the number of active users of mBank increased by 39.7%, with more than a third using it on a daily basis. The number of transactions in mBank was up by a remarkable 74.0%, and the volume of transactions almost doubled year-on-year in 2020.

For more information on the features added to mBank/iBank in 2020, see pages 51 to 56.

In addition, in the first quarter of 2021, we launched **Business mBank**. Apart from supporting customers in urban areas, this app will enable small businesses in remote areas to bank easily and safely.

At the beginning of 2020, we also launched **soft POS**, an affordable card acceptance solution, enabling micro merchants to accept contactless payments. Soft POS is another digital offering that is a major step towards increasing access to financial services and incentivising cashless economy. As at 31 December 2020, 2,617 merchants have installed our soft POS solution.

Our Express service channel continues to play an important role in making our banking services accessible to customers across Georgia. As at 31 December 2020, a network of 105 Express branches and 3,020 Express Pay terminals is located across the country, including remote mountain regions. We focus on enabling customers to develop self-service skills through the use of self-service terminals to then easily migrate them to our mBank.

Data and cybersecurity

On the back of accelerating digitalisation it is essential to ensure continuous protection and security of data. We implement measures to predict, prevent, detect and respond to threats, and protect information in all of its forms (written, spoken, printed, or recorded electronically) from loss, unauthorised access, use, disclosure, modification, or destruction.

Bank of Georgia has a comprehensive information security management system to address increased threats of prevalence of malware, phishing scams and hacking attacks. Further details on the Bank's Information Security Management can be found in our Information Security Statement at <https://bankofgeorgia.ge/en/about/management#docs>

As a result of the effective implementation of the cyber-security and privacy strategies, our operations have not been materially affected, nor have we suffered a material breach. We allocate significant resources to ensure smooth processes in line with legal, regulatory, internal policy requirements and best practices.

The management of cyber risk is delegated to the Chief Information Security Officer (CISO), who directly reports to the Bank's Deputy CEO – Chief Risk Officer and is responsible for the development and implementation of our cyber-security programme aligned with the US National Institute of Standards and Technology (NIST) Cybersecurity Framework. The CISO leads the Information Security Department responsible for:

- cyber-security governance and risk management.
- drafting and maintaining internal policies and procedures as well as awareness programmes on cyber-security matters.
- carrying out security operations.
- monitoring data breaches.

Our Security Operations Centre is equipped with resilient technological solutions and human expertise to continuously monitor and analyse security events, identify and mitigate vulnerabilities and security risks, and prevent breaches. The Information Security Department regularly reports to the Cybersecurity Committee, comprising Senior Management, and to the Audit and Corporate Governance Committee on a quarterly basis.

Data privacy roles and responsibilities

Safeguarding customer data is one of our top priorities and to this end, we ensure robust governance of customer data protection at the Bank. We make sure that personal data is handled in accordance with the requirements of laws of Georgia, the EU General Data Protection Regulation (GDPR) and state-of-the-art principles. We have a designated Data Protection Officer (DPO) whose responsibilities include, among others:

- providing recommendations to the Bank's personnel to ensure compliance with the requirements of the GDPR.
- monitoring data processing procedures within the Bank and evaluating compliance with the legislation and the GDPR.
- advising and assisting business units on data protection matters, particularly when implementing a new process or product.
- liaising with the supervisory authority – State Inspector's Service, regarding data protection matters.
- drafting and maintaining internal policies and procedures, as well as awareness programs on data protection.

The DPO regularly reports to the Bank's Audit and Corporate Governance Committee on the status of the GDPR application and compliance with the personal data protection laws.

Financial health



We believe that by supporting our customers to make sound financial decisions and manage their financial lives more effectively, we not only increase their financial wellbeing and satisfaction, but we also make our communities stronger and more resilient. This ultimately reflects on the strength of our business.

As we develop mBank and work on making it a SuperApp, we embed tools that enable our customers to stay on top of their money and effortlessly manage daily finances.

In late 2019, we launched personal finance manager (PFM), and in 2020, we launched business finance manager (BFM) in our retail mBank and business internet bank, respectively.

- The PFM enables customers to organise personal finances, stay on top on spending, and manage money based on savings goals. The budgeting tool helps our customers get in the habit of budgeting and saving. A budget is visible on the home screen, and we help customers stay on track by sending reminders and alerts when their bills are due.
- The BFM supports the financial health of businesses by giving our business customers more visibility on key indicators, including cash flow, growth rates, and average ticket size of transactions.

The features that we added to mBank in 2020 further simplify day-to-day financial management. For more information on our digital channels, see pages 51 to 56.

We also aim to promote financial health by increasing customers' financial knowledge and money management skills through a variety of educational initiatives.

The Bank has a number of financial products that help increase financial competencies and money management skills among young people:

- "sCool Card" – a multifunctional card for schoolchildren. Our goal is to make children aware of existing financial services and help them build financial skills from an early age. sCool Card is free and all of the transactions and services are also free of charge. sCool Card provides special benefits to children enrolled in Georgian public and private schools, including free public transport in Tbilisi (metro, buses) and Batumi (buses), discounts at entertainment centres, bookstores, toyshops, and children's cafés, and the accumulation of points ("sCoola") per transaction.
- Our Student Card offers special discounts on public transport and free remote banking services, among other benefits. Students get special discounts at various stores, cafés, and entertainment centres. They are automatically involved in the Plus+ loyalty programme and can use Plus+ points for mobile top-ups and other payments. With the use of the Student Card we encourage students in Georgia to use financial products and services and learn money management skills.

In addition, we seek to promote learning by giving the Student Card holders special benefits:

- To promote reading, we gave a free one-year subscription to online library to 1,000 students who made most transactions with their Student Card.
- In 2020, we also partnered with local providers of digital courses to give our Student Card holders discounts on a variety of courses, including 3D design, motion design, UI/UX design, and Microsoft Excel, among others.

Banking safely

We consider raising awareness of, and protecting our customers from, financial fraud and phishing scams – critical components of ensuring customer financial health and wellbeing. We do this by:

- raising awareness of fraud by sending notifications and texts alongside OTP codes to our customers asking them to double-check whether they are entering their credentials in the right place.
- using different communication channels, including social media, to inform our customers of the risk of fraud and to share information on how to spot suspicious communications and how to behave in different situations.
- embedding operational processes that maximize customer protection, including two-factor authentication, transaction limits, OTPs, among others.
- integrating real-time and behavioural monitoring technical solutions that prop up the protections we have in place.
- identifying and blocking advertisements placed by phishers on social media.
- constantly monitoring activity to detect fraud as early as possible. We have additional measures in place to increase security, including automatic blocking of a bank card in case of suspicious activity.

Although in late 2020 phishing attempts have become more prevalent, the number of phishing victims has not picked up, and in fact has dropped significantly since 2019. We ascribe this success to the introduction of new technical controls, including automated identification and blocking of compromised users, and customer awareness campaigns. We also closely cooperate with the state to identify cybercriminals. Our collaboration has been successful thus far as the cybercriminals who managed to defraud our clients have already been apprehended.

Responsible communications

Our commitment to customer satisfaction entails a commitment to providing our customers with the products and services based on their needs and preferences while being transparent in all communications and relationships and adhering to internal policies and procedures as well as banking laws and regulations. We disclose relevant and decision-useful information about our products and services in a way that is clear and straightforward so that our customers select and use a product or service best suited to their needs.

We make sure that none of the Bank's representations ever provide misleading information to our customers on any of our products and services. We refrain from using certain superlatives in our communications: Bank of Georgia does not write about the "lowest" interest rate, the "best" conditions on a loan, or the "best" product we can offer, because these terms are relative and lack specificity. Rather, we always seek to explain a product or an offer in as much detail as possible, and let our customers make informed decisions.

When a product involves a regular payment, such as an interest rate on a savings account or a loan, it is always stated in terms of the effective interest rate, and we explain this through our frontline employees and via marketing materials. We believe that transparency in our product offerings is essential to building and maintaining customers' trust and Bank of Georgia's strong franchise.

Customer feedback

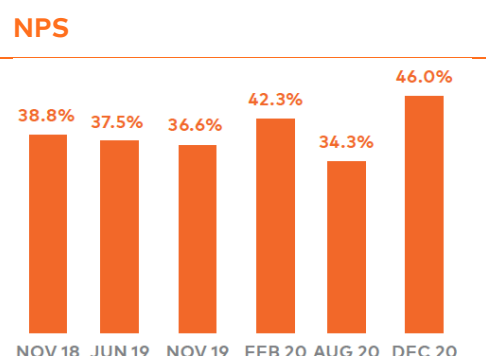
One of the strategic objectives of the Bank is to improve customer experiences and increase customer satisfaction. We engage proactively with our customers, use data to anticipate customer needs, wants and behaviours, and invest in technologies that enable us to design seamless experiences across customer journeys. Combining strong relationships with advanced data analytics, we generate customer insights and provide advice where and when it is needed.

We collect, measure, and review customer feedback across all segments, channels, products, and customer journeys. In 2019, the Bank invested in the world's leading Customer Experience (CX) management platform, Medallia. With Medallia we collect and analyse customer feedback, respond to issues as they arise, and implement projects to make systemic improvements and create more positive and personalised customer experiences. For more details on Medallia, see page 37.

In addition to Medallia, customers can register a complaint in any channel (call centre, branch, chat, email, mail). Approximately 90% of complaints are closed within two days. The outstanding 10% of the issues typically require more detailed analysis. On a monthly basis, complaints are further reviewed and improvement projects initiated to systematically improve customer experiences.

Customer Experience (CX) is integrated into the daily lives of all of our employees. Senior Management and the Supervisory Board closely monitor customer satisfaction, and Net Promoter Score (NPS) is included in Senior Management's KPIs. In addition, the majority of employees have CX-related KPIs and daily access to relevant customer feedback to act on. CX Governance model ensures engagement at all levels within the Bank.

We measure the Bank-wide NPS through an independent external service provider and are proud to report that NPS reached a historic high at the end of 2020.



Empowering business customers



Client at the centre of everything

Data behind every decision

We support Georgia's emerging economy by providing financing and advisory services to a variety of MSMEs and strategically important industries. Through our activities we foster local businesses, cultivate entrepreneurial culture, and support the country's sustainable development.

Environmental and social risk management processes of corporate and MSME customers are embedded throughout the Bank's activities.

By ensuring that comprehensive environmental and social risk assessments and the necessary action plans are undertaken, we support our customers to comply with the national environmental and social legislation. During site visits, we provide our customers with advice and guidance on best practices and standards in these areas. We update them on environmental, health and safety, as well as labour and human rights issues, and we monitor their compliance with environmental and social legislation. In many non-compliance cases, our management of environmental and social risks has helped our customers, and MSMEs in particular, address the issues that would otherwise have led to financial and legal sanctions from the state enforcement agency. For more information on environmental and social risk management, see pages 113 to 115.

MSMEs

MSMEs are the drivers of Georgian economy and sustainable development. We provide financing and value-added services to MSMEs that constitute c.27% of the Bank's total gross loan portfolio.

The Bank has a dedicated staff and established processes for its Micro loans. We focus on increasing automation and digitalisation to make banking experience fast and seamless for our micro clients.

In 2020, the Bank launched the first digital platform for factoring operations. We also upgraded internet bank for businesses by incorporating additional features, such as the BFM tool, and fine-tuning existing ones. We also launched Business mBank in the first quarter of 2021 to enable our business clients to have the view of their finances on-the-go. Furthermore, we introduced Cash Box, so that our business clients can deposit cash 24/7 in the safeguarded areas of the Bank's branches.

Empowering businesses – value-added services

Women in business

Empowering women entrepreneurs with educational and coaching programmes

#Icreate

Promoting ideas and businesses

Advisory services - New

Network of credible advisory service providers for businesses

Business support - New

Programmes in:

- Sales
- Digitalisation
- Lean operations

Support for business development

Besides providing financing, we foster a deeper engagement with our client MSMEs by providing them with a range of value-added services and tailored advice to address their hugely varied needs and support the development and operations of their businesses at all stages.

We believe that relevant knowledge and information provided at the right time are key to enabling our customers to run their businesses better. To this end, in 2020, we developed an MSME educational portal – www.businesscourse.ge, providing local MSMEs with quality educational resources in Georgian language. We have observed that our customers often do not have time to conduct research to analyse new developments on the market or solve daily business problems. Through our educational portal we can now provide shortcuts and roadmaps designed by industry experts to help MSME customers find the right solutions at the right time. We offer educational content on a variety of topics, including accounting, legal documents, tax, business development, sales, and marketing, among others.

Keeping our business customers informed has been especially crucial throughout the turbulence of the COVID-19 pandemic. We have organised webinars for clients to discuss the impact of the COVID-19 pandemic on the Georgian

economy and economic scenarios for 2020, as well as other key issues, such as taxes, operational excellence, human capital, marketing and sales, and digitalisation, among others. Our priority has been to help businesses deal with the crisis, successfully adapt to the new reality, and better prepare for the future. **Up to 4,000 MSME customers have attended these webinars.**

In addition to providing our MSME clients with relevant and quality educational resources and information, we also connect them with experts in fields such as finance and accounting, tax, legal, marketing, sales, and operations, among others. We have created and now focus on expanding a network of professional service providers across the country to advise our client MSMEs on different aspects of their businesses.

We continue to listen to the voices of our customers to identify pain points as well as upsides in each business sector and refine business support programmes tailored to specific needs. For instance, in addition to financing agricultural value chain projects, Bank of Georgia now provides assistance to customers who wish to acquire knowledge or receive advice related to agricultural matters.

We also assist our MSME customers in promoting their products through the videos we create about them and publish in social media. **#Icreate** corners, located in Bank of Georgia's branches, are a great opportunity for our clients to promote their products free of charge.



Supporting women entrepreneurs

Bank of Georgia has a special focus on the development of women-owned and women-led businesses and constantly develops financial products and other support services specifically provided to MSMEs led by women to strengthen their role in business. Businesses led by women entrepreneurs constituted c.18% of MSME loan portfolio as of 31 December 2020. We continue to support women with educational and coaching programmes. During 2020, we have held special educational and motivational webinars to boost self-confidence of women entrepreneurs, help them hone leadership skills, and increase financial knowledge. **Around 500 women entrepreneurs have attended these meetings.**

Throughout 2020, we have continued to celebrate our successful women customers and promoted their businesses via published video content and other local media. A series of Bank of Georgia motivational campaigns such as "Professions of the Future", "There is Always a Way", and "Opportunities are Not Defined by Gender, Opportunities Are Endless", included video clips on successful women who rise to the challenge and aspire to achieve their goals despite headwinds – <https://www.facebook.com/BankOfGeorgia/videos/676874023184069>

Our goal is to continue to meaningfully contribute to the strengthening of women's role and engagement in Georgia's private sector development by providing necessary financial and non-financial resources and promoting equal opportunities.

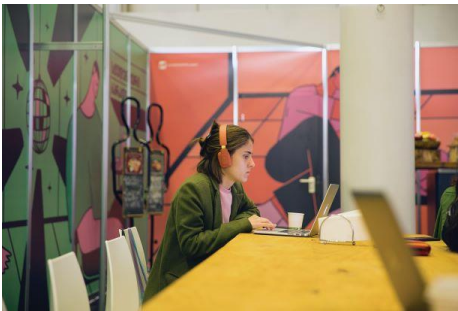
Corporate and Investment Banking

Bank of Georgia is leading corporate lender in the country with deep industry knowledge and local expertise. Our CIB loan book reached GEL 4.5 billion at 31 December 2020, up 22.8% year-on-year. We work with and finance c.3,100 corporate businesses in Georgia. For more information on Corporate and Investment Banking business, see pages 46 to 50. Representative examples of CIB customer projects that demonstrate the Bank's Mission and alignment with the SDGs are presented below.

Education



Bank of Georgia financed the construction of the only boarding school in Shatili – a historic mountain village in Georgia. The region was left without a single educational facility after the fire completely destroyed Shatili village school in October 2019. The new school building provides opportunities for 25 students to use modern infrastructure. The project also supports permanent residents in the village and contributes to the unlocking of the economic potential of the region in the medium term. Bank of Georgia's financing for this project was GEL 800,000.



Bank of Georgia financed the construction of Georgian American Medical University with the capacity of 1,200 students. The university will offer Undergraduate Medical Doctor (MD) Programme, designed to meet the challenges of training highly qualified doctors. The Undergraduate MD Programme will integrate basic science and clinical experience with comprehensive theoretical study and independent research. Furthermore, it will provide education in clinical and biomedical sciences along with independent research. The building will be appropriately equipped with a high-tech laboratory, which will enable students to develop practical skills. Bank of Georgia's financing for this project was US\$ 4.3 million.

Infrastructure



Rehabilitation and development of core infrastructure is one of the main objectives in Georgia. In 2020, Bank of Georgia financed/issued guarantees for numerous interesting and important projects in different directions, including Roads, Transmission Lines, Civil Infrastructure, Water Supply Systems, among others.



We issued the bank guarantees in the amount of GEL 20 million for the rehabilitation and reconstruction works of Khulo – Zarzma Section of Secondary Road Batumi – Akhaltsikhe. This road will contribute to increasing connectivity and hence economic growth of this area.

Healthcare



JSC Megalab is the largest multi-profile laboratory, combining clinical and pathological departments, in the Caucasus region. The laboratory is designed in accordance with the Joint commission international (JCI) standard, the highest-ranked accreditation body for medical institutions in the United States. Since 2019, Megalab has become the partner laboratory for more than 100 hospitals and clinics, and today it serves more than 3,000 patients daily. In 2020, the company decided to purchase MALDI Biotyper smart (Bruker) for microbiological testing. The device is a novelty in laboratory medicine. It reduces the time required for examination and increases the quality and accuracy of testing. Bank of Georgia financed this acquisition in the amount of US\$ 350,000.



LTD AEV is part of the business group comprising real estate and development. In the beginning of the pandemic, the company started the production of surgical masks, in response to the shortage on the market. In July 2020, Bank of Georgia approved a loan facility for the company in the amount of US\$ 330,000 to finance the import of the equipment and the raw materials necessary for local production. Currently, the company actively supplies medical institutions and several retailers with surgical masks.

Manufacturing

Bank of Georgia financed the construction of another modern enterprise in the food industry. Food Alliance LLC offers over 80 different frozen bakery and pastry products to the local market. The Bank's financing for this project was US\$ 2 million.

Chirina LLC is the largest poultry meat manufacturer in the country, operating since 2010. The value chain includes all aspects of poultry meat production, from feed material harvesting to the distribution of poultry meat. Bank of Georgia participated in the financing of the company's latest expansion project – a new factory for sausage production. The factory will be completed and fully equipped to start operations in the first quarter of 2022. The Bank's financing for this project was US\$ 3 million.

Bank of Georgia participated in the financing of a startup project of Jolio LLC. The project entails the construction of a sunflower processing plant in the city of Poti. Expected to be commissioned in the first quarter of 2021, the factory is the first of its kind in Georgia. The Bank's financing for this project was US\$ 3.8 million.

Agriculture



Kakhetian Traditional Winemaking (KTW Group) is one of the largest wine and brandy producer companies in Georgia. The company produces wine from unique grape varieties of Eastern and Western Georgia as well as brandy and traditional Georgian Chacha. KTW Group exports its products to several countries. With Bank of Georgia's support, KTW Group has developed 651 hectare of vineyards during 2020. The total cost of the project was US\$ 17 million, and it provided employment to 1,500 people.

Winery Khareba owns wineries and vineyards across the 1,500 hectare territories in the country. The company cultivates 25 grape varieties through organic processes. With the support of Bank of Georgia, the company financed the development of additional 225 hectare vineyards, mostly in the Kakheti region. The total project investment amounted to US\$ 6 million. In addition, Bank of Georgia financed winery projects in Khvanchkara and Vachnadziani. Khvanchkara factory will produce around 200,000 unique bottles of Khvanchkara per year and receive visitors for short stays to provide them with winemaking experiences. Vachnadziani Factory will have a capacity of bottling 5 million bottles per year. Total Bank of Georgia financing in these projects amounted to US\$ 3 million.

Employee empowerment



The success of our employees is key to the success of the Bank. We are committed to inspiring and empowering our team by providing safe and inclusive work environments with equal opportunities for learning, development, and career advancement. We continue to focus on: attracting and retaining top talent, expanding opportunities for professional and personal development, and building a high-trust, values-based organisation where employees have meaningful experiences and achieve more of their potential.

The Human Capital Management (HCM) team plays a vital role in creating positive employee experiences across the Bank. The HCM designs and implements programmes and processes, in line with the Bank's values, business principles, and strategic objectives, to support Bank of Georgia and its entire team.

This section outlines the approaches we have in place to meet the responsibilities towards our employees. Each subsection reflects the ways in which these approaches have been implemented and highlights the achievements of 2020. As a data-driven organisation, we track our accomplishments through indicators such as engagement scores, internal mobility, retention, and external recognition.

Our policies

The HCM team of 55 employees report to the Head of Human Capital and Customer Experience Management. We ensure that Human Resources (HR) policies and practices are developed to support the organisation and business activities. We respect human rights and are committed to fairness, social responsibility, diversity, transparency, and mutual accountability.

The HCM team also supports the Bank in its digital transformation to a data-driven organisation in all employee-related processes, including talent attraction, successful onboarding, adaptation, development, and retention.

Our HCM policies are based on the Bank's corporate values and business principles, the Labour Code of Georgia, principles of professional ethics, standards of codes of conduct for commercial banks of Georgia, effective legislation of Georgia and relevant international regulations, and aligned with the purpose, mission, and strategy of the Bank. The principal policies include, but are not limited to:

- Code of Conduct and Ethics
- Human Rights and Grievance Policy
- Anti-Bribery and Anti-Corruption Policy
- Diversity Policy
- Employee Corporate Handbook, including Employee Code of Conduct
- Whistleblowing Policy

We apply the ethical principles of diversity and inclusion, freedom of association, pursuit of equal opportunity, and prohibition of discrimination to all of our activities. Our policies and practices cultivate an environment free from harassment, where employees and all other stakeholders are treated with dignity and respect.

The Bank provides all employees with the same conditions of employment specified in the Code of Conduct – Employee Corporate Handbook, subject to the applicable conditions of employment prescribed by law. The Bank does not condone forced labour or child labour.

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

Culture and conduct

We communicate our core values and business principles through multiple channels, including the Employee Corporate Handbook (the "Handbook"). The Handbook, published internally and available on the Bank's intranet, outlines corporate ethical and professional behaviour standards when dealing with customers, colleagues, shareholders, and the wider community, and the procedures aimed at increasing the Bank's efficiency and ensuring cohesive corporate culture.

Our Code of Conduct is fundamental to fostering the culture of **teamwork, development, fairness, customer centricity, operational excellence, and innovation**. It clearly sets the expectation that all employees act legally, ethically, and transparently in all their dealings. The Code of Conduct represents an integral part of an employment agreement between the Bank and an employee. Employees joining the Bank acknowledge their obligations under the

Code of Conduct. Non-observance of such obligations or any failure to observe them can result in a disciplinary action up to and including the termination of employment.

The Bank is committed to promoting equal opportunity and diversity, promoting the culture that encourages different perspectives and recognises that people with different backgrounds and experiences can bring valuable insights to the workplace. We aim to be an inclusive organisation, where diversity is valued, respected, and built upon, with the ability to recruit and retain a diverse workforce.

The Bank aims to ensure that no individual or group is directly or indirectly discriminated against for any reason (gender, marital status, ethnic origin, disability, age, sexual orientation, race, and nationality, political or religious beliefs). The universal human rights are incorporated into the Handbook and the Human Rights Policy. With the Anti-Nepotism Policy, we ensure and support fair and transparent decision-making in employee interactions.

As an organisation that is fully committed to the prevention of bribery and corruption, Bank of Georgia ensures that appropriate internal controls are in place and operating effectively. The Bank also has Know Your Employee (KYE) procedures in place, based on which the Bank conducts different screening procedures at recruitment, employment and departure stages of the employment. In 2020, there was no incident registered in the Bank, and the Bank did not incur any bribery or corruption fines.

In July 2020, our efforts to address barriers to the employment of women were recognised by 2X Challenge, an initiative that seeks to empower women as entrepreneurs, as business leaders, as employees and as consumers of products and services that enhance their economic participation. The Bank signed respective commitment with five European Development Finance Institutions (EDFIs) – DEG, Finnfund, FMO, SIFEM, and Swedfund – aimed at providing women in Georgia with increased access to quality employment and economic participation.

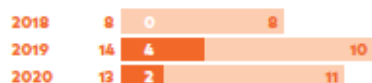
The percentage of women in the Executive Committee equivalent and Direct Reports for the Bank's ultimate parent company is 45.2% as at 31 October 2020 (date of Hampton-Alexander Review submission). According to the statistics in the 2020 Hampton-Alexander report, if Bank of Georgia Group plc was in the FTSE 250, this would place it in the number 1 spot for the banking sector.

Our employees

Executive Management

Bank headcount

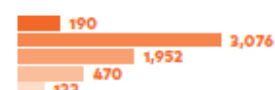
13



Employee headcount by age

Bank of Georgia

5,821



Senior and Middle managers

Bank headcount

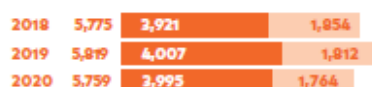
49



All employees

Bank headcount

5,759



Talent attraction and retention

In 2020, we further developed the talent management strategy to ensure that we can attract and retain top talent and provide meaningful professional and personal development opportunities to help all our employees achieve more of their potential.

Bank of Georgia is an equal opportunity workplace, where people with different backgrounds and experiences come together and create an innovative and stimulating work environment. Our recruitment policy, with panel interviews, relevant control procedures, and online applicant tracking system (ATS), ensures a fair hiring process that provides equal employment opportunities to all candidates, in line with our business principles, strategic objectives, and new job requirements. Our application process is conducted with a non-discriminative approach and does not solicit information on age, date of birth, gender, or a photo from candidates.

In response to the new reality during the pandemic, we have moved the hiring process online, including an online testing platform, online interviews, and onboarding for new hires.

Given the increasing focus on digitalisation across the Bank, the IT and digital platforms-related hiring was one of the top priorities in 2020 and resulted in a 57% increase in number of new employees in this area.

Our Talents Acquisition team actively monitors the labour market and keeps connections with existing and prospective qualified candidates in Georgia as well as abroad. At the same time, we aim to ensure talent development internally, and internal candidates have a priority when filling vacancies, especially for positions in the top and middle management.

64%

of total new hires were women in 2020
(64% in 2019)

203

(115 women and 88 men)
employees were promoted to managerial positions in 2020

New positions filled in 2020 with

54%

internal candidates
(10 pts increase from 2019)

23%

internal mobility rate¹ in 2020
(22% in 2019)

83%

employee retention rate² in 2020
in line with the market benchmark

Young talent: We attract young talent and nurture them from the early stages of their career. The Bank actively partners with leading Georgian business schools and universities, fostering diversity and broadening the range of degree disciplines that we consider for our talent acquisition pool. We regularly participate in job fairs and run extensive internships and student development programmes.

Since 2012, we have run **Leaderator**, a student development programme highly recognised on the Georgian labour market among students and recent graduates. The programme was refreshed in 2019 and now offers flexible schedules that support students' academic activities and provides financial reward. The programme gives talented undergraduates the opportunity to have a 360° view of the Bank in action, work on real projects, and receive coaching and support from the Bank's executives and middle managers. Leaderator has grown substantially in 2020.

39

candidates from 2020 cohort became full-time employees of the Bank
(29 candidates from 2019 cohort)

72

undergraduates were selected and involved in the programme in 2020
(38 undergraduates in 2019)



¹ Internal mobility rate: total number of promotions and lateral moves during the entire measurement period divided by average monthly number of employees for the period.

² Retention rate: percentage of employees who remained employed during the entire measurement period, calculated on an annual basis.

Fair reward: The Bank offers competitive remuneration and benefit packages and supports work-life balance by providing:

- additional financial benefits –maternity leave compensation and childbirth bonus.
- support in back-to-work adaptation – training programmes for employees returning back to work from maternity leave.
- health and wellbeing – corporate health insurance package, including pregnancy and childbirth coverage.
- special working conditions for pregnant and breastfeeding women, in line with Georgian regulation.
- maternity leave, child adoption leave, and childcare leave for employees as defined by the Labour Code:
 - **289 women** were on maternity leave as of 2020.
 - **77% is the retention rate** for those whose maternity leave ended in 2019 and returned to work, staying for at least 12 months after returning.
 - starting from 2021, maternity leave (available only to an employee who is a mother of a child) will be replaced with parental leave for childcare (available to an employee who is either a mother or a father of a child) and available to all employees.
- benefits available to all employees, including additional paid day-off and sick leave (on top of those required by the Labour Code).

We monitor employee pay trends via labour market compensation surveys in the financial sector. The results of the 2020 survey and the analysis of internal data have confirmed that the Bank remains a competitive employer. Our remuneration structure is based on employee performance reviews, part of our continual feedback process. The frequency of review varies by position and can be conducted monthly, quarterly, semi-annually, and annually, according to job specifics.

The Bank also monitors the Equal Pay Gap (EPG) as one of the indicators for ensuring equal opportunities and regularly reports to the Remuneration Committee. The EPG is a difference between compensation for male and female employees in the same position. For 2020, our overall EPG was around -1%, meaning that in general our women employees are paid almost the same as their peer male employees for the same job, reflecting our fair and merit-based approach.

We are committed to ensuring equal pay for equal work by fine-tuning our job architecture and grading structures. Currently we are elaborating the new approach to compensation planning that takes into account the job specifics and is fair and transparent to all employees. The implementation of the project with a clear compensation structure is planned for 2021.

-1%
Equal Pay Gap (EPG)

Encouraging lifelong learning

We offer our employees diverse training programmes and learning opportunities to enhance their competencies and skills throughout their careers.

Bank of Georgia’s continuous professional development:

Career entry programmes – Talent attraction:	Professional programmes for front and back office employees:	Management programmes:	Executive programmes:
<ul style="list-style-type: none"> ▪ Leaderator ▪ Internship by career field 	<ul style="list-style-type: none"> ▪ Onboarding package ▪ Risks and compliance programmes ▪ Banking products and services ▪ Software-related programmes ▪ Communication skills programmes ▪ High-potential employees programmes 	<ul style="list-style-type: none"> ▪ Management skills (leadership and management, team management, delegation, among others) ▪ Effective feedback skills programme ▪ Leadership Development Executive Coaching programme (individual and team coaching sessions) 	<ul style="list-style-type: none"> ▪ Leadership Development Executive Coaching programme (individual and team coaching, mentoring sessions) ▪ Individual Business Coaching programme

The Bank's corporate learning system comprises a wide range of internal and external training sessions specifically designed to meet the needs of front and back office employees. Middle and Senior-level employees are also given the opportunity to receive external training in well-known institutions in Georgia and abroad. The corporate learning system consists of the following elements:

- **Onboarding training packages for Front office employees** – provide relevant competencies and skills for specific positions.
- **Development of professional and personal skills** – based on periodic assessments, thematic training may be developed for Front and Back office employees.
- **Compliance training** – to ensure legislative compliance, as well as the safety and security of the Bank and its employees, the Bank implements a comprehensive Risks and Compliance Awareness Raising Programme. The Programme includes online and face-to-face trainings for all new recruits and periodic retraining for all employees to keep them aware of the risks we face and the activities and initiatives that safeguard our values, so that they can make better decisions to protect our business. The topics covered in compliance courses include: operational risks, business continuity, data privacy, work safety, corporate security and ethics, informational and cyber security, among others. During the pandemic, additional awareness activities have been implemented to ensure work safety guidelines, as well as cyber-security measures while working remotely.
- **Development of management skills** – to nurture the culture of customer-centricity, collaboration, and development we encourage our employees to hone leadership skills. Since 2014, Bank of Georgia has run a Leadership Development Executive Coaching programme, which provides an individualised approach to developing management and leadership skills. In 2020, an in-house management training programme was developed, covering topics such as leadership and management, and team development (delegation, motivation, assessment, and feedback, among others). The training of all line managers and middle-level managers started in the fourth quarter of 2020 and is planned to continue throughout 2021. Additionally, from 2022, all First-time managers' orientation packages will include management skills training, bringing together new managers to address shared challenges in an interactive, participant-driven format.

To support our employees in learning and development, we operate an online platform that enables learning on-demand and flexibly. We update educational offerings to meet emerging needs, based on feedback from employees and managers. Since 2017, our online Learning Management System (LMS) has provided employees with convenient access to corporate learning opportunities: a wide range of distance and blended courses with professional and personal development content, user guides of different software programmes used across the Bank, and updated information on different banking products and services.

Due to the pandemic restrictions in 2020, all face-to-face training and onboarding events have been suspended. The Training Centre has shifted to delivering training events remotely, with training programmes adapted accordingly. In 2020, 13 new training programmes were developed and 21 programmes were adapted to a remote learning format.

On average, around 3,000 employees accessed the platform per month in 2020.

The Bank also runs an onboarding programme where information about the organisational culture, the Bank's values, corporate social responsibility policies and practices is provided and discussed. Participants are also informed about employee benefits, career opportunities, and personal and professional development programmes. In 2020, similar content was created for the online LMS platform to ensure that, despite face-to-face meeting restrictions, all new employees had access to relevant information to support their successful onboarding and quick integration into the Bank's team.

Talent management process

In 2020, we introduced a new Talent Management process that allows us to identify and develop talent at all stages. The process is based on the assessment of core competencies, skills, behaviours, and contributions to organisational objectives. Aspects covered include **Teamwork, Development, Fairness, Customer-centricity, Operational Excellence, Innovation, Strategic Thinking, Flexibility/Change Management, and Engagement**. Structured feedback between managers and their direct reports is an integral part of this process, and we use this feedback to develop an individual Employee Development Plan as an assessment outcome.

To support this process, in 2020, we launched an internal portal that provides career development resources and tools. It provides guidance to enable employees have in-depth career conversations with managers and subordinates by focusing on their strengths and aspirations. During 2020, 86% of employees participated in the process.

To encourage feedback culture at the Bank and mutual support in the talent development process, a self-paced online course "Providing Effective Feedback" was developed in 2020 and made available to all employees. 228 employees completed the course in 2020.

Renewed talent programmes will be launched in 2021.

Our 2020 training statistics

5,481

unique employees attending trainings in 2020

(5,723 employees in 2019)

23.1

average training hours per employee in 2020

(27.5 average training hours in 2019)

36.1

average training hours per new hire in 2020

(37.3 average training hours in 2019)

The decrease in the number of employees trained and training hours per employee in 2020 was due to the suspension of trainings for two months during the lockdown period in the second quarter of 2020 on the back of the pandemic-related restrictions, until the Bank transitioned to a distance learning format.

Learning with customer feedback

We provide our employees with the tools that they use to learn and improve customer experiences and engage in work more productively.

The Employee Experience Management and the Customer Experience Management teams often work together to refine their approaches and implement joint initiatives. The Customer Experience Management team tracks and regularly analyses customer feedback from Medallia (see details on page 37), and shares insights and potential upsides with the Employee Experience Management team. The latter converts this information into specific initiatives for relevant business lines to empower employees with knowledge and enable them to capture opportunities to improve overall performance. This approach encourages employees to be more engaged with their work, leading to better customer experiences across businesses and channels. We also use customer feedback gauged through Medallia to update and design trainings to help employees better respond to evolving customer needs.

Meaningful employee experiences

Bank of Georgia has redesigned its employee experience management to ensure that our employees have all the necessary tools and skill sets to do their job effectively and serve our customers well.

We have forums and communication channels enabling employee voices to be heard across the organisation. This ensures that employees receive support at work and beyond and that their achievements and contributions are valued and celebrated.

The Employee Experience Management team manages employee experiences through in-depth interviews with employees (conducted twice in 2020), departmental reviews, and entry and exit interviews. The team also facilitates and encourages idea sharing during the engagement process.

Employees are able to discuss any issue with the Employee Experience Management team and can expect to receive constructive feedback and support. The team monitors and follows up with employees on identified issues. In spring 2020, during lockdown, the Employee Experience Management team held live virtual conversations with all of the Bank's employees to ensure that the transition to remote work was smooth and that all concerns were heard and addressed.

Culture of recognition

We encourage the culture of workplace gratitude and recognition. Being recognised for progress and accomplishments is integral not only to learning and development, but also, and most importantly, to making our work environment more engaging and rewarding for our employees.

The Bank encourages engagement and dedication of talented employees with awards granted to the Best Employee and the Best Team of the Year.

In 2020, we saw improvement in employee recognition through the Korn Ferry Engaged Performance™ survey. See the results of the survey, opposite.

Engaging with and listening to our employees

With our employee engagement activities we help each other develop and achieve more of our potential. The following activities are embedded in the organisation:

- Town hall meetings with the CEO and the Senior Management team (held virtually in 2020 due to the pandemic).
- The CEO VLOG on Workplace-regular live sessions with employees fostering open dialogue on current developments and future prospects of the business, company's activities and its human capital-related initiatives; employees are able to ask questions and directly address the CEO.

We provide regular updates to our employees on the Bank's strategy and performance, and discuss risks and opportunities, in addition to providing updates on policies and procedures through a coordinated, multichannel approach, including blogs and vlogs.

We keep our employees informed in a number of ways, including via their line managers, special presentations, employee onboarding process, intranet, corporate social network – Workplace, email and regular meetings. The corporate social network, Workplace, was added to our internal communication tools in 2019 and enhanced employee engagement through a new level of team collaboration, and open, direct and personalised communications:

- Agile Quarterly Business Reviews (QBRs) where employees can showcase their achievements and new products, and discuss initiatives and plans with the Senior Management.
- Employee Voice during the meetings of the Supervisory Board.

Since 2018, at the initiative of the Supervisory Board, the Bank has held Employee Voice meetings, facilitated by the Senior Independent Member of the Supervisory Board Ms Hanna Loikkanen, who is involved in workforce engagement matters, and the Chairman Mr Neil Janin.

The meetings encourage feedback culture, transparency, equal opportunities, appreciation, trust, and respect. Other members of the Supervisory Board have also participated in these discussions. Three meetings were held during 2020 and 38 employees participated in these meetings. In 2020, all Employee Voice meetings were held virtually.

We value the views of our employees. We consult with them regularly and, in addition to informal feedback, have formal feedback systems in place, such as regular employee satisfaction surveys. This ensures that employee views and suggestions are considered when making decisions, especially in cases that may have an impact on them. Regularly gauging employee feedback also helps us improve customer experiences across businesses and channels.

We foster the culture of professional ethics and fair working relations. By way of our Grievance Mechanism, which is the part of our Human Rights and Grievance Policy, employees are encouraged and able to communicate legitimate concerns about illegal, unethical or questionable practices, confidentially, if necessary, and without the risk of reprisal. The Bank provides several options for submitting a grievance: via email, anonymous hotline call or electronic form.

The Bank also has an internal procedure on the management of claims concerning violations of ethical principles and standards, in line with the NBG regulations related to the Code of Ethics and Standards of Professional Conduct for Commercial Banks. Grievance cases related to the violation of this Code are reported to the Bank's Compliance Committee (responsible for reviewing and resolving such claims). The Compliance Committee is responsible for quarterly reporting to the Bank's Audit and Corporate Governance Committee on the claims reviewed.

Measuring employee empowerment

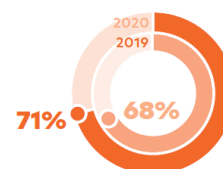
To measure the effectiveness of employee empowerment initiatives and monitor their sustainability, we closely track employee engagement and internal culture via internal and external surveys. Specifically:

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

We use these surveys to identify areas for improvement. In 2019, we conducted the Barrett Organisational Culture and Values Assessment, and it has allowed us to implement improvements across several aspects, including employee recognition and teamwork during 2020.

Employees are now more engaged with an overall engagement score of 71% according to the Korn Ferry survey conducted in 2020.

Korn Ferry Engaged Performance™



These are some of the snapshots from the 2020 Korn Ferry engagement survey, which show improvements over the 2019 feedback:

+13%

Bank shows care and concern for its employees

+3%

I receive recognition when I do a good job

+8%

Bank has the right strategic priorities

+7%

Conditions allow me to be as productive as possible

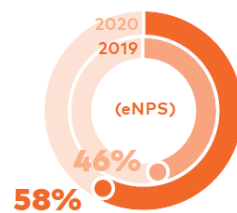
+6%

Bank is innovative in how the work is done

Our employees are more likely to recommend the Bank as a good place to work. The Bank's eNPS score reached 58% by the end of 2020, showing 12 pts improvement from 2019.

Employee Net Promoter Score (eNPS)

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



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

Health, safety and security

Providing a safe working environment is one of the Bank's top priorities. We implement a number of measures to guarantee employee safety.

The Bank's Health and Safety team reports to the Deputy COO. The team covers fire and emergency, medical emergency, and occupational health and safety issues, and is responsible for the development and implementation of health and safety procedures and processes across the Bank's operations.

In September 2019, a new law on labour safety came into force in Georgia, requiring organisations with more than 100 employees to have at least two labour safety specialists in the company. In line with the law, the Bank has created a dedicated unit which currently employs two Labour Safety Specialists.

Occupational Health and Safety (OHS) management system

In 2020, the Bank implemented the Occupational Health and Safety Management System, putting in place respective policy and standards, as outlined below:

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

The Occupational Health and Safety Risk Assessment Standard defines principles, rules, and responsibilities of occupational safety and health risk assessment of employees and other persons in the Bank's workplaces. Our workplaces are continuously monitored in order to identify, evaluate, and mitigate potential risks. The data and results of the risk assessment are reviewed and updated periodically, in accordance with current legislation.

Bank of Georgia has control measures in place to guarantee employee safety in the workplace.

The Bank continues to raise awareness of employee security. In 2018, the Bank launched "My Lawyer" – a project to protect the rights of employees and their family members in case a crime is committed against them or if they themselves are accused of wrongdoing.

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

OHS training

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

- The two Labour Safety Specialists in the Team completed 130 hours of training in the Labour Safety Specialist Accreditation Programme and received certificates, a mandatory requirement in Georgia. The programme covers fire and emergency, medical emergency, and occupational health and safety issues.
- In 2020, the Bank switched to online training due to the pandemic, and mandatory online training on topics such as emergency response, fire safety, and COVID-19 prevention measures, were designed for the Bank's employees during the year.
- In 2020, we selected 30 employees, primarily from the Physical Security department due to their roles and risk coverage, to attend the eight-hour training on First Aid.

COVID-19-related safety measures

As part of the Bank's Business Continuity Plan in response to the global COVID-19 pandemic, the top priority of the Bank has been to protect the health and safety of all employees and customers. Our operations have been successfully adapted to the new operating environment.

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

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

Details on the measures taken by the Bank to protect the health and wellbeing of its employees during the COVID-19 pandemic are outlined on page 20.

We have further increased the focus on digitalisation and introduced various initiatives to move the HR operations online, where possible and appropriate (e.g. applicant testing and job interviews conducted online, as well as trainings for new hires and existing employees, competency and performance assessments run via the Human Resource Information System (HRIS), etc.)

At the beginning of the pandemic in Georgia, the Human Capital and Labour Safety teams held meetings with line managers and middle-level managers to discuss several scenarios related to the COVID-19 cases trajectory and respective action plans. All real-life cases related to the Bank's employees are recorded and monitored by the Human Capital and Labour Safety teams in close cooperation with line managers and heads of businesses.

Major incident in 2020

In October 2020, an unfortunate and historically unprecedented armed robbery took place in one of the Bank's branches in the town of Zugdidi. A masked gunman stormed into the branch and took hostages. The safety of our customers and employees was our main priority. We actively communicated with the Police department of the Ministry of Internal Affairs to ensure that all hostages were safely released. No one was injured. After the incident was resolved, we met with all employees who were present in the branch and provided them with individual and group psychological counseling sessions. They also met with psychiatrists who helped them deal with the stress and any PTSD symptoms.

Following this incident, we have bolstered security systems in all of the Bank's branches, including, among other measures, increasing the number of security police representatives and strengthening of the video-monitoring system.

Communities

Bank of Georgia is focused on creating sustainable long-term social and environmental value. We have responsibility for the communities and the natural environment within which we operate. The Bank has a strong corporate social responsibility (CSR) programme that supports key community initiatives and projects.

To raise awareness about our community projects, sustainable development, responsible business, and sustainable development goals, and to make our community activities more transparent, the Bank has developed a platform to showcase **100 selected projects** <https://csr.ge> and increase awareness of what we do and accomplish in our communities.

Some of these initiatives are also highlighted in a short video: <http://vimeo.com/478071700>.

Examples of our work with our communities during 2020 are presented in the following sections.

Education



Bank of Georgia is top-of-mind among young people. Through our sCool and Student cards tailored to the needs of students, we offer a variety of perks and initiate projects to increase engagement and touchpoints with this segment. When it comes to students, expanding access to quality education and education infrastructure and supporting educational initiatives that unlock more of students' potential is our top priority. We finance projects that improve educational infrastructure, partner with third parties to bring more educational opportunities to more students across Georgia, and develop content to make students' interactions with the Bank more engaging.

The COVID-19 pandemic has changed ways in which students learn and interact with their teachers and peers, and while this shift from a physical classroom to e-learning has created new opportunities to spread knowledge to more people, it has also presented the challenge of digital inequality, meaning that those students without access to the internet and technology are left behind.

Throughout the pandemic, Bank of Georgia has mobilised resources to facilitate access to remote learning opportunities. We have partnered with a non-profit platform <https://giveinternet.org/>. The project seeks to provide vulnerable students with internet access. Bank of Georgia has committed to cover monthly internet bills for one year for 300 vulnerable high-school students across Georgia, including the de facto borders of the conflict zones and mountain regions.

In 2020, we funded a one-year Zoom Education licence for Tbilisi State University, Georgia's oldest and biggest university, enabling it to broaden the audience of online lectures and other activities. 23,611 students have continued to receive quality education remotely.

Scholarships

Fulbright master's programme

In 2014, the Bank signed a partnership agreement with the prestigious US Fulbright scholarship scheme. Thanks to Bank of Georgia's contribution, a selected number of students from Georgia have been able to enrol in a two-year master's degree programme at U.S. universities. In 2020, the Bank financed a two-year degree of an additional student. Since 2014, six students have received scholarships with Bank of Georgia's support in the amount of US\$ 500,000.

Chevening scholarship programme

In 2013, the Bank became the first Georgian company to cooperate with the Chevening scholarship. This cooperation provides Georgian students with an opportunity to pursue education in the UK. In 2020, we financed a master's degree programme for three students in the UK. As a result of Bank of Georgia and the British Government's joint efforts, 17 students have studied at UK universities since 2013 receiving the total support of GBP 500,000 from the Bank.

San Diego State University in Georgia

San Diego State University in Georgia offers students an internationally accredited bachelor's programme in engineering and technology. Since 2018, Bank of Georgia has financed a fully funded bachelor's degree for ten exceptionally talented socially vulnerable students. The total financing amounted to US\$ 200,000.

Miami Ad School – Nika Gujejiani scholarship

To honour a Miami Ad School Berlin alumnus and Bank of Georgia employee, Nika Gujejiani, who sadly passed away in

2019, Bank of Georgia and Miami Ad School Europe have established a scholarship in Nika's name. Miami Ad School is one of the most well-known and successful schools in creative arts and business innovation. The Nika Gujejiani Scholarship will be awarded to one student from Georgia each year. In 2020, the first scholarship was awarded to a young woman pursuing a two-year programme in art direction.

Improving educational infrastructure

Ideathecas – multifunctional libraries in schools

In line with our goal to support reading skills and educational development, Bank of Georgia has initiated a project to open multifunctional libraries in state schools across Georgia. The project provides students with access to a space where they can find a variety of reading resources, develop skills to work with information electronically, work on projects and share ideas. In 2020, Ideathecas opened in four schools – in Ditsi, Khurvaleti, Poti and Tbilisi – benefiting 2,204 school students. The project is ongoing, and we intend to open five Ideathecas each year.



Social space for students

In 2020, Bank of Georgia financed the design of a social space for students at Tbilisi State University. The new space, located in the University's No. 10 campus building and equipped with contemporary technologies, gives c.5,000 students a chance to relax, read and engage with peers.

Solar panels in mountain regions

In remote mountain regions of Georgia power sources are often unreliable. At Shuapkho public school in Pshavi and the school and children's home in Barisakho, Khevsureti region, where around 76 children receive education, frequent power outages were a constant problem, disrupting educational processes. To solve the problem, Bank of Georgia has teamed up with its corporate clients to fund the installation of solar panels on the schools' buildings to give the schools an uninterrupted source of renewable energy.

Other educational opportunities

In 2020, as part of its partnership with **Book Shelf**, Bank of Georgia sponsored an online non-formal education school, which offered free extracurricular lessons to primary school students during the year.

In 2020, Bank of Georgia sponsored the International Education Fair, which brings together higher and vocational education institutions to promote student services and opportunities for studying abroad. The event was attended by representatives of up to 80 local and international educational institutions from 12 different countries. The Fair was a perfect opportunity for Georgian students to ask questions, explore different universities, and hear more about Bank of Georgia's offerings tailored to students' needs and aspirations.

Employment

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

In the summer of 2020, Bank of Georgia, together with a consultancy and recruiting firm, Insource, started to work on the project – Professions of the Future. The project brings together experts from various fields to raise awareness of different professions and career paths by hosting educational and motivational meetings and distributing video clips and blog posts, among other activities. Our goal is to provide young people with more information on in-demand skills and professions. 127,369 users have already engaged with the project.

Supporting MSMEs

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

2020 was the year of unprecedented challenges and uncertainties for local businesses. In the wake of the COVID-19 pandemic, Bank of Georgia launched initiatives to help more businesses weather the storm and adapt to the new reality.

We have set up a platform, [argacherde.ge](https://www.youtube.com/watch?v=EBbZQRdzO6c), to enable businesses to sell future-use coupons to customers. 87 businesses registered on the platform, 1,165 vouchers were sold with the total value of GEL 160,713.

<https://www.youtube.com/watch?v=EBbZQRdzO6c>



We also organised webinars to share tips on selling products on the world's largest e-commerce platforms, including Amazon, eBay, and Etsy. The webinars enabled Georgian startups to learn how to better market products and find new partners.

For more information on how we have stood by businesses during the pandemic, see pages 20 to 21.

Support for social entrepreneurship

With the support of Bank of Georgia, Impact Hub Tbilisi launched 2020's international student programme Social Impact Award. The Social Impact Award 2020 included a series of workshops in Tbilisi and regional cities of Georgia, including Rustavi, Ozurgeti, Zugdidi, and Ambrolauri. In the second stage of the programme, the finalist teams selected by the jury went through a two-month incubation process, after which the winners were identified. Bank of Georgia provided financial support to the winning teams.

Bank of Georgia has been supporting Social Impact Award Georgia since 2017. During this time, more than 500 students have participated in the programme and 11 innovative projects have received financial support from Bank of Georgia.

The Bank has supported different social entrepreneurship forums and B2B fairs since 2016. These activities are aimed at finding solutions to social problems, broadening access to employment for disabled persons and catalysing social entrepreneurship. We were one of the first companies to finance social entrepreneurship projects. So far, 15 social enterprises have been established in various places in Georgia, including Nukriani, Tsnori, Kaspi, Garikula, Batumi, Zestaponi, and Tbilisi.

Bank of Georgia has also supported a grant competition, focused on finding solutions to social problems in Georgia via social enterprises. Since 2017, up to GEL 650,000 worth of grant funding has been awarded to 15 social enterprises. The applications process for 2020 has been completed, and additional enterprises will be selected soon to receive grant funding in 2021.

Charity



Supporting Protected Areas of Georgia

The natural environment in Georgia is unique and precious – a valued and shared resource for all. We have partnered with Caucasus Nature Fund for the past ten years to support Georgia's Protected Areas. Each year, Bank of Georgia contributes US\$ 100,000 to support 11 protected areas: Borjomi-Kharagauli, Lagodekhi, Tusheti, Vashlovani, Mtirala, Javakheti, Kazbegi, Algeti, Kintrishi, Machakhela and Pshav-Khevsureti.

<https://vimeo.com/478074502>

Fight against COVID-19

To help fight COVID-19 in the initial phase of the pandemic outbreak in Georgia, Bank of Georgia purchased 20,000 laboratory tests, ten ventilators, 50,000 face masks and 60,000 pairs of single-use gloves, which were donated to the Ministry of Health of Georgia. See pages 20 to 21 for more details on COVID-19-related initiatives.

Supporting socially vulnerable families through the pandemic

One of the many challenges that vulnerable families in our communities have faced during the COVID-19 pandemic has been lack of access to everyday items and food products. Bank of Georgia has assisted 300 families in Tbilisi and other regions of Georgia.



supergmire.ge

Around 50,000 children in Georgia live in poverty. Bank of Georgia became the main partner of the charity platform supergmire.ge, launched in June 2020. The goal of the platform is to instil a culture of charity in Georgia, making charity integral to our identities, making it personal and long term.

supergmire.ge identifies children in adverse conditions and connects them to people who can change their lives for the better. Beneficiaries are vulnerable children aged 3-16. The platform creates their profiles, and publishes their stories and matches children with their "superheroes".

Children receive a monthly package from their superheroes including products and service vouchers tailored to a child's development needs and interests. In addition, superheroes can provide mentoring support.

Bank of Georgia supports supergmire.ge in financing administrative costs and marketing communications to improve platform efficiency and increase awareness through social media and marketing campaigns. The platform currently has 185 sponsored children and 192 superheroes/donors.

Environment

The Bank recognises that its operations have both an indirect and direct impact on the environment, and therefore has established management and mitigation approaches that will help it become a more environmentally friendly and climate-resilient organisation. Indirect environmental and social impacts and benefits are associated with the projects the Bank finances whereas direct environmental impacts relate to those occurring as a result of our own operations. This section presents our management of indirect environmental and social aspects and also our direct environmental performance.

Bank of Georgia effectively manages the environmental and social impacts arising from its own operations and the potential risks for the natural environment and communities associated with the financed projects.

Indirect environmental and social impact through business operations



Bank of Georgia is committed to continuously improving its environmental performance and – where possible and appropriate – even goes above and beyond the legal requirements. Our environmental management approach assesses the environmental impact of the Bank's products, services, and other activities. All potential projects and companies that are to be financed are evaluated based on Bank of Georgia's Environmental and Social (E&S) Policy. The E&S Policy is based on international best practice guidelines, ensuring responsible lending, and envisages thorough monitoring of creditors to avoid adverse environmental or social impacts. Our partners include the International Finance Corporation (IFC), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), DEG - Deutsche Investitions- und Entwicklungsgesellschaft, and FMO – Dutch Entrepreneurial Development Bank.

Environmental and Social Management System

At Bank of Georgia, we consider it our obligation to reduce any negative impacts on the environment and the communities which may be affected by the activities we finance

The Bank has an Environmental and Social Management System (ESMS) that integrates the E&S risk management into the Bank's financing decision making process. Both the IFC Performance Standards (PS) and the EBRD Performance Requirements (PRs) are the cornerstones of the Bank's ESMS and have become the benchmark for environmental and social risk assessment in the lending process. The ESMS enables the Bank to better assess, mitigate, document, and monitor impacts and risks associated with financing and investing. The Bank also uses technical reference documents with general and industry-specific examples of good international industry practice to identify E&S risks.

Underpinning the operation of the ESMS are Bank of Georgia's E&S Policy, E&S Procedures, E&S tools required for assessment and implementation and other policies complementary to it. The ESMS is fully integrated into core credit operations and supported by the Senior Management.

The following policies define Bank of Georgia's sustainability approach:

- Environment and Social Policy
- Anti-Bribery and Anti-Corruption Policy
- Human Rights Policy

The ESMS and associated E&S Procedures are periodically updated and approved by the Supervisory Board to ensure that the Bank's E&S Policy remains fit for purpose and reflects experience and changes in relevant legislation. 2020 was an important year for the Bank's ESMS as we continued the implementation in alignment with best practice and international standards, supported by DEG. During 2020, further enhancements were made to the ESMS, E&S procedures and associated risk-based tools to align with specific E&S requirements of the Bank's international financial institutional partners – IFC, EBRD, DEG and FMO.

Environmental and social procedures

Our environmental and social procedures, along with the tools necessary to implement the procedures, comprise the core components of the ESMS. The Bank follows best commercially sound practices to ensure that all commercial lending transactions are reviewed and evaluated against the applicable environmental and social requirements of Georgia's environmental, social, health and safety and labour laws and regulations, International Labour Organization (ILO) Core Labour Standards as implemented under Georgian Law and other international environmental, social and health and safety conventions that Georgia is a signatory to. Our corporate customers are expected to meet these E&S requirements.

To ensure effective E&S risk management and mitigation we implement the following actions:

- All loan requests received by the Bank are evaluated with respect to the Bank's lending policies, Environmental and Social Policy, and the Exclusion List. Under no circumstances is financing provided to activities that do not comply with these policies, or are included in the Exclusion List.
- We refrain from financing environmentally or socially sensitive business activities outlined in the exclusion lists of Development Finance Institutions such as EBRD, IFC, DEG, FMO and ADB, among others.
- The Bank reviews the E&S performance of clients with credit exposure of more than US\$ 2 million in accordance with the requirements of the IFC Performance Standards.
- We aim to assess the relative level of environmental and social risk associated with clients' businesses. We require certain customers to implement specific environmental or social action plans to avoid or mitigate their environmental and social impact and adhere to specific monitoring and reporting requirements that are set to minimise E&S risk. These requirements are included as covenants in agreements between certain customers and the Bank.
- We aim to regularly monitor environmental and social risks associated with the Bank's activities and assess clients' compliance with the terms of respective agreements. The frequency and type of monitoring is determined according to the type of transaction being financed and the level of E&S risk.

We are also focused on introducing clients to information about relevant laws and regulations and the Bank's ESMS during E&S due diligence, with the aim of strengthening public knowledge and capacity in the area of environmental and social protection. With this in mind, in 2020, we prepared an information leaflet on Bank of Georgia's Approach to Managing Customer's Environmental and Social Risks. This leaflet is designed for Bank of Georgia's existing and new customers who apply for a business loan or other credit products, and is available on the Bank's website at <https://bankofgeorgia.ge/en/about/management#docs>.

Environmental and social risk assessment

The Bank's E&S Due Diligence (ESDD) with respect to a borrower's activities includes a review and assessment of environmental and social risks and impacts and proposes mitigation measures that are commensurate with their nature and magnitude. ESDD also evaluates a client's measures to avoid, minimize, mitigate, or compensate for, adverse impacts on workers, affected communities, and the environment.

Bank of Georgia's ESDD identifies actions that are required by a borrower to address environmental and social risks and impacts, ensure transactions comply with the relevant national or international standards and legislation, including the IFC performance standards, where applicable, and the Bank's loan approval conditions. These are set out in the Environmental and Social Action Plan (ESAP), which describes the actions necessary for the borrower to (i) implement various sets of mitigation measures or corrective actions to be undertaken; (ii) prioritise these actions; (iii) include the timeline for their implementation and (iv) describe the schedule for reporting to the Bank on the implementation of the action plan. Implementation of the ESAP is monitored by the Bank and includes a timeline and relevant covenants in the loan documentation. Mitigation measures may also be included as separate covenants in loan agreement.

During the E&S risk assessment process we work with our customers to:

- raise customer awareness of environmental, health and safety (EHS) issues and regulations.
- establish a framework for customers to achieve good environmental and social standards.
- encourage companies to adopt best EHS practices and challenge them on EHS risks.
- meet companies in order to better understand sectorial EHS risks and impacts.
- make recommendations and measure companies EHS progress.
- encourage customers in fulfilling their environmental and social obligations.

In 2020, environmental and social due diligence was conducted for 230 customers, who as at 31 December 2020 had an exposure of US\$ 227.8 million.

During 2020, no projects were rejected on the ground of non-compliance with the Bank's Environmental and Social Policy or being included in the Exclusion List during the assessment of environmental and social risks.

Environmental and social monitoring

The Bank regularly monitors the E&S risks associated with the Bank's activities by assessing clients' compliance and ensuring E&S commitments are met. The frequency and type of monitoring is determined according to the type of transaction being financed and the level of E&S risk. Our E&S team conducts portfolio-wide reviews of specific sectors, where E&S risks are considered high and, in some cases, the Bank's staff visit high-risk customers on a regular basis. Monitoring of Category A projects (developments on greenfield land, or major extension or transformation-conversion projects, which may give rise to significant or long-term environmental and social risks

and impacts) and IFC PS triggered transactions are undertaken on an annual basis. Where necessary, the Bank may use independent external E&S professionals to monitor these projects implementation and progress. All high-risk clients are required to provide the Bank with an annual report on their environmental and social performance, and the implementation of applicable Environmental and Social Action Plans. Any Category A project is required to provide the Bank with an annual E&S performance report. Such projects will have annual monitoring visit by our E&S staff during the construction period and/or until major E&S issues are resolved and satisfactorily monitored by the customer.

In 2020, the Bank carried out an E&S monitoring of 35 customers with a total exposure of US\$ 241.7 million as at 31 December 2020. The Bank has not received any reports from its customers on any accidents or incidents. In addition, during 2020, customers who were provided with the action plans to identify, avoid, mitigate and manage environmental and social risks, and their impact on the natural and social environment, have started to implement our recommendations, and consider environmental and social management systems aligned with international standards.

The Bank's Environmental and Social Risk Unit

The dedicated E&S team is part of the Risk Management Function and is involved in the credit review process. The E&S team undertakes preliminary environmental and social due diligence of customer operations and projects funded by the Bank and recommends appropriate covenants to be included in credit documents that are monitored throughout the credit cycle.

The E&S team ensures the implementation of Bank of Georgia's E&S policy, monitors the Bank's E&S risk targets and performance, ensures data consolidation with respect to E&S risks within the Bank, and handles E&S risks communications. The team directly reports the progress and performance achieved in the area of E&S risk management to the Risk Committee.

When faced with complex E&S issues/ aspects or those outside the E&S specialists' competencies, a qualified external consultant(s) is hired to undertake the E&S assessment especially for Category A projects. This helps to ensure that all activities are environmentally and socially prudent and compliant with the regulatory, environmental and social standards as applicable or likely to be in force in the future.

Reporting to our supranational stakeholders

In 2020, Bank of Georgia reported on its environmental and social performance as part of its commitments to provide annual environmental performance reports to multiple supranational entities. These reports take into consideration Bank of Georgia's E&S performance when granting loans as well as internal operations and policies. The reports include portfolio information broken down by industry sector and transaction type, as well as a progress report on the implementation of Bank of Georgia's ESMS. We value keeping an open dialogue on our ESMS with our partner international financial institutions to gauge their advice on best practices.

External communications – grievance mechanism

Procedures for addressing external queries and concerns, developed within the framework of ESMS, provide means for the public to submit queries or concerns related to the Bank's E&S Policy, and have these queries responded to by the Bank in a timely manner. The grievance mechanism is available on the Bank's website and anyone can send an email with questions or concerns to customerservice@bog.ge (as listed on the website), or can submit their questions or concerns to the Bank's Chancellery department.

In 2020, no E&S complaints were received by the Bank. We will continue to remain engaged and responsive to stakeholders to maintain this track record of no complaints.

Internal training events

Training activities play an important role in enhancing the implementation of the Bank's E&S Policy. In 2020, to continuously improve our understanding of E&S issues and build internal capacity, the Bank provided training opportunities for the E&S team and key Bank staff involved in environmental and social risk management processes.

We provided internal training to the Bank's 34 employees from the SME Sales, the Retail Business Banking, the Credit Risk, and Corporate Banking departments, and the Learning Administration Unit of the Bank's Human Capital Department. The training was in relation to the updated Environmental and Social Management System and Procedures to ensure compliance with the E&S Policy.

The E&S team participated in the following external training events and seminars:

- Green Economy and New Growth Opportunities for SMEs in Georgia: Eco-innovation, Resource Efficiency and Cleaner Production under the EU4Environment programme.
- Climate Change and TCFD: Risks and Opportunities for the Finance Sector; ESG Disclosures, Trends and Practices.
- EU Taxonomy in the context of the Global Sustainable Finance Agenda.
- Sustainable Finance in Georgia.

To increase awareness on environmental and social risk management at every level of the Bank, with the assistance of an international sustainability third-party consultant, we developed an online E&S training module in 2020, which will be accessible to all the Bank's employees in 2021.

Employees attended training on environmental and social topics in 2020

41

Training hours spent on environmental and social topics in 2020

262

Climate change-related risk management

The Bank has identified Climate Risk as an emerging risk (see page 90). As such, we intend to integrate climate change-related risks into our credit risk framework and our business resilience assessments. We will be describing and managing climate-related risks in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

The Bank has established an internal road map for TCFD recommendations implementation starting from 2021. The Bank will address each of the four TCFD pillars – Governance, Strategy, Risk Management, and Metrics and Targets.

Recognising that we are at the early stages of this assessment, during 2021 the key actions will include:

- ensuring that climate-related governance is in place and will raise climate awareness across the Bank to deepen our understanding of climate change risks and opportunities.
- developing a qualitative understanding of the transitional and physical risks that might arise under different scenarios.
- performing disclosure requirement gap analysis, identifying areas for alignment with the recommendation.
- preparing evaluation metrics for assessing climate-related risks and opportunities and identifying additional information and data needs for TCFD disclosure.

We will also be reporting on the Scope 1, 2 and 3 GHG emissions and consideration of portfolio GHGs.

In support of these activities, we will be identifying additional information and data needs and assessing if and how our internal processes may be modified to further integrate climate change into our risk management processes.

Direct environmental impact



As a Bank we understand that climate change and the risks associated with it can not only impact the Bank in the future, but also hinder sustainable development of our communities. As a service business, our direct environmental impact is less significant than the impact we have on the environment through the financing we provide to our customers. Nevertheless, it is imperative for us to become a more resource-efficient company to mitigate the negative impacts we may have on the environment and contribute to climate change mitigation. We undertake measures to identify and monitor environmental aspects relevant to our direct operations. For instance, how much business travel we undertake and how much electricity we use. We strive to adopt a "reduce, re-use, and recycle" approach wherever possible.

The direct environmental impact of our business activities arises from electricity, natural gas, and fuel consumption, water use, paper use, as well as through other types of waste produced. The Bank is committed to monitoring and reducing the use of these resources as discussed in the subsequent sections.

Energy consumption

Greenhouse gas (GHG) emissions and calculating methodology

The Bank measures its GHG emissions annually. We have reported our GHG emissions and energy use consistent with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. In addition, we have reported on the Scope 3 emissions related to our business travel. All reported sources fall within our Separate Financial Statements. We do not have responsibility for the emission sources that are not included in our Separate Financial Statements.

In preparing our emissions data we have used the World Resources Institute / World Business Council for Sustainable Development (WRI / WBCSD) Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (revised edition 2016) as a reference source. Following a discussion with the Ministry of Environmental Protection and Agriculture of Georgia, we have used the most recent Georgia electricity conversion factor taken from the JRC Guidebook – How to Develop a Sustainable Energy and Climate Action Plan in the Eastern Partnership Countries, European Commission, Ispra, 2018, JRC113659. We have re-calculated our 2018 and 2019 footprint for baseline purposes using the Georgia electricity conversion factor to enable year-on-year comparison of the data sets. Further conversion factors for the 2020 calculations have been taken from the 2020 UK Government GHG reporting: conversion factors¹.

Emissions and energy data

	2018	2019	2020
Total tCO₂E	4,089	3,551	4,141
tCO₂E / employee	0.702	0.604	0.711
Scope 1 tCO ₂ E	2,034	1,508	1,835
Scope 2 tCO ₂ E	1,484	1,508	1,559
Scope 3 tCO ₂ E	571	535	746
Gas (m3)	458,475	292,741	389,429
Electricity (MWh)	15,622	15,874	16,418
Full-time employees	5,828	5,879	5,821

The data is collected and reported in respect of the Bank, including its offices and retail branches where the Bank has operational control.

The data is provided by on-site delegates, invoices and meter readings.

Scope 1 (combustion of fuel and operation of facilities) includes emissions from:

- combustion of natural gas, diesel and petrol in stationary equipment at owned and controlled sites.
- combustion of petrol, diesel and aviation fuel in owned transportation devices.

Scope 2 (electricity, heat, steam and cooling purchased for own use) includes emissions from:

- used electricity at owned and controlled sites.
- We have used the 2018 JRC conversion factor (0.095 tCO₂ - eq/MWh for our Scope 2 emissions.

Scope 3 includes emissions from:

- air business travel (short haul and long haul); information on the class of travel is unavailable, hence, we used an "average passenger" conversion factor.
- ground transportation, including outsourced vehicles and car hire.
- data on emissions resulting from travel is reported for business-related travel only and excludes commuting travel.

¹ Department for Business Energy and Industrial Strategy (BEIS), Greenhouse gas reporting: conversion factors 2020 updated 17 July 2020 – <https://www.gov.uk/government/collections/government-conversion-factors-for-company-reporting>

Energy consumption

Types of energy used by the Bank include electricity, natural gas, and fuel oil, the principal type being electricity provided by the national grid.

In order to reduce energy consumption, the branches are equipped with energy-efficient LED lighting. Remote control lighting systems are installed in the new branches. Since 2018, a majority of our newly opened branches have operated remote heating and air conditioning systems that ensure efficient electricity consumption during non-working hours. Remote control lighting, heating, and air conditioning systems were installed in 15 branches in 2019 and in a further six branches in 2020.

It is noted that, in particular, the gas consumption increased primarily due to colder weather conditions in 2020 compared to 2019.

In 2019, about half of the Bank's car fleet was outsourced. The outsourced portion was further increased to 60% in 2020, and we moved the associated fuel consumption from Scope 1 to Scope 3 emissions. Furthermore, the actual overall fuel consumption-related Scope 3 emissions increased in 2020 compared to 2019 primarily due to the COVID-19-related lockdown travel restrictions, resulting in more of our employees using our outsourced transportation services.

Water consumption

Water consumption by the Bank is limited to "domestic type use" and cleaning purposes.

Paper consumption

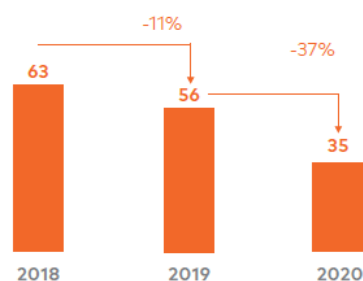
In addition to digital records, the Bank retains paper records of certain transactions in line with regulatory requirements. In all other cases, we reduce the paper consumption through the greater use of digital media and more efficient printing. In 2020, the Bank implemented a new paper consumption control procedure that allows us to compare paper consumption in the Bank's branches, using correlation with printing to detect deviations from a typical consumption pattern. The new procedure enables us to have better control over paper use and to reduce our paper spend. Some of the Bank's departments, such as branches and cash centres, are paper-intensive. In these locations, we have encouraged the use of two computer monitors at workstations and this has also led to a reduction in paper waste due to unnecessary printing.

Since 2018, paper consumption per full time employee (FTE) has reduced significantly.

We increased our paper recycling rate during 2020:

- Back office paper from the Bank's headquarters and several large back office locations is collected and shredded by a secure paper recycling firm. In 2020, c.5 tonnes of paper was collected for recycling in this way.
- Documentation from the Bank's archive, once the retention period expires, is recycled annually. The Bank uses a specialised third-party contractor for this service based on the appropriate service agreement. On average, c.35 tonnes of paper is recycled annually under this process.

Paper usage (kg) per FTE



Waste management

In 2019, a new project, Development of a Company Waste Management Plan, was launched by the Bank with the support of Green for Growth Fund (GGF) within the framework of the Green for Growth Fund Technical Assistance Facility (GGF TAF). The aim of this project was to assist Bank of Georgia in developing a company-wide Waste Management Plan aligned with relevant Georgian legislation. A Waste Management Plan, covering all main locations/ premises of the Bank, has been prepared for the three-year period 2020-2022. Highlights in 2020 included:

- in-house one-day training workshop on safe and proper waste management practices within the Bank was provided to 17 employees of the Bank's Operations Support department who are responsible for the Bank's waste management process.
- the Bank replaced plastic bags with biodegradable ones, widely used in the cash collection process.
- the Bank's old branded inventory was disposed of alongside the waste in line with the environmental regulations through a licensed third-party company at the municipal recycling and sanitation landfill.

Working with suppliers

Bank of Georgia is one of the largest purchasers in the country, with a variety of suppliers in its supply chain. We are committed to involving local suppliers in our supply chain and in this way contributing to local business development. In 2020, the Bank's domestic suppliers accounted for c.90% of the total spend.

We seek out suppliers that share our values and our commitment to having a positive impact in the communities. To this end we incorporate robust social and environmental risk management practices in our procurement processes.

The Bank has a Purchasing Policy and Tender Procedures in the procurement process which defines requirements on supplier screening and selection processes:

- We have transparent and objective selection criteria and procedures that ensure fair competition while choosing suppliers.
- As part of the Bank's third-party screening process to identify the level of risk the third parties might pose, the Bank carries out the following due diligence processes: indirect investigations which include general research of the activities undertaken by the proposed business partners such as agents, non-resident vendors, joint venture partners, contractors, suppliers and other third parties, their reputation. The Purchasing Policy defines requirements with respect to purchase process transparency to mitigate anti-bribery and corruption (ABC) risks associated with procurement processes.
- In 2020, we integrated an Environmental and Social Risk Management Questionnaire in the supplier selection/procurement process. Environmental and Social topics are part of Request for Proposal (RFP) forms and incorporated in our contract templates.

In order to further enrich our procurement process and align it with international best practices, we have initiated implementation of Suppliers Lifecycle and Performance Management Module (SAP SLP) as part of supplier selection and qualification verification process. The module will enable us to enhance several aspects of supplier qualification process, including:

- security screening and checking conflict of interest;
- more advanced Information Security Questionnaires' for those suppliers who have access to the Bank's system;
- personal data protection questionnaires, when relevant;
- general questions to all suppliers regarding:
 - child labour / illegal immigrants / discrimination / minimum salary;
 - modern slavery statement;
 - environmental and social issues.

We plan to launch the module in the second half of 2021.

Performance

**Overview of
Financial Results**

Robust performance notwithstanding the impact of the COVID-19 pandemic

2020 was a year of unprecedented difficulties for all organisations across the world. The COVID-19 global pandemic has had a significant impact on people, the economy and the way we live and work. Through the measures we have implemented in response to the pandemic outbreak, we have maintained excellent ongoing business continuity and operational efficiency, and ensured the long-term stability, strength and profitability of the Bank.

Having taken a significant upfront COVID-19-related expected credit loss provision for the full economic cycle in the first quarter of 2020, the quality of our loan book has remained robust throughout the second-round lockdown in December 2020 and January 2021. For all the challenges of the pandemic and significantly reduced levels of economic activity, our customer franchise has been resilient, translating into strong customer lending and deposit growth during the year. Our operating income has been robust, costs remained well-controlled, and our loan book has been performing better than expected in terms of portfolio quality. As a result, we delivered a return on average equity of 13.6% in 2020, while maintaining strong liquidity and capital positions.

The Bank remains extremely resilient, with a robust balance sheet and capital position, and we continue to make significant progress with our digital transformation. We expect Georgia to return to economic growth in 2021, and we are very well-positioned to both contribute to and benefit from this.

Income statement highlights¹

GEL thousands	2020	2019	Change y-o-y
Net interest income	715,158	743,445	-3.8%
Net fee and commission income	130,329	144,832	-10.0%
Net foreign currency gain	96,551	98,370	-1.8%
Net other income	40,314	15,573	158.9%
Operating income	982,352	1,002,220	-2.0%
Operating expenses	(355,992)	(347,173)	2.5%
Profit from associates	782	789	-0.9%
Operating income before cost of risk	627,142	655,836	-4.4%
Cost of risk	(269,098)	(95,982)	NMF
Net operating income before non-recurring items and income tax	358,044	559,854	-36.0%
Net non-recurring items	(41,291)	(8,294)	NMF
Profit before income tax and one-off costs	316,753	551,560	-42.6%
Income tax expense	(18,032)	(59,594)	-69.7%
Profit adjusted for one-off costs	298,721	491,966	-39.3%
One-off costs	-	(14,236)	NMF
Profit	298,721	477,730	-37.5%

Balance sheet highlights

GEL thousands	31 Dec 20	31 Dec 19	Change y-o-y
Liquid assets	6,233,804	5,213,483	19.6%
<i>Cash and cash equivalents</i>	<i>1,828,236</i>	<i>1,933,646</i>	<i>-5.5%</i>
<i>Amounts due from credit institutions</i>	<i>1,986,555</i>	<i>1,600,387</i>	<i>24.1%</i>
<i>Investment securities</i>	<i>2,419,013</i>	<i>1,679,450</i>	<i>44.0%</i>
Loans to customers and finance lease receivables	13,200,987	11,063,789	19.3%
Property and equipment	330,269	322,576	2.4%
Total assets	20,750,058	17,350,266	19.6%
Client deposits and notes	13,496,478	9,537,203	41.5%
Amounts due to credit institutions	2,830,706	3,479,369	-18.6%
<i>Borrowings from DFIs</i>	<i>1,684,237</i>	<i>1,309,484</i>	<i>28.6%</i>
<i>Short-term loans from central banks</i>	<i>590,293</i>	<i>1,551,953</i>	<i>-62.0%</i>
<i>Loans and deposits from commercial banks</i>	<i>556,176</i>	<i>617,932</i>	<i>-10.0%</i>
Debt securities issued	1,450,598	1,998,803	-27.4%
Total liabilities	18,274,862	15,281,545	19.6%
Total equity	2,475,196	2,068,721	19.6%

¹ The income statement adjusted profit in 2019 excludes GEL 14.2mln one-off employee costs (net of income tax) related to former CEO and executive management termination benefits. The amount 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.

Key ratios

	2020	2019
ROAA (adjusted) ¹	1.6%	3.3%
ROAA (reported)	1.6%	3.2%
ROAE (adjusted) ¹	13.6%	26.3%
ROAE (reported)	13.6%	25.5%
Net interest margin	4.5%	5.7%
Liquid assets yield	3.4%	3.5%
Loan yield	10.5%	11.7%
Cost of funds	4.7%	4.4%
Cost/Income (adjusted) ²	36.2%	34.6%
Cost/Income (reported)	36.2%	35.9%
NPLs to gross loans to clients	3.7%	2.0%
NPL coverage ratio	75.1%	76.0%
NPL coverage ratio, adjusted for discounted value of collateral	126.7%	134.2%
Cost of credit risk ratio	1.9%	0.9%
NBG (Basel III) CET1 capital adequacy ratio	10.4%	11.5%
NBG (Basel III) Tier I capital adequacy ratio	12.4%	13.6%
NBG (Basel III) Total capital adequacy ratio	17.6%	18.1%

Results highlights

- Solid performance despite the impact of the COVID-19 pandemic.** The Bank generated profit of GEL 298.7 million with profitability at 13.6% ROAE in 2020, notwithstanding the slowdown of economic activity.
- Net interest margin.** NIM was down 120 bps y-o-y in 2020, largely reflecting the decline in retail lending activity on the back of the economic slowdown, and high levels of liquidity.
- Net fee and commission income** decline in 2020 was mainly driven by the decrease of income from settlement and cash operations, due to slower customer activity as a result of the COVID-19 pandemic, 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.
- Operating expenses.** The Bank continued its investment in IT-related resources, digitalisation and marketing, as part of its key strategic priorities, at the same time maintaining its focus on efficiency and cost control (the Bank implemented a number of cost optimisation initiatives following the COVID-19 pandemic outbreak), which resulted in largely flat (up 2.5% y-o-y) operating expenses in 2020.
- Loan book increased by 19.3% y-o-y at 31 December 2020.** Growth on a constant currency basis was 10.9% y-o-y. The y-o-y loan book growth partially reflected continued strong loan origination levels in Corporate, MSME and the mortgage segments during the pre-COVID-19 period, coupled with increased level of economic activity since June 2020, notwithstanding the slowdown following the restrictions tightening in 4Q20.
- Client deposits and notes increased by 41.5% y-o-y at 31 December 2020.** On a constant currency basis, client deposits and notes grew by 31.1% y-o-y. This strong deposit franchise growth reflects a consistent increase in monthly deposit balances of both our individual and business customers since May 2020.
- Cost of credit risk.** The cost of credit risk ratio was 1.9% in 2020, compared to 0.9% in 2019. The y-o-y increase in the cost of credit risk ratio in 2020 was primarily driven by the significant ECL provision on loans to customers and finance lease receivables, created for the full economic cycle during the first quarter of 2020. ECL assumptions were revisited to reflect the macroeconomic forecast scenarios published by the NBG in May 2020 in the second quarter, and better visibility of the portfolio and the detailed review of creditworthiness of the borrowers in the third and fourth quarters. As a result of these analyses, the provisions recorded in 1Q20 proved overall to be sufficient. See details on page 124.
- Asset quality.** NPLs to gross loans were 3.7% at 31 December 2020, compared to 2.0% at 31 December 2019, which is in line with the upfront ECL provision recorded for the full economic cycle in 1Q20. The NPL coverage ratio was 75.1% at 31 December 2020, compared to 76.0% at 31 December 2019, and the NPL coverage ratio adjusted for a discounted value of collateral was 126.7% at 31 December 2020, compared to 134.2% at 31 December 2019. The y-o-y decline in NPL coverage ratio reflects the portfolio mix shift from high-yielding unsecured to more secured consumer lending, and is supported by the high level of collateralisation of the loan book.
- Strong capital adequacy position.** The Bank's capital adequacy ratios have remained robust, and comfortably above the minimum regulatory requirements. The Bank's Basel III Common Equity Tier 1, Tier 1 and Total capital

¹ The 2019 income statement adjusted profit excludes GEL 14.2mln one-off employee costs (net of income tax) related to former CEO and executive management termination benefits. The amount comprises GEL 12.4mln (gross of income tax) excluded from salaries and other employee benefits and GEL 4.0mln (gross of income tax) excluded from non-recurring items. ROAE and ROAA have been adjusted accordingly for both periods presented.

² The 2019 cost to income ratio is adjusted for GEL 12.4mln one-off employee costs (gross of income tax) related to termination benefits of the former executive management.

adequacy ratios stood at 10.4%, 12.4% and 17.6%, respectively, all well above the minimum required levels of 7.4%, 9.2% and 13.8%, respectively, at 31 December 2020. The y-o-y decline in capital ratios was primarily due to a c.GEL 400mln general provision created in March 2020 under the local regulatory accounting basis in agreement with the NBG (and consistent with the NBG's guidance for the Georgian banking sector in general) that covers its current expectations of estimated credit losses on the Bank's lending book for the whole economic cycle. See details on capital adequacy ratio movement during 2020 on page 126.

- **Strong liquidity and funding positions.** As at 31 December 2020, the Bank's liquidity coverage ratio stood at 138.6% and net stable funding ratio at 137.5%, compared to the 100% minimum required level. The Bank maintained substantial excess liquidity in 2020, primarily for 1) the repayment of local currency bonds in June 2020; and 2) risk mitigation purposes on the back of the ongoing COVID-19 crisis, as outflow of customer funds was possible at the early stage of the pandemic outbreak, which however did not materialise. Client deposit balances continue to grow strongly, despite two rounds of decrease of interest rates on foreign currency denominated customer deposits in the second half of 2020.

Discussion of results

The Bank's business is composed two 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 mass retail and mass affluent segments, together with small and medium enterprises and micro businesses. 2) **Corporate and Investment Banking** comprises Corporate Banking and Wealth Management operations in Georgia. Corporate Banking principally provides loans and other credit facilities, funds transfers and settlement services, trade finance services, and documentary operations support, and handles saving and term deposits for corporate and institutional customers. The Wealth Management business principally provides private banking services to high-net-worth clients.

Operating income

GEL thousands	2020	2019	Change y-o-y
Interest income	1,472,189	1,331,401	10.6%
Interest expense	(757,031)	(587,956)	28.8%
Net interest income	715,158	743,445	-3.8%
Fee and commission income	255,224	263,734	-3.2%
Fee and commission expense	(124,895)	(118,902)	5.0%
Net fee and commission income	130,329	144,832	-10.0%
Net foreign currency gain	96,551	98,370	-1.8%
Net other income	40,314	15,573	158.9%
Operating income	982,352	1,002,220	-2.0%
Net interest margin	4.5%	5.7%	
Liquid assets yield	3.4%	3.5%	
Loan yield	10.5%	11.7%	
Cost of funds	4.7%	4.4%	
Cost/Income ¹	36.2%	34.6%	

Performance highlights

- **The Bank generated solid operating income of GEL 982.4mln in 2020, down 2.0% y-o-y.** The decrease in operating income was primarily driven by the slowdown in economic activity due to the COVID-19 pandemic, particularly affecting the Retail Banking segment.
- **NIM was 4.5% in 2020, down 120 bps y-o-y.** The NIM decrease primarily reflected a decline in loan yields (down 120 bps y-o-y in 2020), on the back of the slower consumer lending activity due to the COVID-19 pandemic, and the effect of change in portfolio mix resulting in higher level of secured mortgage lending. In addition, cost of funds was up 30 bps y-o-y, which reflected the increase in client deposits and notes and higher levels of liquidity, coupled with the NBG's monetary policy rate changes, partially offset by the impact of the GEL 500 million local currency bonds repayment in June 2020.
- **Liquid assets yield.** Liquid assets yield was 3.4% in 2020, down 10 bps y-o-y. The decrease was mainly due to the decline in local-currency-denominated liquid assets as well as foreign-currency-denominated liquid assets yield. The reduction in foreign-currency-denominated liquid assets yield largely reflected the cut in the US Fed rate in March 2020 (NBG accrues interest rate on banks' obligatory US Dollar reserves at US Fed rate upper bound minus 50 bps). The decline in local-currency-denominated liquid assets yield directly reflected the NBG's monetary policy rate changes.

¹ The 2019 cost to income ratio is adjusted for GEL 12.4mln one-off employee costs (gross of income tax) related to termination benefits of the former executive management.

- **Cost of funds.** Cost of funds was 4.7% in 2020, up 30 bps y-o-y. This was primarily driven by the NBG's monetary policy rate change in 2020, partially offset by the impact of the repayment of the GEL 500 million local currency bonds due in the beginning of June 2020 and the Libor rate decline during 2020.
- **Net fee and commission income.** Net fee and commission income was GEL 130.3mln in 2020, down 10.0% y-o-y. The decline in net fee and commission income was mainly driven by the decrease of income from settlement and cash operations, due to slower customer activity as a result of the COVID-19 pandemic in 2Q20 and the temporary removal of fees on transactions executed through our mobile and internet banking platforms during the hard lockdown in the spring of 2020, for a two-month period, aimed at incentivising the use of 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.
- **Net foreign currency gain.** Net foreign currency gain was down 1.8% y-o-y in 2020. The movement in net foreign currency gain directly reflected the level of currency volatility and customer-driven flows.
- **Net other income.** Net other income increased significantly in 2020, primarily reflecting GEL 19.4mln net gains recorded as a result of the revaluation of investment property, mainly driven by the local currency devaluation in 2020. In addition, higher income from operating leases, as well as higher net gains from the sale of investment property also contributed to y-o-y increase in net other income in 2020. Furthermore, the Bank recorded net losses from derivative financial instruments (interest rate swap hedges) in 2019.

Net operating income before non-recurring items, cost of risk, and profit

GEL thousands ¹	2020	2019	Change y-o-y
Salaries and other employee benefits	(196,663)	(189,259)	3.9%
Administrative expenses	(84,612)	(85,139)	-0.6%
Depreciation, amortisation and impairment	(70,775)	(68,826)	2.8%
Other operating expenses	(3,942)	(3,949)	-0.2%
Operating expenses	(355,992)	(347,173)	2.5%
Profit from associates	782	789	-0.9%
Operating income before cost of risk	627,142	655,836	-4.4%
Expected credit loss on loans to customers	(236,828)	(85,970)	NMF
Expected credit loss on finance lease receivables	(8)	7	NMF
Other expected credit loss/impairment charge on other assets and provisions	(32,262)	(10,019)	NMF
Cost of risk	(269,098)	(95,982)	NMF
Net operating income before non-recurring items	358,044	559,854	-36.0%
Net non-recurring items	(41,291)	(8,294)	NMF
Profit before income tax and one-off costs	316,753	551,560	-42.6%
Income tax expense	(18,032)	(59,594)	-69.7%
Profit adjusted for one-off costs	298,721	491,966	-39.3%
One-off termination costs of former CEO and executive management (after tax)	-	(14,236)	NMF
Profit	298,721	477,730	-37.5%

- **Operating expenses** amounted to GEL 356.0mln in 2020, up 2.5% y-o-y. In 2020, we continued 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 2020 in relation to the safety measures implemented as a response to the COVID-19 outbreak. That said, in 2Q20, we initiated a number of cost optimisation measures, which enabled us to maintain operating expenses largely flat y-o-y in 2020.
- **Cost of risk.** The cost of credit risk ratio was 1.9% in 2020, compared to 0.9% in 2019. The significant increase in cost of credit risk ratio in 2020 was driven by the 1Q20 reserve builds, created for the full economic cycle, primarily related to the deterioration in the macroeconomic environment and expected creditworthiness of borrowers due to the impact of the COVID-19 pandemic. As a result of these assumptions, we created additional reserves of GEL 220.2mln in the first quarter of 2020. In the second quarter, management revisited the assumptions used to estimate the amount of ECL provision to reflect the better visibility and the macroeconomic forecast scenarios published by the NBG in May 2020. In the third and fourth quarters of 2020, the Bank has completed additional in-depth analysis of the financial standing and creditworthiness of all corporate and SME borrowers, and a significant portion of retail and micro segment customers. Given that we are operating in a rapidly changing environment with a high level of uncertainty with regard to both the length and the severity of the COVID-19 second-wave impact, we will continue to monitor new facts and circumstances.

As for the other expected credit loss and impairment charge on other assets and provisions in 2020, this mainly comprised additional reserves recorded by the Bank in respect of assets held for sale, guarantees issued and other financial assets.

¹ The adjusted profit in the table in 2019 excludes GEL 14.2mln one-off employee costs (gross of income tax) related to the former CEO and executive management termination benefits. The amount 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.

- **Quality of the loan book.** The y-o-y rise in non-performing borrowers in 2020 was primarily driven by the impact of the COVID-19 pandemic, resulting in an increase of NPLs to gross loans to 3.7% at 31 December 2020, which is in line with the upfront ECL provision recorded for the full economic cycle in 2020.

The y-o-y decline in NPL coverage ratio reflects the shift of portfolio mix from high-yielding unsecured to more secured consumer lending, and is supported by the high level of collateralisation of the loan book. The NPL coverage ratio adjusted for discounted value of collateral was 126.7% at 31 December 2020.

Non-performing loans

GEL thousands, unless otherwise noted	31 Dec 20	31 Dec 19	Change y-o-y
NPLs	507,778	230,004	120.8%
NPLs to Gross loans	3.7%	2.0%	
NPLs to Gross loans, RB	3.5%	1.5%	
NPLs to Gross loans, CIB	4.1%	3.1%	
NPL coverage ratio	75.1%	76.0%	
NPL coverage ratio adjusted for the discounted value of collateral	126.7%	134.2%	

- **Net non-recurring items.** Significant y-o-y increase in net non-recurring items during 2020 was primarily attributable to GEL 39.7mln one-off net losses on modification of financial assets recorded in March and April of 2020. These losses related to the three-month payment holidays on principal and interest payments 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. In addition, in 1Q20, the Bank incurred GEL 1.2mln one-off costs to finance and donate 20,000 COVID-19 laboratory tests, 10 ventilators, 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 classified as non-recurring items.
- **Income tax expense.** Relatively high income tax rate in 2019 was primarily driven by a one-off GEL 8.5mln additional tax expense posted in the third quarter of 2019 as a result of reassessment of deferred tax balances.
- **Overall, the Bank recorded profit** of GEL 298.7mln in 2020, compared with profit adjusted for one-off costs of GEL 492.0mln¹ in 2019. The Bank's ROAE was 13.6% in 2020, compared with 26.3%¹ in 2019.

¹ Profit and ROAE in 2019 exclude GEL 14.2mln one-off employee costs (gross of income tax) related to the former CEO and executive management termination benefits.

Balance sheet highlights

GEL thousands, unless otherwise noted	31 Dec 20	31 Dec 19	Change y-o-y
Liquid assets	6,233,804	5,213,483	19.6%
Liquid assets, GEL	2,699,275	2,244,562	20.3%
Liquid assets, FC	3,534,529	2,968,921	19.1%
Net loans and finance lease receivables	13,200,987	11,063,789	19.3%
Net loans and finance lease receivables, GEL	5,756,419	4,901,568	17.4%
Net loans and finance lease receivables, FC	7,444,568	6,162,221	20.8%
Client deposits and notes	13,496,478	9,537,203	41.5%
Amounts owed to credit institutions	2,830,706	3,479,369	-18.6%
Borrowings from DFIs	1,684,237	1,309,484	28.6%
Short-term loans from central banks	590,293	1,551,953	-62.0%
Loans and deposits from commercial banks	556,176	617,932	-10.0%
Debt securities issued	1,450,598	1,998,803	-27.4%
Liquidity and capital adequacy ratios			
Net loans / client deposits and notes	97.8%	116.0%	
Net loans / client deposits and notes + DFIs	87.0%	102.0%	
Liquid assets / total assets	30.0%	30.0%	
Liquid assets / total liabilities	34.1%	34.1%	
NBG liquidity coverage ratio	138.6%	136.7%	
NBG (Basel III) CET 1 capital adequacy ratio	10.4%	11.5%	
NBG (Basel III) Tier I capital adequacy ratio	12.4%	13.6%	
NBG (Basel III) Total capital adequacy ratio	17.6%	18.1%	

Balance sheet remains highly liquid (NBG liquidity coverage ratio of 138.6%) and **strongly capitalised** (NBG Basel III Tier I capital adequacy ratio of 12.4%) with a well-diversified funding base (client deposits and notes to total liabilities of 73.9%) at 31 December 2020.

- Liquidity.** Liquid assets reached GEL 6,233.8mln at 31 December 2020, up 19.6% y-o-y. The notable increase over the year was in investment securities, combined with excess liquidity deployed with credit institutions. The Bank maintained substantial excess liquidity since the second quarter of 2020 primarily for 1) the repayment of local currency bonds in June 2020; and 2) risk mitigation purposes on the back of the current COVID-19 crisis, as outflow of customer funds was possible at the early stage of the pandemic outbreak, which however did not materialise. Client deposit balances continue to grow to date, despite two rounds of decrease of interest rates on foreign-currency-denominated customer deposits in the second half of 2020. The NBG liquidity coverage ratio was 138.6% at 31 December 2020, well above the 100% minimum requirement level.
- Loan book.** Our net loan book and finance lease receivables amounted to GEL 13,201.0mln at 31 December 2020, up 19.3% y-o-y. As of 31 December 2020, the retail loan book represented 51.9% of the total loan portfolio, compared to 53.6% at 31 December 2019. Both local and foreign currency portfolios experienced strong y-o-y growth of 17.4% and 20.8% 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.
- 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 87.0% at 31 December 2020, compared to 102.0% at 31 December 2019.
- Diversified funding base.** Debt securities issued decreased by 27.4% y-o-y at 31 December 2020. The decrease was attributable to the repayment of GEL 500mln local currency bonds at the beginning of June 2020.
- Solid capital position.** At 31 December 2020, following the measures put in place by the NBG as part of the COVID-19 supervisory plan in March 2020, the Bank's Basel III Common Equity Tier 1, Tier 1 and Total capital adequacy ratios stood at 10.4%, 12.4% and 17.6%, respectively, all comfortably above the minimum required levels of 7.4%, 9.2% and 13.8%, respectively. The movement in capital adequacy ratios in 2020, and the potential impact of an additional 10% devaluation of local currency on different levels of capital is as follows:

	31 Dec 19	Business growth	2020 profit (excluding NBG general provision)	NBG general provision – COVID-19 impact	GEL devaluation	New Tier 2 facility impact	31 Dec 20	Potential impact of additional 10% GEL devaluation
CET1 capital adequacy ratio	11.5%	-1.1%	3.5%	-2.6%	-0.9%	–	10.4%	-0.7%
Tier I capital adequacy ratio	13.6%	-1.4%	3.5%	-2.5%	-0.8%	–	12.4%	-0.6%
Total capital adequacy ratio	18.1%	-1.8%	3.5%	-2.4%	-0.7%	0.9%	17.6%	-0.5%

Governance

Corporate Governance Framework

The Bank

The Bank's corporate bodies are the General Meeting of Shareholders ("**GMS**"), the Supervisory Board and the Management Board, each having its own responsibilities and authorities in accordance with applicable Georgian laws and the Bank's Charter (the "**Charter**"). The GMS is the highest internal governing body of the Bank and elects members of the Supervisory Board, which is responsible for supervising the Management Board. The Supervisory Board appoints the members of the Management Board, which is the executive body of the Bank directly responsible for day-to-day operations. The Bank's ultimate parent company, BoGG, determines the strategy for the Group as a whole, including the Bank. Under the Corporate Governance Code for Commercial Banks (Order # 215/04 of the President of NBG, dated 26 September 2018) (the "**Corporate Governance Code**") (as amended), commercial banks in Georgia are required to have audit and risk committees, elected within and reporting to the supervisory board, and systemically important banks are additionally required to have corporate governance, nomination and remuneration committees within their supervisory boards. As described in detail below, the Bank's Supervisory Board is assisted by five different committees composed of members of the Supervisory Board, namely: Audit and Corporate Governance Committee, Risk Committee, Nomination Committee, Special Committee and Remuneration Committee. The members of the relevant committees are elected by the Supervisory Board.

The Group

On the Group level, the BoGG Board of Directors, (which is currently comprised of the members of the Bank's Supervisory Board serving as non-executive directors, the Bank's General Director serving as Chief Executive Officer, and the Bank's Supervisory Board Chairman serving as the Chairman) (the "**BoGG Board**"), with its Audit, Risk, Nomination and Remuneration Committees, is ultimately responsible for the Group's strategy, risk management and internal controls. Interaction between the BoGG Board and the Corporate Governance Framework of the Bank is further described below.

Shareholder Engagement and Functions of GMS

Regulation of Shareholder Engagement, based on the Charter

According to the Charter, the annual GMS is convened no later than two months following the completion of an external audit of the Bank's books and in any case no later than six months from the end of the previous fiscal year.

Convention of GMS is not necessary, if a shareholder holding more than 75.0% of the Bank's voting shares passes a resolution. Such decision will be equivalent to the minutes of the GMS and is considered as a resolution of the GMS. If more than one shareholder owns more than 75.0% of shares of the Bank, convening of the general meeting of shareholders is mandatory.

If the convention of the GMS is necessary, then, the time, place and the agenda of the GMS is published in printed media at least 20 days prior to the date of such GMS. According to the Charter, the Supervisory Board determines the record date for the GMS. Shareholders holding at least 1.0% of voting shares should be notified about the GMS via registered mail. In certain cases envisaged by the applicable laws, shareholders holding smaller stakes in the Bank's equity should also receive notifications. The annual GMS discusses and adopts decisions on issues such as annual report and annual accounts, proposal(s) of the Management Board and Supervisory Board regarding distribution of dividends, bank's reserves and dividend policy and a justification of such policy by the Management Board, selection of the auditor and other subjects presented for discussion by the Management Board or the Supervisory Board as well as items put forward by the shareholders in accordance with Georgian law and the Charter.

The GMS quorum is satisfied if it is attended by the holders of at least half of the voting shares or their representatives. If there is no quorum, a new GMS shall be convened with the same agenda and within the period determined by the Supervisory Board in accordance with the procedures set by the law and the Charter. The new GMS quorum is satisfied if holders of at least 25.0% of the voting shares are present. If there is no quorum at this new GMS, a further new GMS shall be convened and such further GMS will be quorate irrespective of the number of attending and voting shareholders or their representatives.

An extraordinary GMS ("**EGM**") is convened whenever the Management Board, the Supervisory Board or a shareholder/group of shareholders holding at least 5.0% of the issued shares deems such a meeting necessary. Pursuant to the law, shareholders who individually or together hold at least 5.0% of the total issued capital may, stating

the subjects to be discussed, not earlier than one month from the last GMS, request that the Management Board convene an EGM. The Management Board shall convene such meeting no later than three months after the receipt of the request from the shareholder(s). If the only item on the agenda of the EGM requested by the shareholder(s) is the removal of one or more directors and such request is not satisfied within 20 days, the initiating shareholders are entitled to convene an EGM through notification of the shareholders via registered mail. Such EGM is quorate if attended by holders of not less than 75.0% of voting shares. If the EGM is not quorate, the shareholders may reconvene the meeting no earlier than 20 days after the date of the first EGM and the quorum requirement for this second EGM shall remain the same. If the second meeting is not quorate either, the shareholders may apply to the court of relevant jurisdiction, which shall oblige the Management Board to convene an EGM within three months following adoption of the respective court resolution.

The GMS is presided over by the chairman of the Supervisory Board or, in his absence, by the deputy chairman or any other member of the Supervisory Board. In the absence of members of the Supervisory Board, the meeting is presided over by the General Director. The minutes of the meeting are drawn up and certified by a notary.

All shareholders registered with the share registrar as of the record date of the GMS shall have the right to attend and vote (if applicable) at the meeting. Georgian law provides that holders of preferred shares are not entitled to voting rights at the GMS, unless the Charter or any relevant share issue prospectus allocates voting rights to preferred shareholders. According to the Charter, holders of preferred shares are not entitled to voting rights at the GMS. As of the date of this Report, the Bank has not issued any preferred shares. Shareholders may be represented at the GMS by a proxy.

Under Georgian law and the Charter, the matters reserved to the shareholders' authority are:

- Approval and amendment of the Charter (including, without limitation, charter capital, and change of the corporate name);
- Increase of share capital or reduction of share capital;
- Liquidation of the Bank;
- Approval of merger, division or transformation of the Bank into another legal entity;
- Full or partial cancellation of pre-emptive rights during the increase of share capital;
- Approval of Supervisory Board and Management Board proposals regarding the distribution of profits, or if these bodies cannot provide a joint proposal, making a decision about the use of net profits;
- Election or dismissal of Supervisory Board members and determination of their terms of service;
- Establishment of a code of conduct for Supervisory Board members;
- Approval of Supervisory Board and Management Board reports;
- Approval of remuneration of Supervisory Board members;
- Appointment of auditors;
- Approval of participation in litigation against Supervisory Board and Management Board members, including the appointment of a representative in such litigation;
- Approval of acquisition, sale, transfer, exchange (or such related transactions) or encumbrance of the Bank's assets, the value of which is more than 25.0% of the total assets of the Bank;
- Approval of annual accounts; and
- Other issues provided by law.

According to the Charter, decisions on all other issues are made by the Supervisory Board and the Management Board within their respective capacities.

Shareholder Meetings held and Resolutions reached during 2020

- On 30 January 2020, the shareholder owning more than 75% of the voting shares of the Bank, JSC BGEO Group approved step-down of Mr Andreas Wolf from the position of the independent member of the Supervisory Board;
- On 10 July 2020, the shareholder owning more than 75% of the voting shares of the Bank, JSC BGEO Group approved not to distribute dividends from 2019 full-year profit considering the COVID-19 pandemic outbreak impact.

Regulation of Holders of Commercial Bank Shares, based on the NBG Regulations

Pursuant to the Banking Law, a person who has been convicted of a serious or extremely serious offence, terrorism financing and/or legalisation of illicit income, or other economic crime, may not hold a significant shareholding (defined as more than 10.0% of either the authorised share capital or of the fully paid-up issued share capital held directly or indirectly) in a commercial bank. The NBG is authorised to establish additional compliance criteria for holders of a significant shareholding with a normative act.

Pursuant to the Banking Law, a person who intends to acquire shares in a Georgian bank and who, as a result of the relevant acquisition, would hold or beneficially own more than 10%, 25% or 50% of the share capital of the bank, must submit a declaration to and obtain prior approval from the NBG. Generally, the NBG should issue or deny its consent within one month from the date of submission of the declaration; however, if the information provided by the applicant is not satisfactory to the NBG, it may extend this term by up to three months.

A transaction by which a person acquires directly or indirectly more than 10% of the authorised share capital or fully paid-up issued share capital of a Georgian bank, without submission of a declaration to NBG or in case of NBG's refusal, is deemed to be null and void.

The NBG may request a bank to submit a declaration about direct/indirect or beneficial holders of more than 10% of the authorised share capital or fully paid-up issued share capital of the bank. In this case, NBG is entitled to temporarily or indefinitely suspend the voting rights of a relevant person or request that such person reduces his shareholding to 10%. The NBG is entitled to deny approval if the transaction may endanger stability of Georgia's financial sector, result in breach of requirements established by international organisations or by Georgia's international agreements or if the person wishing to acquire shares in a commercial bank fails to provide all necessary information about the origin of funds used to purchase such shares. The NBG is authorised to establish additional compliance criteria for holders of significant shareholding with a normative act.

Furthermore, according to the Banking Law, a person, or group of shareholders acting in concert, who intend to sell shares in a Georgian bank and, as a result of the relevant sale, their holding may fall below 10%, 25% or 50%, are required to notify the NBG prior to such sale and provide detailed information regarding such transaction.

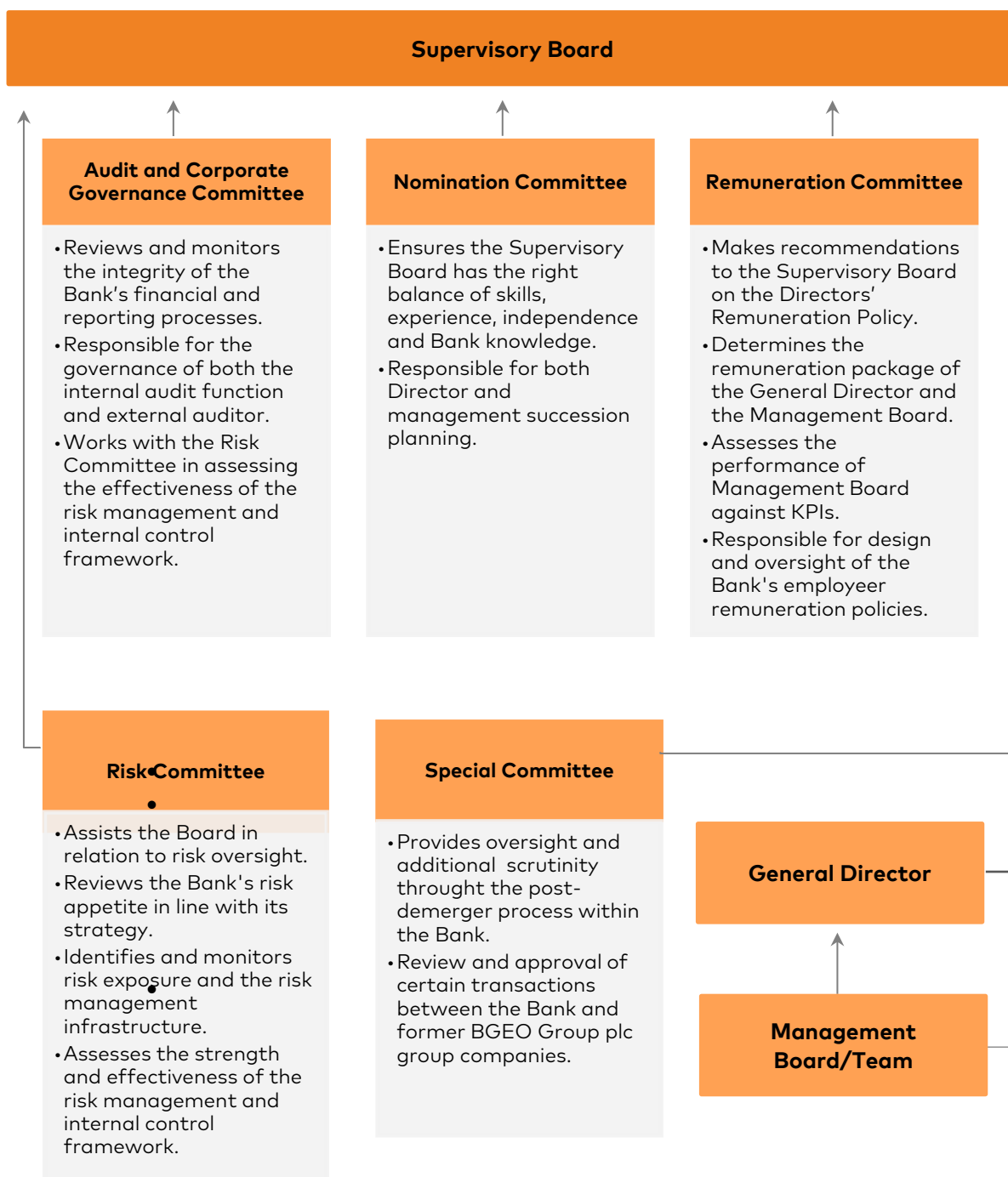
There are certain reporting obligations related to the ownership of a significant shareholding of a Georgian bank. Pursuant to the Banking Law, commercial banks are required to submit to the NBG, together with the annual report, information on the direct and beneficial holders of more than 10% of their share capital (NBG Order No. 145 of 23 May 2006 sets a lower threshold of 5%). Such information must be prepared in reliance on the information available to the commercial bank, which must also note whether or not it confirms the accuracy thereof. In addition, any person that directly or indirectly beneficially owns more than 10% of shares of a commercial bank must submit a declaration to the NBG in April of each calendar year as to the amount of its shareholdings as of 31 December of the preceding calendar year. The information on the shareholders of the Bank is provided in Ownership section of this report.

The Supervisory Board, the Committees and interaction with the BoGG Board

In accordance with the Charter and applicable Georgian laws, it is the responsibility of the Supervisory Board to supervise the Management Board of the Bank. The Supervisory Board is responsible for the Bank's overall risk management approach and for approving the Bank's risk strategies and principles, and is ultimately responsible for identifying and controlling risks. It approves the Credit Policies, which outline credit risk control and monitoring procedures and the Bank's credit risk management systems, and approves certain decisions that fall outside the scope of the respective authorities of the Credit Committees (including approval of single borrower lending exposures exceeding US\$ 35.0 million). The Management Board presents a comprehensive credit risk report and market risk report to the Supervisory Board for its review on a quarterly basis.

As at the date of this Report, the Supervisory Board consists of seven members, each of whom is elected by the GMS, subject to approval of the NBG. As at 31 December 2020, the Supervisory Board comprised seven members (details provided below). The Supervisory Board members are appointed for four-year terms, and their reappointment and term prolongation is not restricted. The Supervisory Board members are required to act in the best interests of all the shareholders of the Bank and its business when performing their duties. The Supervisory Board is assisted by five different committees, composed of members of the Supervisory Board, namely: Audit and Corporate Governance Committee, Risk Committee, Nomination Committee, Remuneration Committee and Special committee. The members of the relevant Committees are elected by the Supervisory Board. The functions of the Supervisory Board's Risk, Audit and Corporate Governance, Nomination, Remuneration and Special Committees are described below.

The chart below outlines the committees operating under the Supervisory Board and their key responsibilities.



The Supervisory Board is responsible collectively for the long-term success of the Bank and for the creation and delivery to shareholders of sustainable value through the management of the Bank's business. The Supervisory Board establishes the Bank's core values and leads by example; sets and oversees the execution of the Bank's strategy within a framework of strong and effective risk management and internal controls; and encourages a culture of corporate governance in line with best practice, amongst its many other responsibilities.

Terms of Reference and Reporting to the Supervisory Board

Each Committee has agreed terms of reference, which are reviewed annually by each Committee and any changes are approved by the Supervisory Board.

All Supervisory Board Members have a standing invitation to attend Committee meetings (rather than just limiting attendance to Committee members).

As at 31 December 2020, the Supervisory Board consisted of seven members. On 31 January 2020, Mr Andreas Wolf stepped down from the Supervisory Board.

The bios of the Supervisory Board members' and their professional backgrounds are outlined below:

■ Neil Janin

Chairman

Neil Janin was appointed as the Chairman of the Bank's Supervisory Board in September 2010 and has been subsequently re-appointed in accordance with the Charter. Mr Janin also serves as Chairman of the Bank's Nomination Committee, as well as a member of the Remuneration Committee. Mr Janin also serves as Non-Executive Chairman of BoGG plc, as well as Chairman of BoGG plc's Nomination Committee and a member of its Remuneration Committee. Mr Janin previously served as Chairman of BGEO Group plc, which included positions on BGEO Group plc's Nomination and Remuneration Committees. Mr Janin also served as a Non-Executive Director of Georgia Healthcare Group plc, from September 2015 until April 2018.

Skills and experience:

Mr Janin serves as counsel to CEOs of both for-profit and non-profit organisations and continues to provide consulting services to McKinsey & Company. In 2010, he joined the Supervisory Board of the Bank prior to which, Mr Janin was a Director of McKinsey & Company, based in its Paris office, for over 27 years, from 1982 until his retirement. At McKinsey & Company, he conducted engagements in the retail, asset management and corporate banking sectors, and was actively involved in every aspect of organisational practice, including design, leadership, governance, performance enhancement and transformation. Before joining McKinsey & Company, Mr Janin worked for Chase Manhattan Bank (now JP Morgan Chase) in New York and Paris, and Procter & Gamble in Toronto. Mr Janin has practised in Europe, Asia and North America. Mr Janin is also a Director of Neil Janin Limited, a company through which he provides his ongoing consulting services.

Education:

Mr Janin holds an MBA from York University, Toronto, and a joint honours degree in Economics and Accounting from McGill University, Montreal.

■ Hanna Loikkanen

Senior Independent Member

Hanna Loikkanen was appointed as an Independent Member of the Bank's Supervisory Board in August 2015 and as a Senior Independent Member in August 2019. Ms Loikkanen serves as a Chair of the Remuneration Committee and is also a member of the Bank's Nomination Committee and the Audit and Corporate Governance Committee. Ms Loikkanen also serves as the Senior Independent Non-Executive Director of BoGG plc. Ms Loikkanen previously served as an Independent Non-Executive Director of BGEO Group plc, which included positions on their Nomination and Risk Committees.

Skills and experience:

Ms Loikkanen has over 25 years of experience working with financial institutions in Russia and Eastern Europe. She worked at the Moscow office of a Swedish asset management company East Capital from 2007 until 2015, managing a private equity fund focusing on investments in financial institutions in the region. During this period, she served on the boards of several regional banks, with special focus on corporate governance and business development. Prior to this, Ms Loikkanen held the position of CEO at FIM Group in Russia, a Finnish investment bank, where she was responsible for setting up and running FIM Group's brokerage and corporate finance operations in Russia. Earlier in her career, Ms Loikkanen worked for Nordea Finance in various senior management positions in Poland, the Baltic States and Scandinavia with a focus on business development, strategy and business integration; for SEB in Moscow where she was responsible for the restructuring of SEB's debt capital market operations in Russia; and for MeritaNordbanken in St Petersburg where she focused on trade finance and correspondent banking. In addition to her directorships at Bank of Georgia Group plc, Ms Loikkanen serves as a Non-Executive Director, Chair of the Compensation and Remuneration Committee and a member of the Audit Committee of PJSC Rosbank, a universal bank listed on the Moscow Stock Exchange (Société Générale Group in Russia) and as a Non-Executive Director and a member of HR Committee at Finnfund, a Finnish state owned development financier. Since 2014, she has acted as Non-Executive Chairman of the Board of T&B Capital, an independent regulated wealth management company based in Helsinki.

Education:

Ms Loikkanen holds a Master's degree in Economics and Business Administration from the Helsinki School of Economics, and was a Helsinki School of Economics scholar at the University of New South Wales.

■ Tamaz Georgadze

Independent Member

Tamaz Georgadze was appointed as an Independent Member of the Bank's Supervisory Board in December 2013 and has been subsequently re-appointed in accordance with the Charter. Mr Georgadze serves as a Chairman of the Bank's Risk Committee and as a member of the Remuneration Committee and the Nomination Committee. Mr Georgadze also serves as an Independent Non-Executive Director of BoGG plc, as well as a Chairman of BoGG plc's Risk Committee and a member of the Remuneration and Nomination Committees. Mr Georgadze previously served as an Independent Non-Executive Director of BGEO Group plc, which included positions on BGEO Group plc's Audit, Nomination and Risk Committees.

Skills and experience:

In 2013, Mr Georgadze founded Raisin GmbH, a company which launched the first global deposit intermediation in Europe and he continues to serve as its CEO/Chairman. PayPal and Goldman Sachs are amongst shareholders of Raisin. Prior to founding this company, Mr Georgadze had a ten-year career at McKinsey & Company in Berlin, where he served as a Partner from 2009 to 2013. At McKinsey & Company, he conducted engagements with banks in Germany, Switzerland, Russia, Georgia and Vietnam, focusing on strategy, risk identification and management, deposit and investment products, operations and sales. Prior to joining McKinsey & Company, Mr Georgadze worked as an aide to the President of Georgia in the Foreign Relations Department from 1994 to 1995. Save for his role at Raisin GmbH, Mr Georgadze does not hold any other directorships.

Education:

Mr Georgadze holds two PhDs, one in Economics from Tbilisi State University and the other in Agricultural Economics from Justus-Liebig University Gießen, Germany. Mr Georgadze also studied Law at Justus-Liebig Universität Gießen and graduated with honours.

■ Alasdair (AI) Breach

Independent Member

Alasdair Breach was appointed as an Independent Member of the Bank's Supervisory Board in September 2010 and has been subsequently re-elected in accordance with the Charter. Mr Breach serves as a member of the Bank's Remuneration Committee, Risk Committee and the Nomination Committee. Mr Breach also serves as an Independent Non-Executive Director of BoGG plc, as well as a member of BoGG plc's Remuneration, Risk and Nomination Committees. He previously served as an Independent Non-Executive Director of BGEO Group plc, which included positions on BGEO Group plc's Remuneration, Nomination and Risk Committees.

Skills and experience:

In 2013, Mr Breach co-founded Gemsstock Limited, a UK FCA-regulated fund manager, where he also serves as an Executive Director. In 2010, Mr Breach also founded Furka Advisors AG, a Swiss-based asset management firm, and served as an Executive Director until founding Gemsstock Limited, which manages the Gemsstock Fund, which was previously called the Gemsstock Growth Fund and managed by Mr Breach at Furka Advisors AG. His previous career was in research in investment banks, principally in Russia. In January 2003, Mr Breach joined Brunswick UBS (later UBS Russia) as Chief Economist, and later was appointed Head of Research and Managing Director until October 2007. From 1998 to 2002, Mr Breach was a Russia and Former Soviet Union (FSU) economist at Goldman Sachs, based in Moscow. Mr Breach is also the co-founder of The Browser.com, a web-based curator of current affairs writing, established in 2008. Mr Breach serves as a Director of Gemsstock Limited, the Gemsstock Fund, The Browser and Furka Holdings AG, all of which are private entities. He is also an advisor to East Capital.

Education:

Mr Breach obtained an MSc in Economics from the London School of Economics and an undergraduate degree in Mathematics and Philosophy from Edinburgh University.

■ **Jonathan Muir**
Independent Member

Jonathan Muir was appointed as an Independent Member of the Bank's Supervisory Board in August 2017. He serves as the Chairman of the Bank's Special Committee and the Audit and Corporate Governance Committee and as a member of the Nomination Committee. Mr Muir also serves as an Independent Non-Executive Director of BoGG plc, as well as the Chairman of BoGG plc's Audit Committee and a member of the Nomination Committee. He previously served as an Independent Non-Executive Director of BGEO Group plc, after serving as an advisor to BGEO Group plc's Board of Directors since December 2016.

Skills and experience:

Mr Muir has over 30 years' experience working as a professional in accounting and finance. He is an executive director (CEO) of LetterOne Holdings SA and is CEO of LetterOne Investment Holdings. LetterOne is an international investment business consisting of two groups which target investments in the healthcare, energy, telecoms and technology, and retail sectors. Prior to joining LetterOne, Mr Muir was CFO (2008-2013) and Vice President of Finance and Control (2003-2008) of TNK-BP, which he joined after serving as CFO of SIDANCO, one of TNK-BP's heritage companies. Prior to this, he was a partner at the global audit and consulting company Ernst & Young (1985-2000).

Education:

Mr Muir graduated with first class honours from St. Andrews University in the UK. He is a British-qualified Chartered Accountant and a member of the Institute of Chartered Accountants of England and Wales.

■ **Cecil Quillen**
Independent Member

Cecil Quillen was appointed as an Independent Member of the Bank's Supervisory Board in June 2018. Mr Quillen also serves as a member of the Bank's Audit and Corporate Governance, Remuneration, Nomination and Special Committees. He also serves as an Independent Non-Executive Director of BoGG plc, as well as a member of BoGG plc's Audit, Remuneration and Nomination Committees.

Skills and experience:

Mr Quillen is a lawyer and a London-based U.S. partner of Linklaters LLP, the global law firm. He is the leader of the firm's U.S. securities practice. Mr Quillen works on a broad spectrum of securities and finance matters. A particular focus of his practice has been transactions in the CIS and in central and eastern Europe. Mr Quillen is an officer of the Securities Law Committee of the International Bar Association and chairs its Regulatory Affairs sub-committee and sits on the Advisory Committee for Securities Regulation in Europe of the Practising Law Institute. He is a trustee of the University of Virginia Law School Foundation. Mr Quillen became a partner of Linklaters in 1996 and was resident in the firm's New York office before transferring to the London office in 2000. He is admitted to practice in New York and the District of Columbia, and is a registered foreign lawyer in England and Wales.

Education:

Mr Quillen received his undergraduate degree from Harvard and his law degree from the University of Virginia.

■ **Véronique McCarroll**
Independent Member

Véronique McCarroll was appointed as an Independent Member of the Bank's Supervisory Board on 11 February 2019. Ms McCarroll also serves as a member of the Bank's Risk, Nomination and Special Committees. She also serves as an Independent Non-Executive Director of BoGG plc, as well as a member of BoGG plc's Risk and Nomination Committees.

Skills and experience:

Ms McCarroll has over 30 years' experience in Financial Services, with a strong focus on Corporate and Investment Banking, Risk Management and Digital banking. She is currently Deputy CEO at Orange Bank, with responsibility for finance, data office, risk and compliance, having previously headed Strategy and Innovation for Mobile Finance and Digital banking across Europe at Orange. Prior to this role, she has been an Executive Director at Crédit Agricole CIB, in charge of Strategy and Business Transformation, and has spent 19 years in consulting firms, helping large banking clients on financial matters, including as a Partner at McKinsey & Company, Oliver Wyman and Andersen/Ernst & Young. Ms McCarroll started her career with Banque Indosuez in Capital Markets in 1986, serving in various front office fixed income and then market risk management roles. Ms McCarroll also teaches Finance at Paris Dauphine University.

Education:

Ms McCarroll graduated from ESSEC (Ecole Supérieure des Sciences Economiques et Commerciales) in 1985.

Andreas Wolf was appointed as an Independent Member of the Bank's Supervisory Board on 6 December 2018. Mr Wolf also served as a member of the Bank's Audit and Corporate Governance, Nomination and Special Committees. He also served as an Independent Non-Executive Director of BoGG plc, as well as a member of BoGG plc's Audit and Nomination Committees. Mr Wolf stepped down from the Supervisory Board on 31 January 2020 due to other business commitments.

Supervisory Board Diversity and Independence

The Bank considers that diversity of skills, backgrounds, knowledge, experience, outlook and approach, geographic location, nationalities and gender is important to effectively govern the business. The Supervisory Board and its Nomination Committee, work to ensure that the Bank's Supervisory Board continues to have the right balance of skills, experience, independence and the Bank knowledge necessary to discharge its responsibilities.

The Supervisory Board believes that its size and composition are appropriate. In particular, the Supervisory Board has determined that each of its members is independent in character and judgement. Similarly, on the Bank's Supervisory Board level, each of the members is independent in character and judgement. Each of the Bank's Supervisory Board members occupies, and/or has previously occupied, senior positions in a broad range of relevant associated industries, bringing valuable external perspective to the Supervisory Board's deliberations through their experience and insight enabling them to contribute significantly to decision-making. No individual or group of individuals is able to dominate the decision-making process and no undue reliance is placed on any individual.

The Bank values diversity in all forms. At 31 December 2020, six different nationalities were represented on the Bank's Supervisory Board of seven members. The Bank is committed to sustaining and developing gender balance. At 31 December 2020, two of seven members were women; therefore, female representation on the Supervisory Board is currently 29%.

The independence of each of the Supervisory Board members is assessed and the Bank is of the opinion that each of them acts in an independent and objective manner and therefore, under the Banking Law in Georgia, is independent and free from any relationship that could affect their judgement. Each Supervisory Board member has an on-going obligation to inform the Supervisory Board of any circumstances which could impair their independence.

The Supervisory Board is also considering the implications of the recent publication of an update to the NBG's Code of Corporate Governance for Commercial Banks (which were published on 5 February 2021), although no changes need to be made before the end of 2021, and in some cases not until the end of 2022. The Supervisory Board will build any new requirements into its regular succession planning discussions, specifically in the light of the Group's commitment to the "mirror board" structure for the BoGG plc's Board of Directors and the Bank's Supervisory Board.

As the current composition of the Supervisory Board stands, two specific requirements of the updated NBG Code need to be met by 31 December 2021: the requirement that the chairman of the Supervisory Board, and the chair of the Risk Committee shall be independent - with the status of an independent member being terminated after the expiration of seven years after the initial appointment of a member of the Supervisory Board. As a result of these requirements:

- It is anticipated that Neil Janin, the Chair of the Board of Directors of BoGG plc, and of the Bank's Supervisory Board, will step down from these roles before the end of December 2021, but will remain on both Boards as a non-independent member to facilitate a smooth transition to a new Chair of the respective Boards; and
- Tamaz Georgadze, will step down as Chair of the Risk Committees of both Boards before the end of December 2021. He will continue to serve on both Boards.

The Boards have commenced their processes to consider successors to the roles of both Chair and the Chair of the Risk Committee, and further announcements will be made in due course.

Succession Planning and Supervisory Board Appointment Procedures

Members of the Supervisory Board may be appointed and dismissed at a GMS, or by the shareholder with more than 75% shareholding without a need to convene GMS according to the process defined in the Bank's charter. Banking regulations contain certain limitations as to who may become a member of the Supervisory Board, for example, a person who has been convicted of money laundering, terrorist financing or economic crime cannot be elected to the Supervisory Board of a bank. The statutory term of each Supervisory Board member is four years. The Supervisory Board as well as each holder of voting shares is entitled to make a recommendation on one or more candidates for each vacant seat of the Supervisory Board.

Furthermore, holders of shares representing in aggregate at least 20.0% of the issued share capital have the right to nominate, subject to the existence of a vacancy on the Supervisory Board, their representative to the Supervisory Board. The members of the Supervisory Board are elected by cumulative voting. A member of the Supervisory Board may serve as a member of the Management Board at the same time. The members of the Management Board may not hold a majority of the seats in the Supervisory Board. According to the Bank's Charter the Supervisory Board elects the Chairman and the Vice-Chairman from its members.

The Chairman of the Supervisory Board (or in case of his/her absence, the Vice-Chairman) convenes the Supervisory Board meetings and determines the agenda. Any member may add items to the agenda or request a meeting of the Supervisory Board. Meetings of the Supervisory Board shall be held at least once per quarter. A written notification with the respective agenda shall be sent at least eight days prior to the anticipated date of the meeting.

The Bank believes that effective succession planning mitigates the risks associated with the departure or absence of well qualified and experienced individuals. The Bank recognises this, and its aim is to ensure that the Supervisory Board and Management Board are always well resourced with the right people in terms of skills and experience, in order to effectively and successfully deliver the Bank's strategy. The Bank also recognises that continued tenure brings a depth of Bank-specific knowledge that is important to retain.

Role of the Supervisory Board

The Supervisory Board's principal duty is to promote the long-term success of the Bank by directing management towards creating and delivering sustainable shareholder value. This is accomplished by setting the Bank's strategy and overseeing its implementation by management. The Supervisory Board is accountable to shareholders for the financial performance of the Bank.

The Bank believes that the success of the implementation of its strategy requires for the strategy to be aligned with the Bank's internal governance framework. The Bank views a strong system of risk management and internal controls as essential to governance in allowing the Bank to pursue its strategy in a way that risk appetite can be set and risks identified, assessed, managed and reported effectively. By setting the tone at the top, establishing the core values of the Bank and demonstrating leadership, the Supervisory Board is able to implement the key policies and procedures the Bank has created in a manner that clearly sets an expectation that every employee acts ethically and transparently in all of his or her dealings.

The management's execution of strategy and financial performance are also monitored. While the ultimate focus is long-term growth, the Bank also needs to deliver on short-term objectives and thus seeks to ensure that management strikes the right balance between the two.

The Bank is mindful of its wider obligations and considers the impact its decisions will have on the Bank's various stakeholders, such as the employees, the shareholders, the customers and the clients, the environment and the community as a whole.

In order to ensure that the Bank meets its responsibilities, specific key decisions have been reserved for approval by the Supervisory Board. In addition, the Supervisory Board will receive reports and recommendations from time to time on any matter which it considers significant to the Bank.

Responsibilities of the Bank's Supervisory Board include:

- Supervising the activities of the Management Board;
- Appointing and dismissing the General Director and other directors, concluding and terminating service contracts with them, as well as establishing a code of conduct for the members of the Management Board;
- Approving and amending the Bank's policy and other regulatory requirements;
- Inspecting the Bank's accounts and property, including inspection of conditions of cash desk, securities and assets, personally or with the help of invited experts;
- Requesting reports of the Bank's activities from the Management Board (including information concerning associated companies and subsidiaries) and reviewing the information provided by internal audit or external inspections;
- Convening an extraordinary general meeting, if necessary;
- Reviewing annual reports and the proposals of the Management Board on profit distribution;
- Representing the Bank in proceedings against the Bank's General Director and other directors;
- Approving the annual budget;
- Electing Supervisory Board committee members;
- Making decisions in other cases provided by applicable laws; and
- Approving the decisions of the Management Board (see responsibilities of the Management Board on pages 145 and 146).

The Following are the matters reserved for the Supervisory Board's resolution only, per the Charter:

- Acquisition and disposal of a stake in other companies if the amount of such stake/share exceeds 50% (fifty percent) of the total equity of such company or the volume of the transaction exceeds 2.5% (two and a half percent) of the Bank's equity value as at the end of the previous calendar month;
- Acquisition, transfer and encumbrance of real estate and property ownership rights, if such transaction falls outside the scope of routine economic activity of the Bank and the volume of such transaction exceeds 2.5% (two and a half percent) of the Bank's equity value as at the end of the previous calendar month;
- Establishment and liquidation of branches;
- Investments, the partial or total amount of which exceeds 2.5% (two and a half percent) of the Bank's equity value as at the end of the previous calendar month;
- Borrowing funds in excess of 2.5% (two and a half percent) of the Bank's equity value as at the end of the previous calendar month;
- Securing loans, if they fall outside the scope of routine economic activity;
- Launching new banking activity(ies) or terminating or suspending existing banking activity(ies);
- Determination of general principles of business strategy and the business plan of the Bank and the development and approval of the annual budget and long-term liabilities;
- Determination of the remuneration and/or additional benefits for the Bank's top management (General Director and other management board members, and any other top managers so selected by the supervisory board);
- Appointment and discharge of trade representatives;
- Approval of agreement(s) or contract(s) pursuant to which a non-recurring expense or several-tranche expenditure of the Bank is to be made which exceeds 1% (one percent) of the Bank's equity value as at the end of the previous calendar month;
- Determination and approval of internal policies and procedures for lending, investing, foreign exchange, assets and liabilities management, their classification and adequate provisioning;
- Redemption of the Bank's shares in cases envisaged by the applicable laws or effected through share buy backs (including without limitation of the treasury shares); and
- Other activities that may be defined by the applicable laws.

Operation of the Supervisory Board

The Supervisory Board usually meets four times a year in Georgia in person. For the rest of the meetings the discussion and approval is held either through teleconference or through email correspondence. However, due to the global COVID-19 pandemic and ensuing travel restrictions, the Supervisory Board met by video conference in 2020, both for its scheduled in-person meetings and those meetings convened to monitor the impact of the COVID-19 pandemic.

At each scheduled meeting, the Supervisory Board receives reports from the Chairman, the General Director and the Chief Financial Officer on the performance and results of the Bank. The General Directors of the principal subsidiaries and the Deputy General Directors of the Bank regularly update the Supervisory Board on the performance, strategic developments and initiatives in their respective segments throughout the year. The Chief Risk Officer and General Counsel/Chief Legal Officer regularly report to the Supervisory Board. The Supervisory Board receives updates from the Bank's operating functions on internal control and risk management, compliance, internal audit, human resources and corporate responsibility matters, among others.

A regular quarterly in-person meeting will include discussion on the following topics:

- Updates from Committee Chairmen on matters discussed at the respective Committee meetings held the day before;
- The macroeconomic environment;
- Financial performance;
- Business segment performance and developments;
- A deeper dive into strategy and performance at one or more business units;
- New strategic initiatives and progress against strategy;
- Regulatory, legislative and other corporate governance updates;
- Developments in relation to principal risks and risk management.

A comprehensive assessment of the risk management framework and system of internal controls is performed at least twice a year through the Risk and Audit and Corporate Governance Committees, or the Supervisory Board. Supervisory Board meetings are, however, flexible to ensure that pressing matters, when they arise, are addressed as quickly as possible.

The Chairman meets with the General Director after each meeting to agree the follow-up actions and to discuss how effective the meeting was.

The Chairman and General Director maintain frequent contact (in person or otherwise) with each other and the other Supervisory Board members throughout the year outside of the formal meetings.

Due to the magnitude and unprecedented nature of the COVID-19 pandemic, the Supervisory Board convened on a number of occasions to discuss the impact of the pandemic. During such meetings, the Supervisory Board and its Committees considered matters including:

- the implementation of employee-focused protective measures, including providing clear communications to employees on protective measures being introduced to ensure their safety and wellbeing;
- consideration of the duty of care to customers, and how working practices could adapt to suit their needs during the changing circumstances;
- the operational and financial performance of the Bank, and consideration of its liquidity and capital position;
- the decision not to recommend a 2019 dividend;
- consideration of operational and technology solutions where adaptive measures might be needed arising from home working by employees; and
- the Bank's participation in any Georgian Government coronavirus loan schemes and engagement with the regulator on matters including the options for Georgian banks to make use of capital buffers, and updates on management's engagement with the regulator.

The Senior Independent Member supports the Chairman in his role, acts as an intermediary for other Independent Members where necessary and liaises with the Members outside of the Supervisory Board and Committee meetings. In 2020, as per good practice, the Chairman met with the Independent Members and the Senior Independent Member held a meeting with the Supervisory Board member without the Chairman.

Supervisory Board Induction, On-going Training and Professional Development

On appointment, each Supervisory Board member takes part in an induction programme, during which he or she meets members of executive management, receives information about the role of the Supervisory Board and individual members, each Supervisory Board Committee and the powers delegated to these Committees. The new member is also advised of the legal and other duties. Induction sessions are designed to be interactive and are tailored to suit the needs of the individual's previous experience and knowledge.

The Bank is committed to the continuing development of the Supervisory Board members so that they build on their expertise and develop an ever more detailed understanding of the business, markets and regulatory environment in which the Bank operates and of the evolving corporate governance framework.

All members of the Supervisory Board participated in an on-going training and professional development throughout 2020, which included briefings, development sessions and presentations by members of management, external speakers and the Bank's professional advisors. During the year, the Bank's Chief Legal Officer provided updates on regulatory and legislative changes, including the changes to the Code of Corporate Governance for the Commercial Banks as adopted by the National Bank of Georgia and related changes in appointment process and renewal of the Supervisory Board and independence criteria.

The Bank also ensures that all members of the Supervisory Board have access to the advice of the Supervisory Board Secretary as well as independent professional advice, at the Bank's expense, on any matter relating to their responsibilities.

Evaluation of the Supervisory Board Performance

The Bank's Supervisory Board continually strives to improve its effectiveness and recognises that its annual evaluation process is an important tool in reaching that goal.

Following a tender process for suitable evaluators, in 2020 the Supervisory Board engaged Farman & Partners, a specialist consultancy firm, to conduct a comprehensive review of the Supervisory Board's composition, succession planning, expertise, dynamics, management and focus of meetings, support, culture, and risk management and oversight. The evaluation was conducted via a detailed questionnaire which sought to capture both quantitative and qualitative data on the Supervisory Board's processes and behaviours, along with performance of the Committees, and also via a one to one discussion between each Supervisory Board member and the external facilitator. The results of the evaluation were discussed by the Supervisory Board both in a formal setting, and in ongoing informal discussions.

The evaluation highlighted areas in which the Supervisory Board was operating well and also identified areas of focus for the coming year. Overall, it was the view of the member that the Supervisory Board and the Committees discharge their respective responsibilities effectively, which is supported by good working relationships, both between

members, as well as between the Supervisory Board and management. Farman & Partners has no other connection with the Company.

The Supervisory Board further took part in an exercise facilitated by COCREA to ensure the ongoing culture of openness and debate between the Supervisory Board members. As part of this process, Supervisory Board members undertook an extensive one on one interview process and also a group discussion facilitated by COCREA. COCREA has no other connection with the Company.

The Supervisory Board also recognised the areas for further improvement and set objectives for 2021 to address those recommendations arising from the evaluation. Based on the evaluation, the Supervisory Board's objectives for 2021 are:

- to further improve and strengthen succession planning and diversity at the Supervisory Board and at the top levels of the organisation. This will include working closely with the Nomination Committee and HR;
- to further focus on the development of ESG matters and to create an appropriate framework for climate-related disclosures specifically; and
- to further improve Supervisory Board and Committee support processes, including improvements to the consistency in quality of Supervisory Board meeting materials.

These objectives are in addition to the priorities the Supervisory Board has set for itself with regards to culture, and the embedding of our values and business principles across all parts of the Bank. In addition, in September 2020, the Supervisory Board members met to evaluate the performance of the Chairman led by the Senior Independent member, and concluded that the Chairman continues to show effectiveness in leadership. The Chairman also met with members without the General Director present in December 2020.

The Supervisory Board was able to successfully implement the Bank's business continuity plan in response to the COVID-19 pandemic during 2020, which saw the majority of our employees move to remote working from the safety of their homes. The Bank's priority has been protecting the health and safety of all its employees and customers, and it continues to monitor best practice and Government advice and provide regular updates to employees on such matters. More detail on this can be found in Response to the COVID-19 pandemic section on pages 19 to 23 of this report.

Supervisory Board and Committee Meeting Attendance

Details of the Supervisory Board and Committee meetings attendance in 2020 are presented below.

Members	Board	Audit and Corporate Governance Committee	Nomination Committee	Remuneration Committee	Risk Committee	Special Committee
Neil Janin	8 of 8 scheduled 2 of 2 ad hoc	N/A	3/3	5/5	N/A	N/A
Alasdair Breach	8 of 8 scheduled 2 of 2 ad hoc	N/A	3/3	5/5	4/4	N/A
Tamaz Georgadze ¹	8 of 8 scheduled 1 of 2 ad hoc	N/A	3/3	5/5	4/4	N/A
Hanna Loikkanen	8 of 8 scheduled 2 of 2 ad hoc	8 of 8 scheduled 1 of 1 ad hoc	3/3	5/5	N/A	N/A
Véronique McCarroll	8 of 8 scheduled 2 of 2 ad hoc	N/A	3/3	N/A	4/4	1/1
Jonathan Muir	8 of 8 scheduled 2 of 2 ad hoc	8 of 8 scheduled 1 of 1 ad hoc	3/3	N/A	N/A	1/1
Cecil Quillen	8 of 8 scheduled 2 of 2 ad hoc	8 of 8 scheduled 1 of 1 ad hoc	3/3	5/5	N/A	1/1
Andreas Wolf ²	N/A	N/A	N/A	N/A	N/A	N/A

¹ Mr Georgadze was unable to attend one ad hoc Supervisory Board meeting due to a prior commitment; however, he provided full comments on the materials discussed to the Board ahead of the meeting.

² Mr Wolf stepped down from the Supervisory Board on 31 January 2020

Committees

The Bank's Supervisory Board has delegated authority to respective Board Committees to carry out certain tasks on their behalf, in order to operate efficiently and give the right level of attention and consideration to relevant matters, and to ensure there is independent oversight of financial, audit, internal control and risk issues, review of remuneration, while reserving the authority to approve certain key matters to the Supervisory Board, as documented in the Bank's Charter, which is reviewed annually by the Supervisory Board.

The Bank's Supervisory Board has the following Committees:

- the Audit and Corporate Governance Committee;
- the Risk Committee;
- the Nomination Committee
- the Remuneration Committee and;
- the Special Committee.

■ Audit and Corporate Governance Committee

The Audit and Corporate Governance Committee assists the Supervisory Board in relation to the oversight of the Bank's financial and reporting processes. It monitors the integrity of the financial statements and is responsible for governance around both the internal audit function and external auditor, reporting back to the Supervisory Board. It reviews the effectiveness of the policies, procedures and systems in place related to, among others, operational risks, compliance, IT and information security (including cyber-security) and works closely with the Risk Committee in connection with assessing the effectiveness of the risk management and internal control framework. The Audit and Corporate Governance Committee oversees and challenges management on its internal control and risk management systems in relation to the financial reporting process.

The rights and obligations of the Audit and Corporate Governance Committee are to:

- set the accounting and reporting rules for the Bank, supervise the compliance with such rules and inspect the Bank's books and journals through the Bank's Internal and External Audit;
- supervise the compliance of the Bank with the applicable laws;
- approve the regulations governing the Bank's Internal Audit and monitor the functioning of the Internal Audit of the Bank;
- ensure the independence of the Internal Audit from the Supervisory Board and the Management Board;
- approve the operation plan of the Internal Audit for the following fiscal year;
- review the quarterly reports of the Internal Audit, approve and present to the Supervisory Board and the Management Board audit inspections and recommendations;
- supervise the activities of the Internal Audit, ensure its compliance with quarterly and annual operation plans;
- assess the activities carried out by the director of the Internal Audit and individual auditors;
- approve the annual operations plan by quarters prepared by the Internal Audit and supervise its fulfilment;
- assess the activities of each of the employees of the internal audit service in consideration of their professional skills and their ability to work independently and make appropriate decisions;
- together with the Supervisory Board and the Management Board, ensure the cooperation of the Internal Audit with other structural units of the Bank;
- make recommendations to the Supervisory Board on the employment/dismissal of the head and deputy head of the Bank's Internal Audit, as well as on their remuneration;
- make recommendations (subject to the agreement of the head of the Internal Audit) to the Management Board on the employment/dismissal of the other staff of Internal Audit, as well as on remuneration of such staff;
- provide oversight of and interaction with the Bank's internal and external auditors and ensure their adequate functioning, independence and effective cooperation;
- frame policy on internal audit and financial reporting;
- approve, or recommend to the Supervisory Board or shareholders, the appointment, remuneration and dismissal of external auditors;
- oversee the establishment of accounting policies and practices by the Bank;
- ensure relevance of Bank's internal governance structure with the requirements and the Bank's internal rules/documents on corporate governance;
- ensure there exists an effective decision-making system inside the Bank that provides assessment of reputational risks when making decisions, as well as complying with relevant legislation and the Bank's internal standards and rules;
- take responsibilities and perform duties set by the Georgian Code of Ethics and standards of professional conduct for commercial banks;
- facilitate the activities of the external auditors; and
- submit periodic reports about its activities to the Supervisory Board.

Meetings of the Audit and Corporate Governance Committee shall be held at least once a quarter. In extraordinary cases, a meeting may be convened upon the request of the Supervisory Board. The Audit and Corporate Governance Committee passes resolutions by a simple majority of votes. The attending members do not have the right to abstain from voting.

Hanna Loikkanen, Jonathan Muir and Cecil Quillen are members of the Audit and Corporate Governance Committee of the Bank. The composition of the Audit and Corporate Governance Committee was last approved on 22 January 2019. Jonathan Muir serves as a chairman of the Audit and Corporate Governance Committee.

■ Risk Committee

The main role of the Risk Committee is in relation to the oversight of risk. It reviews the Bank's risk appetite in line with strategy, identifies and monitors risk exposure and the risk management infrastructure, oversees the implementation of strategy to address risk, reviews the Bank's risk policies on a regular basis, cooperates and monitors the activities of the Chief Risk Officer, provides recommendations to the Supervisory Board regarding the risk strategies and effectiveness of the policies and in conjunction with the Audit and Corporate Governance Committee, assesses the strength and effectiveness of the risk management and internal control framework. The Risk Committee oversees the risk exposures of the Bank and advises the Supervisory Board on risk strategy. The Risk Committee regularly reviews and approves the parameters and methodology used by the Bank to assess risk and reviews the Bank's capability to identify and manage new risk types. The Risk Committee also sets standards for accurate and timely monitoring of large exposures and certain risk types of critical importance, including, but not limited to, credit risk, market risk and operational risk.

Alasdair Breach, Tamaz Georgadze and Véronique McCarroll are members of the Risk Committee, the composition being last approved on 25 February 2019. Tamaz Georgadze serves as Chairman.

■ Nomination Committee

The Nomination Committee (recommended for systemically important banks) provides recommendations to the Supervisory Board on all new appointments of both directors and Supervisory Board members, ensures that the Supervisory Board is not dominated by any one individual or small group of individuals. The Nomination Committee is constituted to regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Supervisory Board. The committee is required to give consideration to succession planning for directors and other senior executives; and make recommendations to the Supervisory Board on new appointments of executive and non-executive directors and memberships in Supervisory Board committees. The committee also oversees the annual review of the Supervisory Board effectiveness.

Each member of the Supervisory Board also sits on the Nomination Committee, and Neil Janin serves as Chairman.

■ Remuneration Committee

The Remuneration Committee reviews and recommends to the Supervisory Board the Remuneration Policy for the General Director, Deputy General Directors and executive management to ensure that remuneration packages are designed to promote the long-term success of the Bank and to see that management is appropriately rewarded for its contribution to the Bank's performance in the context of wider market conditions and shareholder views. The Committee determines the remuneration packages for the above-listed positions along with their terms of employment and assesses the performance of executive management against KPIs. The functions of the Remuneration Committee include determining the terms and conditions of employment of the members of the Management Board and other top executives and from time to time assessing their performance. The Remuneration Committee reviews the recommendation of the General Director in respect of the total bonus pool for the Bank's employees as well as the individual bonuses for the Management Board and certain executive officers.

The members of the Bank Remuneration Committee are: Alasdair Breach (Chairman), Hanna Loikkanen, Neil Janin, Tamaz Georgadze and Cecil Quillen, the composition was last approved on 26 September 2020. Hanna Loikkanen serves as Chairman.

■ Special Committee

The Special Committee was established on 7 January 2019 in the interests of the best practices of corporate governance and provides oversight and additional scrutiny throughout the post-demerger process within the Bank. The functions of the Special Committee include general oversight of post-demerger processes, including review and approval of certain transactions between the Bank and former BGEO Group plc group companies. Jonathan Muir, Cecil Quillen and Véronique McCarroll are members of the Special Committee, the composition being last approved on 26 September 2020 and Véronique McCarroll serves as Chairman.

Terms of Reference and Reporting to the Supervisory Board

Each Committee has agreed terms of reference, which are reviewed annually by each Committee and any changes are approved by the Supervisory Board.

Interaction between the Bank's Supervisory Board and the BoGG Board

On BoGG level, the BoGG Board members are elected by BoGG Shareholders' Annual General Meeting and they are divided into "Executive" and "Non-executive" directors (the "**Non-Executive Directors**"). Eight of nine members of BoGG Board are independent non-executive members (in accordance with the UK Corporate Governance rules applicable to BoGG plc). Each of the Chairman and Non-Executive Directors has clearly defined roles within the BoGG Board structure.

On the Bank's Supervisory Board level, there are no "executive" directors, as the executive powers are carried out by the management of the Bank as exemplified below. The Supervisory Board is appointed by GMS as described above. The Supervisory Board elects its own Chairman and Committee members.

Interaction between the BoGG Board and the Supervisory Board of the Bank is further described below:

- While the BoGG Board retains ultimate responsibility for the Group's governance and management, it delegates authority for certain matters to its Committees (Audit, Nomination, Remuneration, and Risk). The Bank's Supervisory Board performs similar functions on the Bank level and maintains ultimate responsibility for the Bank's governance and management.
- The BoGG Board sets the Group strategy, oversees its implementation and sets the Group policies, which are cascaded down to key operating subsidiaries as appropriate. The BoGG Board and the Bank's Supervisory Board, respectively, monitor the BoGG management team and the Management Board's execution of strategy and financial performance in a number of ways including:
 - Regular reports at BoGG Board meetings and the Supervisory Board meetings from the Bank's General Director, Chief Financial Officer and Deputy General Directors on matters including strategy, progress against strategy and financial performance;
 - Updates at each regularly scheduled meeting of each BoGG Board Committee Chairmen and the Supervisory Board Committee Chairmen;
 - Updates at each regularly scheduled meeting on macroeconomics and business segment performance;
 - Updates at each regularly scheduled meeting of Audit and Corporate Governance Committee on Internal Audit, with serious matters reported to the BoGG Board and the Supervisory Board by the Chairman of the Audit and Corporate Governance Committee; and
 - Reviewing and approving policies in a range of areas which have relevance across the Group by the BoGG Board and for the Bank by the Supervisory Board;
- The BoGG Board has a schedule of defined matters reserved for the BoGG Board and meets at least quarterly to discuss strategic matters and business performance. The BoGG Board committees have documented terms of reference.

Succession Planning and BoGG Board/Supervisory Board Appointment Procedures

At BoGG level, the BoGG Board Nomination Committee is responsible for both Director and executive management succession planning. There is a formal, rigorous and transparent procedure for the appointment of new Directors to the BoGG Board.

BoGG's succession planning model occasionally involves the recruitment of independent external advisors to the BoGG Board and Committees. In this way, both BoGG and the Bank receive objective insight into the decision making and can judge whether an individual advisor has the requisite skills, knowledge and understanding of the Bank to be appointed as an Independent Non-Executive Director and/or Independent member of the Bank's Supervisory Board.

On appointment, Non-Executive Directors are given a Letter of Appointment that sets out the terms and conditions of their directorship, including the fees payable and the expected time commitment. Each Non-Executive Director is expected to commit approximately 25-35 days per year to the role. An additional time commitment is required to fulfil the role as BoGG Board Committee members and/or BoGG Board Committee Chairmen, as applicable. The BoGG is satisfied that all Non-Executive Directors dedicate the amount of time necessary to contribute to the effectiveness of the BoGG Board. The letters of appointment for Non-Executive Directors are available for inspection at the Company's registered office during normal business hours.

Any external appointment or other significant commitment of the Non-Executive Directors requires the prior approval of the BoGG Board. The Non-Executive Directors hold external directorships or other external positions but the BoGG Board believes they still have sufficient time to devote to their duties as a Director of BoGG and that the other external directorship positions held provide BoGG and the Bank with valuable expertise.

Management Board and Management Team

As at the date of this report the Bank's Management Board consists of the members listed below. The business address for all of the Management Board members is 29a Gagarini Street, Tbilisi 0160, Georgia.

Name ¹	Current Position
Archil Gachechiladze	General Director
Sulkhan Gvalia	Deputy General Director, Chief Financial Officer
George Chiladze	Deputy General Director, Chief Risk Officer
Levan Kulijanishvili	Deputy General Director, Chief Operations Officer
Vakhtang Bobokhidze	Deputy General Director, Information Technology, Data Analytics, Digital Channels
Mikheil Gomarteli	Deputy General Director, Mass Retail and Micro Business Banking
Eter (Etuna) Iremadze	Deputy General Director, Premium Business Banking (SOLO)
Zurab Kokosadze	Deputy General Director, Corporate Banking

In addition to the Management Board, the persons listed below are part of the Bank's senior management team:

Name	Current Position
Zurab Masurashvili	Head of SME Business Banking
Levan Gomshiashvili	Chief Marketing Officer
Nutsa Gogilashvili	Head of Customer Experience and Human Capital Management

Below are outlined the Bank's Management Board and Senior Management Team members' professional backgrounds:

■ Archil Gachechiladze

General Director

Mr Gachechiladze was appointed as General Director and CEO of the Bank and Bank of Georgia Group plc on 28 January 2019. Prior to his recent appointment, Mr Gachechiladze served as CEO of Georgian Global Utilities (formerly part of BGEO Group plc) from January 2017 to January 2019. Mr Gachechiladze joined the Bank in 2009 as Deputy General Director, Corporate Banking (2009-2013) and has since held various roles with the Bank and its holding and sister companies, such as Deputy General Director, Investment Management (2013-2015), CFO of BGEO Group (2015-2016) and Deputy General Director, Corporate and Investment Banking (2016-2017). Mr Gachechiladze has over 20 years of experience in financial services, including various senior positions in both local and international organisations, such as TBC Bank (2008-2009), Lehman Brothers Private Equity (currently Trilantic Capital Partners) (2006-2008), Salford Equity Partners (2002-2004), the European Bank for Reconstruction and Development (EBRD) (2001-2002), KPMG and the World Bank's CERMA (1998-2000). Mr Gachechiladze received his undergraduate degree in Economics from Tbilisi State University, and holds his MBA with distinction from Cornell University. He is also a CFA Charterholder and a member of the CFA Society in the United Kingdom.

■ Sulkhan Gvalia

Deputy General Director, Chief Financial Officer

Mr Gvalia was appointed as Deputy General Director, Chief Financial Officer of JSC Bank of Georgia in May 2019. Mr Gvalia has extensive experience in banking having worked in a number of senior management roles at the Bank, including Chief Risk Officer (2005-2013) and Head of Corporate Banking (2013-2016). Mr Gvalia previously served as Deputy CEO of TbilUniversalBank, prior to its acquisition by the Bank of Georgia in November 2004. Prior to his recent appointment, Mr Gvalia was the founder and CEO of E-Space Limited, Tbilisi – the only Georgian company developing the electric car charging infrastructure in Georgia. He also serves as a non-executive independent director at Inecobank (Armenia) since 2018. Mr Gvalia received a law degree from Tbilisi State University.

¹ Giorgi Pailodze stepped down from his role as the Bank's Deputy General Director, Wealth Management and Investment Banking on 31 January 2021.

■ **George Chiladze**

Deputy General Director, Chief Risk Officer

Mr Chiladze was appointed as Deputy General Director, Chief Risk Officer of JSC Bank of Georgia in September 2013. He re-joined the Bank having already served as Deputy General Director, Finance, from 2008 to 2012. From 2012 to 2013, Mr Chiladze was Deputy CEO at the Partnership Fund, and he served as general director of BTA Bank (Georgia) from 2005 to 2008. Prior to joining BTA Bank, he was an executive member of the Supervisory Board of JSC Europace Insurance Company and a founding partner of the management consulting firm, Altergroup Ltd. Mr Chiladze had previously worked in the US at the Programme Trading Desk at Bear Stearns in New York City, before returning to Georgia in 2003. Mr Chiladze received a PhD in Physics from Johns Hopkins University in Baltimore, Maryland, and an undergraduate degree in Physics from Tbilisi State University.

■ **Levan Kulijanashvili**

Deputy General Director, Chief Operations Officer

Mr Kulijanishvili was appointed as Deputy General Director, Chief Operations Officer of JSC Bank of Georgia in September 2017, prior to which he served as BGEO Group plc's CFO and as Deputy General Director, Finance of the Bank from February 2016. He has been with the Bank since 1997. During his over 20 years of service, Mr Kulijanishvili has held various senior positions, including Head of Compliance and Internal Control from 2009 (until his appointment as Deputy General Director), Finance, Head of the Internal Audit department (2000-2009), Manager of the Financial Monitoring, Strategy and Planning department (1999-2000) and Head of the Financial Analysis division (1997-1999). Mr Kulijanishvili received his undergraduate degree in Economics and Commerce from Tbilisi State University and received his MBA from Grenoble Graduate School of Business.

■ **Vakhtang Bobokhidze**

Deputy General Director, Deputy CEO, Information Technology, Data Analytics, Digital Channels

Mr Bobokhidze was appointed as Deputy General Director, Chief Information Officer of JSC Bank of Georgia in March 2018, prior to which he served as Head of IT since April 2016. Mr Bobokhidze joined the Bank in late 2005 as a Quality Control Manager through a progression of positions until he joined JSC Bank Republic in 2010. Mr Bobokhidze made his return to the Bank in December 2010 as IT Business Consultant and he currently holds the position of Deputy CEO, Information Technology, Data Analytics, Digital Channels. Mr Bobokhidze received his undergraduate and MBA degrees from Tbilisi State University.

■ **Mikheil Gomarteli**

Deputy General Director, Mass Retail and Micro Business Banking

Following the split of Retail Banking into two segments in February 2017 due to significant growth in the Retail Banking business, Mr Gomarteli assumed the role of Deputy General Director responsible for Emerging and Mass Retail Banking and Micro Business Banking of JSC Bank of Georgia. Prior to this, Mr Gomarteli had served as the sole Deputy General Director of Retail Banking since February 2009. He has been with the Bank since December 1997. During his over 25 years of service with the Bank, Mr Gomarteli has held various senior positions, including Co-Head of Retail Banking (March 2007-February 2009), Head of Business Development (March 2005-July 2005), Head of Strategy and Planning (2004-2005), Head of Branch Management and Sales Coordination (2003-2004), Head of Branch Management and Marketing (2002-2003) and Head of Banking Products and Marketing (2000-2002). Mr Gomarteli received his undergraduate degree in Economics from Tbilisi State University.

■ **Eter (Etuna) Iremadze**

Deputy General Director, Premium Business Banking (SOLO)

Ms Iremadze was appointed as Deputy General Director, Premium Business Banking of JSC Bank of Georgia in January 2021, prior to which she served as Head of Premium Business Banking since May 2019. Ms Iremadze has around 20 years of experience in financial services. She joined the Bank in 2006 and has held various senior positions, including Head of Blue Chip Corporate Banking Unit covering structured lending, M&As, significant buyouts in the country, as well as project financing. Ms Iremadze also served as Head of the Strategic Projects Department in Georgian Global Utilities (formerly part of BGEO Group plc), where she was working under the direct supervision of the CEO (2017-2019). Ms Iremadze received her undergraduate degree in Economics and Commerce from Tbilisi State University and received her MBA from Grenoble Graduate School of Business.

■ **Zurab Kokosadze**

Deputy General Director, Corporate Banking

Mr Kokosadze was appointed as Deputy General Director, Corporate Banking of JSC Bank of Georgia in January 2021, prior to which he served as Head of Corporate Banking under the direct supervision of General Director since May 2020. Mr Kokosadze has around 20 years of experience in financial services. He joined the Bank in 2003 as Junior Corporate Banker and since has held various senior positions, including Senior Corporate Banker (2006-2009), FMCG Sector Head (2009-2016), Deputy Head of Corporate Banking (2016-2017) and Head of Corporate Banking (2017-2020), under the supervision of Deputy General Director, Corporate and Investment Banking. Mr Kokosadze has been actively involved in shaping the Bank's Corporate Banking business platform since its launch. Mr Kokosadze received his undergraduate degree in business administration from Caucasus School of Business and his MBA degree from Grenoble Graduate School of Business.

■ **Zurab Masurashvili**

Head of SME Business Banking

Mr Masurashvili was appointed as Head of SME Business Banking of JSC Bank of Georgia in May 2019. Prior to this appointment, Mr Masurashvili has held several senior positions in the Bank since 2015, including Head of Express Business, Head of MSME Business and Head of Retail Business Banking. Mr Masurashvili has extensive experience in financial services. During 2002-2007, he held several positions in international organisations such as EBRD's Small Enterprise Lending Programme, the World Bank's Access to Rural Finance in Bangladesh and GTZ's Micro Finance and Reform of Rural Finance Sector. During 2007-2015, prior to joining the Bank, he served as a Deputy Chairman of the Board of Directors in JSC Privatbank. Mr Masurashvili received his undergraduate degree in Geology from Georgian Technical University.

■ **Levan Gomshiashvili**

Chief Marketing Officer

Mr Gomshiashvili was appointed as Chief Marketing Officer of JSC Bank of Georgia in May 2019. Mr Gomshiashvili has extensive experience in marketing. He started his career in Georgian Railway, covering advertising and project management. Before joining the Bank, Mr Gomshiashvili was the founder of HOLMES&WATSON, creative agency, where he acted as Account Manager for clients operating in banking, as well as other sectors. Mr Gomshiashvili is also the founder of Tbilisi School of Communication, an educational facility with an emphasis on ExEd. Mr Gomshiashvili received his MSc in Management from the University of Edinburgh.

■ **Nutsa Gogilashvili**

Head of Customer Experience and Human Capital Management

Ms Gogilashvili was appointed as Head of Customer Experience and Human Capital Management of JSC Bank of Georgia in August 2019. Ms Gogilashvili has ten years of experience in financial services, including various senior positions both in local and international organisations. She joined the Bank in May 2016 and has held various senior positions, including Head of Strategic Processes of Corporate and Investment Banking in 2016 and Head of Customer Experience Management since January 2017. Prior to joining the Bank, she served as Head of Strategic Planning and Budgeting of TBC Bank. Ms Gogilashvili had previously worked in London as analyst at JP Morgan covering several product control roles (2011-2014). Ms Gogilashvili received her MSc in Finance from Cass Business School in London and an undergraduate degree in Economics from Moscow State Institute of International Relations.

Responsibilities of the Management Board

The Management Board and the Senior Management Team of the Bank is an executive body that is responsible for the day-to-day management of the Bank (with the exception of the functions reserved to the GMS and the Supervisory Board) and by the charter, shall consist of the General Director and not less than three Deputy General Directors. The Management Board of the Bank is accountable to the shareholders and the Supervisory Board and its members are appointed and dismissed by the Supervisory Board. Any member of the Management Board shall have the right to request from any Supervisory Board member that a meeting of the Supervisory Board be called and he/she may address such meeting.

The Supervisory Board of the Bank approves the remuneration and other conditions of employment for each member of the Management Board of the Bank. Certain resolutions of the Management Board of the Bank are subject to the prior approval of the Supervisory Board of the Bank.

The Management Board is led by the General Director, who together with the Supervisory Board, allocates responsibilities of the Management Board among its members. The responsibilities of the Management Board include:

- Conduct of the Bank's day-to-day activities;
- Review of agenda items for the GMS or the Supervisory Board meetings, obtaining all the necessary information, preparing proposals and drafting resolutions;
- Drafting and presenting to the Supervisory Board for approval the business plan for the following year (such business plan to include the budget, profit and loss forecast and the Bank's investments plan);
- Review of issues in relation to lending, settlement, financing, cash services, security, accounting and reporting of cash and valuables of the Bank and internal controls;
- Decisions regarding the operation of the Bank's branches and service centers, ensuring that the branch managers and heads of service centers fulfil their tasks and functions;
- Review of the information provided by internal audit or external inspections, and the reports submitted by the branch managers and heads of service centers, making appropriate decisions;
- Ensuring the fulfilment of resolutions passed at the GMS and the Supervisory Board;
- Developing policies, by-laws and other regulatory documents, which are approved by the Supervisory Board and ensuring compliance with such policies, by-laws and regulatory documents;
- Deciding on the appointment, dismissal, training and remuneration of staff;
- Convening an extraordinary general meeting, if necessary;
- Any other issues which may be assigned to the Management Board by the Supervisory Board and/or the GMS; and
- Fulfilling the responsibilities set forth by the Bank's charter and the applicable laws.

The following activities may be carried out by the Management Board only with the approval of the Supervisory Board:

- Acquisition and disposal of a stake in other companies if the amount of such stake/shares exceeds 50.0% of the total equity of such company or the volume of the transaction exceeds 2.5% of the Bank's equity value as of the end of the previous calendar month;
- Acquisition, transfer and encumbrance of real estate and related ownership rights, if such transaction falls outside the scope of routine economic activity of the Bank and the volume of such transaction exceeds 2.5% of the Bank's equity value as of the end of the previous calendar month;
- Establishment and liquidation of branches;
- Investments, the partial or total amount of which exceeds 2.5% of the Bank's equity value as of the end of the previous calendar month;
- Borrowing funds in excess of 2.5% of the Bank's equity value as of the end of the previous calendar month;
- Securing debt financing, if such financing falls outside the scope of routine economic activity;
- Launching a new type of banking activity or terminating or suspending the existing type of banking activity;
- Adopting general principles of business strategy and the business plan of the Bank and the development and approval of the annual budget and long-term liabilities;
- Determination of the remuneration and/or additional benefits for the Bank's top management (General Director, other members of the Management Board and any other top managers so selected by the Supervisory Board);
- Appointment and dismissal of trade representatives;
- Approval of an agreement or contract pursuant to which the expenditures of the Bank (payable by single or several tranches) exceeds 1.0% of the Bank's equity value as of the end of the previous calendar month;
- Determination and approval of internal policies and procedures for lending, investing, foreign exchange, assets and liabilities management, asset valuation, their classification and adequate provisioning;
- Determination and approval of the minimal and maximal interest rates to be used on credits and deposits;
- Redemption of the Bank's shares in cases envisaged by the applicable laws, including the redemption of treasury shares;
- All exposures to a single group of borrowers over US\$25.0 million must be approved by the Supervisory Board; and
- Other activities that may be prescribed by applicable laws.

The Management Board is led by the General Director who is responsible for: (i) acting independently on behalf of the Bank (subject to any required consents from the Supervisory Board); (ii) chairing meetings of the Management Board, supervising the implementation of decisions of the Management Board, Supervisory Board and the GMS, assigning tasks to the Management Board members with the consent of the Supervisory Board and to other managers of the Bank and issuing relevant orders, instructions and other directives for these purposes; (iii) submitting for approval to the Supervisory Board, recommendations on the remuneration and bonuses of the Bank's employees; (iv) appointing and dismissing employees in accordance with the employee recruitment plan approved by the Management Board; (v) carrying out any other activity required for attaining the goals of the Bank (except those that fall within the competence of the GMS or Supervisory Board). The General Director is entitled to delegate his direct tasks to other Management Board members or the heads of the relevant departments of the Bank as deemed appropriate.

Share buybacks

During the year neither the Bank, nor the Group has acquired the shares of JSC Bank of Georgia.

Sanne Fiduciary Services Limited (the "Trustee") acts as the trustee of the Group's Executives' Equity Compensation Plan ("EECP"). The Group makes contributions to the Trustee in respect of the awards granted within EECP. JSC BGEO Group has the legal obligation to settle the awards. In granting the awards, the Bank acts as the agent of the parent and the ultimate parent.

In 2019, the Group set up Employee Equity Compensation Trustee - Sanne Fiduciary Services Limited (the "Trustee") which acts as the trustee of the Group's Employees' Equity Compensation Plan ("EECP").

In 2020, the Group contributed GEL 21.1 million (2019: GEL 51.2 million, 2018: GEL 65.4 million) as intra-group recharge under share-based compensation schemes.

Financial reporting procedures and risk management

Financial reporting procedures of the Group and the Bank are centralised and are managed and monitored by the Finance Direction of the Bank and Group Budgeting and Reporting. Each subsidiary has a designated financial reporting team. Their function and performance is coordinated and controlled by the Group Reporting team. Overall monitoring of the process is led by the Bank's CFO. The Bank's and the Group's financial reporting procedures are aimed at producing annual full set and interim condensed separate and consolidated financial statements in accordance with IFRS and EU IFRSs. In 2007, the Group issued financial reporting procedures manual, which is a set of instructions and templates prescribing the key components, key rules, procedures and deadlines for preparing financial statements. The manual is regularly updated based on the changes in the Group or in reporting standards. Process of financial reporting starts at subsidiary level. Finance department of each subsidiary prepares respective full package financial reports, which are then reviewed and finally approved by subsidiary CFOs. Financial reports and information packages of the subsidiaries are further submitted to the Group Budgeting and Reporting team, which reviews the reports and consolidates them into the Group's and the Bank's financial Statements. Consolidated full package report is reviewed and approved by the Bank's CFO.

Following the CFO approval, financial statements are reviewed by the Management Board, the Audit and Corporate Governance Committee and the Risk Committee, the Supervisory Board and external auditors. The Bank's and the Group's financial statements are authorised for issuance by the Management Board, Audit and Corporate Governance Committee and the Supervisory Board.

Internal Audit Department regularly reviews financial reports and financial statements of the Bank and the Group and provides Finance Direction and Group Reporting and Budgeting team with review points and suggestions for improvement.

Management Board statement

The Management Board is responsible for preparing the Management Report and the Separate Financial Statements in accordance with applicable law and regulations. We consider that the Management Report and the Separate Financial Statements taken as a whole, are fair, balanced and understandable and gives shareholders the information needed to assess the Bank's position and performance, business model and strategy.

By order of the Supervisory Board and Management Board:

Archil Gachechiladze
General Director
5 May 2021



Neil Janin
Supervisory Board Chairman
5 May 2021



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By order of the Supervisory Board and Management Board:

Archil Gachechiladze
General Director
5 May 2021

Neil Janin
Supervisory Board Chairman
5 May 2021

Additional Information

References

The Bank	JSC Bank of Georgia
BOGG plc	Bank of Georgia Group plc
The Board	The Board of Directors of Bank of Georgia Group plc
The Directors	Members of the BOGG Board of Directors
The Group	Bank of Georgia Group plc and its subsidiaries
The Report	Management Report of JSC Bank of Georgia
The Charter	The charter of JSC Bank of Georgia
GMS	General Meeting of Shareholders
NBG Code	The Code of Corporate Governance for the Commercial Banks, adopted by the Decree of President of the National Bank of Georgia, #215/04 of 27 September 2018, as amended.
IFRSs	International Financial Reporting Standards
Supervisory Board	Supervisory Board of the Bank
Management Board/Executive Management	Management Board of the Bank (CEO and Deputy CEOs)
CFO or Chief Finance Officer	Chief Finance Officer of the Bank
CRO or Chief Risk Officer	Chief Risk Officer of the Bank
We/Our/Us	References to "we", "our" or "us" are primarily references to the Bank throughout this Report, unless otherwise specifically indicated in this Management Report.

Glossary

Alternative performance measures (APMs) In this Report, the management uses various APMs, which they believe provide additional useful information for understanding the financial performance of the Bank. These APMs are not defined by International Financial Reporting Standards, and also may not be directly comparable with other companies who use similar measures. Management believe that these APMs provide the best representation of our financial performance as these measures are used by management to evaluate our operating performance and make day-to-day operating decisions.

Basic earnings per share Profit for the year attributable to shareholders of the Bank divided by the weighted average number of outstanding ordinary shares over the same year.

Book value per share Total equity attributable to shareholders of the Bank divided by ordinary shares outstanding at year-end; net ordinary shares outstanding equals total number of ordinary shares outstanding at year-end less number of treasury shares at yearend.

Constant currency basis Changes assuming constant exchange rate.

Cost of credit risk Expected loss for loans to customers and finance lease receivables for the year divided by monthly average gross loans to customers and finance lease receivables over the same year.

Cost of funds Interest expense of the year divided by monthly average interest-bearing liabilities.

Cost to income ratio Operating expenses divided by operating income.

Demerger Bank of Georgia Group plc combined a Banking Business and an Investment Business prior to the Group Demerger on 29 May 2018, which resulted in the Investment Business's separation from the Group effective from 29 May 2018 (the "Demerger").

Gross loans to customers throughout this Report are presented net of ECL on contractually accrued interest income.

Interest-bearing liabilities Amounts owed to credit institutions, client deposits and notes, and debt securities issued.

Interest-earning assets (excluding cash) Amounts due from credit institutions, investment securities (but excluding corporate shares) and net loans to customers and finance lease receivables.

Leverage (times) Total liabilities divided by total equity.

Liquid assets Cash and cash equivalents, amounts due from credit institutions and investment securities.

Liquidity coverage ratio (LCR) High-quality liquid assets (as defined by NBG) divided by net cash outflow over the next 30 days (as defined by NBG).

Loan yield Interest income from loans to customers and finance lease receivables divided by monthly average gross loans to customers and finance lease receivables.

NBG (Basel III) Common Equity Tier I (CET1) capital adequacy ratio Common Equity Tier I capital divided by total risk-weighted assets, both calculated in accordance with the requirements of the National Bank of Georgia 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 for the year divided by monthly average interest earning assets excluding cash for the same year.

Net loans In all sections of the Management Report, except for the audited separate financial statements, net loans are defined as gross loans to customers and finance lease receivables less allowance for expected credit loss.

Net stable funding ratio (NSFR) Available amount of stable funding (as defined by NBG) divided by the required amount of stable funding (as defined by NBG).

Non-performing loans (NPLs) The principal and interest on loans overdue for more than 90 days and any additional potential losses estimated by management.

NPL coverage ratio Allowance for expected credit loss of loans to customers and finance lease receivables divided by NPLs.

NPL coverage ratio adjusted for discounted value of collateral Allowance for expected credit loss of loans to customers and finance lease receivables plus discounted value of collateral, divided by NPLs.

Operating leverage Percentage change in operating income less percentage change in operating expenses.

Return on average total assets (ROAA) Profit for the year divided by monthly average total assets for the same year.

Return on average total equity (ROAE) Profit for the year attributable to shareholders of the Bank divided by monthly average equity attributable to shareholders of the Bank for the same year.

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

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

To the Shareholders and Supervisory Board of JSC Bank of Georgia

We expressed an unmodified audit opinion on the audited separate financial statements of JSC Bank of Georgia in our report dated 26 April 2021. The audited financial statements do not reflect the effects of events that occurred subsequent to the date our report on the audited financial statements. The effect of events described in the Management report that occurred after the date of our auditor's report on the audited financial statements were not audited by us.

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

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



Oleg Youshenkov,

On behalf of EY LLC

Tbilisi, Georgia

5 May 2021

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

To the Shareholders and Supervisory Board of JSC Bank of Georgia

We expressed an unmodified audit opinion on the audited separate financial statements of JSC Bank of Georgia in our report dated 26 April 2021. The audited financial statements do not reflect the effects of events that occurred subsequent to the date our report on the audited financial statements. The effect of events described in the Management report that occurred after the date of our auditor's report on the audited financial statements were not audited by us.

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

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

Oleg Youshenkov,

On behalf of EY LLC

Tbilisi, Georgia

5 May 2021

**Separate Financial
Statements Together with
Independent Auditor's
Report**

JSC Bank of Georgia
Separate Financial Statements

31 December 2020

Together with Independent Auditor's Report

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Independent auditor's report

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

Opinion

We have audited the separate financial statements of JSC Bank of Georgia (the Bank), which comprise the separate statement of financial position as at 31 December 2020, and the separate income statement, separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Bank as at 31 December 2020 and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the separate financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate financial statements.



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Key audit matter	How our audit addressed it
<i>Allowance for expected credit loss and application of IFRS 9 'Financial instruments'</i>	
<p>Given the significance of the allowance for expected credit loss on loans to customers to the Bank's financial position, the complexity and judgements related to the estimation of expected credit losses under newly adopted IFRS 9 Financial instruments ("IFRS 9"), we considered this area as a key audit matter.</p> <p>The impairment for loan losses is calculated using a combination of a collective provisioning model and individual loan provisions based on discounted cash flow analyses and regression-based forward-looking estimates.</p> <p>Both collective and individual provisioning depend on a number of assumptions and judgments such as:</p> <ul style="list-style-type: none"> ▶ Accounting interpretations and modelling assumptions used to build the models for calculating the expected credit loss (ECL); ▶ Allocation of loans to stage 1, 2, 3 or POCI using criteria set in accordance with IFRS 9 considering the impact of COVID-19 and related relief measures such as payment deferrals and the identification of significant increase in credit risk (SICR); ▶ Inputs and assumptions used to estimate the impact of multiple economic scenarios, particularly those influenced by COVID-19, including any changes to scenarios required through 31 December 2020; ▶ appropriateness, completeness and valuation of post model adjustments, including the risk of double counting the effects of various assumptions; ▶ Estimation of probability of default (PD), loss given default (LGD) and exposure at default (EAD), including the valuation of collateral; and ▶ Measurement of individually assessed provisions, including expected future cash flows and the valuation of collateral ▶ Accuracy and adequacy of financial statement disclosures. <p>As a consequence of the judgment involved in establishing the allowance and increased uncertainties in the current year, the use of different modelling techniques, assumptions and forecasts could produce significantly different estimates of the allowance for expected credit losses.</p>	<p>We obtained an understanding of the expected credit loss process and assessed the design and operating effectiveness of key controls, which included controls over the identification of loans to be subject to the individual allowance assessment, classification of borrowers into their respective risk grades and impairment stages, credit monitoring, data accuracy and completeness. For testing automated controls, we involved our IT specialists.</p> <p>We focused on analysis of the following areas during our audit:</p> <ul style="list-style-type: none"> • evaluating credit risk models and assumptions used to estimate key provisioning parameters, and determine expected credit losses on a portfolio basis; • assessing management's judgement in relation to the identification of significant increases in credit risk on an individual and collective basis based on quantitative and qualitative criteria; • testing allocation of loans to respective impairment stages based on predefined criteria; • testing estimated future cash flows, including collateral-sourced cash flows, in relation to significant credit-impaired loans and advances to customers. • Assessing management's judgment in relation to the evaluation of the effect of current economic situation related to COVID-19 pandemic on ECL calculation. <p>Our audit procedures included evaluation of expected credit loss methodology developed by the Bank to calculate the allowance for loans and advances to customers.</p> <p>We assessed the reasonableness of the credit risk factors and thresholds selected by the management to determine whether significant increase in credit risk has occurred on individual and collective basis. For a sample of loans, we independently assessed whether they had been allocated to the appropriate stage, considering potential indicators of significant increase in credit risk or default and the rationale for movements between stages. We evaluated consistency of application of the criteria selected by the management as of the reporting date and assessed the reasonableness of any changes made to the methodology.</p>



**Building a better
working world**

Key audit matter	How our audit addressed it
<i>Allowance for expected credit loss and application of IFRS 9 'Financial instruments'</i>	
<p>Information on the impairment of loans to customers is included in Note 9, <i>Loans to Customers</i> and Note 27, <i>Risk Management</i>, to the separate financial statements.</p>	<p>To test allowance calculated on a collective basis, with the support of our internal modelling specialists, we evaluated underlying statistical models, key inputs and assumptions used and assessed incorporation of forward-looking information in the calculation of expected credit losses. We assessed the post-model adjustments which were applied in response to model ineffectiveness and risk event overlays as a result of COVID-19. With our modelling specialists, we assessed the completeness and appropriateness of these adjustments by considering the judgment and methodology applied.</p> <p>For a sample of significant credit-impaired corporate exposures, we challenged assumptions on estimated future cash flows, including value of collateral and probabilities of expected outcomes. We focused on the calculation of ECL for those borrowers that were most affected by current economic deterioration caused by COVID-19 pandemic.</p> <p>We assessed the adequacy and appropriateness of disclosures on the impairment of loans to customers.</p>
Key audit matter	How our audit addressed it
<i>Valuation of investment properties</i>	
<p>The Bank applies the fair value model for investment properties. The Bank engaged a professional valuer to determine the fair value of its investment properties. Real estate valuations are inherently uncertain and subject to an estimation process. Furthermore, the Bank's real estate properties are located primarily in Georgia, where the secondary market is relatively illiquid, which increases the judgement involved in determining these valuations. The significance and subjectivity of these valuations make them a key audit matter.</p> <p>In 2020 the deterioration of current economic condition, caused by COVID-19 pandemic and subsequent decline in business activity increased uncertainties concerning the fair value measurement of real estate assets, including key assumptions such as future rental yields and occupancy. The lack of activity in the market also contributes to difficulties in determining appropriate fair values.</p>	<p>We engaged our Real Estate specialists to evaluate a sample of the Bank's individually significant real estate valuations. The specialists' assessment included evaluation of the competence and objectivity of the external valuers engaged by the Bank, analysis of the methods and assumptions used and testing of the data provided by the valuers. We focused on the management judgements related to the effect of deterioration of current economic situation on the valuation of real estate.</p> <p>We assessed recognition of the results of the valuations and the Bank's disclosures in relation to the valuation of investment properties.</p>

Key audit matter	How our audit addressed it
<i>Allowance for expected credit loss and application of IFRS 9 'Financial instruments'</i>	
Information on the valuation of investment properties is included to Note 3, Summary of Significant Accounting Policies, Note 11, Investment Properties, and Note 28, Fair Value Measurements, to the separate financial statements.	

Other information included in the Bank's 2020 Annual report

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

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

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

Responsibilities of management and the Audit Committee for the separate financial statements

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

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

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

Auditor's responsibilities for the audit of the separate financial statements

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

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

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

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied .



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From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Oleg Youshenkov.

Oleg Youshenkov

On behalf of EY LLC

Tbilisi, Georgia

26 April 2021

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The partner in charge of the audit resulting in this independent auditor's report is Oleg Youshenkov.

Oleg Youshenkov

On behalf of EY LLC

Tbilisi, Georgia

26 April 2021

SEPARATE STATEMENT OF FINANCIAL POSITION**As at 31 December 2020***(Thousands of Georgian Lari)*

	<i>Notes</i>	2020	2019	2018
Assets				
Cash and cash equivalents	6	1,828,236	1,933,646	1,109,388
Amounts due from credit institutions	7	1,986,555	1,600,387	1,282,764
Investment securities	8	2,419,013	1,679,450	1,864,818
Loans to customers and finance lease receivables	9	13,200,987	11,063,789	8,722,944
Accounts receivable and other loans		1,186	1,031	18,780
Prepayments		37,451	34,849	42,885
Inventories		5,795	5,719	8,377
Right-of-use assets	10	77,763	90,039	-
Investment properties	11	219,005	204,885	132,327
Property and equipment	10	330,269	322,576	294,647
Goodwill	12	33,453	33,453	33,453
Intangible assets		104,282	90,224	72,802
Investments in subsidiaries	13	151,311	151,311	158,981
Income tax assets	14	21,325	-	19,159
Other assets	15	272,568	102,622	93,942
Assets held for sale		60,859	36,285	42,408
Total assets		20,750,058	17,350,266	13,897,675
Liabilities				
Client deposits and notes	16	13,496,478	9,537,203	7,811,761
Amounts owed to credit institutions	17	2,830,706	3,479,369	2,559,277
Debt securities issued	18	1,450,598	1,998,803	1,635,929
Lease liability	10	89,812	88,535	-
Accruals and deferred income		46,318	44,070	40,038
Income tax liabilities	14	59,663	35,608	23,459
Other liabilities	15	301,287	97,957	59,721
Total liabilities		18,274,862	15,281,545	12,130,185
Equity				
Share capital	20	27,994	27,994	27,994
Additional paid-in capital		216,227	183,084	173,278
Treasury shares		(10)	(10)	(9)
Other reserves		60,848	(13,763)	33,341
Retained earnings		2,170,137	1,871,416	1,532,886
Total equity		2,475,196	2,068,721	1,767,490
Total liabilities and equity		20,750,058	17,350,266	13,897,675

Signed and authorised for release on behalf of the Management Board and the Supervisory Board:

Archil Gachechiladze

Chief Executive Officer

Sulkhan Gvalia

Chief Financial Officer

Neil Janin

Supervisory Board Chairman

26 April 2021

The accompanying Notes on pages 6 to 100 are an integral part of these financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION**As at 31 December 2020***(Thousands of Georgian Lari)*

	<i>Notes</i>	2020	2019	2018
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Signed and authorised for release on behalf of the Management Board and the Supervisory Board:

Archil Gachechiladze

Chief Executive Officer

Sulkhan Gvalia

Chief Financial Officer

Neil Janin

Supervisory Board Chairman

26 April 2021

The accompanying Notes on pages 6 to 100 are an integral part of these financial statements.

SEPARATE INCOME STATEMENT**For the year ended 31 December 2020***(Thousands of Georgian Lari)*

	<i>Notes</i>	2020	2019	2018
Interest income calculated using EIR method		1,471,673	1,330,854	1,247,608
Other interest income		516	547	2,194
Interest income		1,472,189	1,331,401	1,249,802
Interest expense		(747,925)	(581,597)	(547,293)
Deposit insurance fees		(9,106)	(6,359)	(4,847)
Net interest income	21	715,158	743,445	697,662
Fee and commission income		255,224	263,734	210,693
Fee and commission expense		(124,895)	(118,902)	(89,078)
Net fee and commission income	22	130,329	144,832	121,615
Net foreign currency gain		96,551	98,370	109,676
Net other income		40,314	15,573	3,352
Operating income		982,352	1,002,220	932,305
Salaries and other employee benefits	23	(196,663)	(201,671)	(182,360)
Administrative expenses	23	(84,612)	(85,139)	(96,698)
Depreciation, amortisation and impairment	10	(70,775)	(68,826)	(40,790)
Other operating expenses		(3,942)	(3,949)	(2,687)
Operating expenses		(355,992)	(359,585)	(322,535)
Profit from associates		782	789	1,339
Operating income before cost of risk		627,142	643,424	611,109
Expected credit loss on loans to customers	24	(236,828)	(85,970)	(137,618)
Expected credit loss on finance lease receivables	24	(8)	7	74
Other expected credit (loss) / recovery	24	(22,748)	127	(1,516)
Impairment charge on other assets and provisions		(9,514)	(10,146)	(17,040)
Cost of risk		(269,098)	(95,982)	(156,100)
Net operating income before non-recurring items		358,044	547,442	455,009
Net non-recurring items	25	(41,291)	(12,279)	(68,812)
Profit before income tax expense		316,753	535,163	386,197
Income tax expense	14	(18,032)	(57,433)	(52,895)
Profit for the year		298,721	477,730	333,302
Basic and diluted earnings per share	20	10.6747	17.0716	11.9777

The accompanying Notes on pages 6 to 100 are an integral part of these financial statements.

SEPARATE STATEMENT OF COMPREHENSIVE INCOME**For the year ended 31 December 2020***(Thousands of Georgian Lari)*

	<i>Notes</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Profit for the year		<u>298,721</u>	<u>477,730</u>	<u>333,302</u>
Other comprehensive income (loss)				
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent years:</i>				
– Net change in fair value on investments in debt instruments measured at fair value through other comprehensive income (FVOCI)	8	78,224	(40,705)	1,676
– Realised (gain) loss on financial assets measured at FVOCI		(2,965)	(6,219)	1,743
– Change in allowance for expected credit losses on investments in debt instruments measured at FVOCI reclassified to the consolidated income statement		(130)	(125)	827
Income tax impact	14	-	-	(140)
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent years		<u>75,129</u>	<u>(47,049)</u>	<u>4,106</u>
<i>Other comprehensive loss not to be reclassified to profit or loss in subsequent years:</i>				
– Revaluation of property and equipment reclassified to investment property		-	-	1,043
– Net loss on investments in equity instruments designated at FVOCI		(518)	(55)	(2,525)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent years		<u>(518)</u>	<u>(55)</u>	<u>(1,482)</u>
Other comprehensive income (loss) for the year, net of tax		<u>74,611</u>	<u>(47,104)</u>	<u>2,624</u>
Total comprehensive income for the year		<u>373,332</u>	<u>430,626</u>	<u>335,926</u>

The accompanying Notes on pages 6 to 100 are an integral part of these financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY**For the year ended 31 December 2020***(Thousands of Georgian Lari)*

	<i>Share capital</i>	<i>Additional paid-in capital</i>	<i>Treasury shares</i>	<i>Other reserves</i>	<i>Retained earnings</i>	<i>Total equity</i>
31 December 2017	27,821	140,358	(9)	29,216	1,339,166	1,536,552
Adoption of IFRS 15	-	-	-	-	(15,759)	(15,759)
Adoption of IFRS 9	-	-	-	2,719	(5,041)	(2,322)
1 January 2018	27,821	140,358	(9)	31,935	1,318,366	1,518,471
Profit for the year	-	-	-	-	333,302	333,302
Other comprehensive income for the year	-	-	-	2,624	-	2,624
Total comprehensive income for the year	-	-	-	2,624	333,302	335,926
Transfer of property and equipment revaluation reserve, net of tax	-	-	-	(3,743)	3,743	-
Increase in equity arising from share-based payments	-	82,483	-	-	-	82,483
Dividends to shareholders of the Bank (Note 20)	-	-	-	-	(120,000)	(120,000)
Sale of investments in equity instruments designated at FVOCI GCAP shares	-	-	-	2,525	(2,525)	-
Vesting of investment business shares to employees as a result of demerger	-	2,649	-	-	-	2,649
Issue of share capital (Note 20)	173	13,145	-	-	-	13,318
Contributions under share-based payment plan (Note 26)	-	(65,357)	-	-	-	(65,357)
31 December 2018	27,994	173,278	(9)	33,341	1,532,886	1,767,490
Profit for the year	-	-	-	-	477,730	477,730
Other comprehensive loss for the year	-	-	-	(47,104)	-	(47,104)
Total comprehensive income for the year	-	-	-	(47,104)	477,730	430,626
Increase in equity arising from share-based payments	-	61,114	-	-	-	61,114
Purchase of treasury shares	-	(106)	(1)	-	-	(107)
Dividends to shareholders of the Bank (Note 20)	-	-	-	-	(139,200)	(139,200)
Contributions under share-based payment plan (Note 26)	-	(51,202)	-	-	-	(51,202)
31 December 2019	27,994	183,084	(10)	(13,763)	1,871,416	2,068,721
Profit for the year	-	-	-	-	298,721	298,721
Other comprehensive income for the year	-	-	-	74,611	-	74,611
Total comprehensive income for the year	-	-	-	74,611	298,721	373,332
Increase in equity arising from share-based payments	-	54,200	-	-	-	54,200
Contributions under share-based payment plan (Note 26)	-	(21,057)	-	-	-	(21,057)
31 December 2020	27,994	216,227	(10)	60,848	2,170,137	2,475,196

The accompanying Notes on pages 6 to 100 are an integral part of these financial statements.

SEPARATE STATEMENT OF CASH FLOWS**For the year ended 31 December 2020***(Thousands of Georgian Lari)*

	<i>Notes</i>	2020	2019	2018
Cash flows from operating activities				
Interest received		1,331,561	1,301,682	1,228,822
Interest paid		(748,192)	(571,171)	(524,845)
Fees and commissions received		266,640	240,515	254,416
Fees and commissions paid		(124,895)	(118,902)	(89,078)
Net realised gain from foreign currencies		83,638	89,028	81,724
Recoveries of loans to customers previously written off	9	42,562	31,897	35,306
Cash received from (paid for) derivatives		1,601	(11,812)	-
Other income received		3,232	1,012	35,409
Salaries and other employee benefits paid		(142,463)	(145,039)	(132,469)
General and administrative and operating expenses paid		(86,520)	(66,019)	(103,783)
Cash flows from operating activities before changes in operating assets and liabilities		627,164	751,191	785,502
<i>Net (increase) decrease in operating assets</i>				
Amounts due from credit institutions		(138,730)	(203,247)	(39,100)
Loans to customers and finance lease receivables		(1,294,377)	(2,001,413)	(1,685,144)
Prepayments and other assets		8,858	27,918	(95,099)
<i>Net increase (decrease) in operating liabilities</i>				
Amounts due to credit institutions		(831,042)	831,010	(460,307)
Debt securities issued		(164,717)	(11,541)	897,650
Client deposits and notes		2,950,630	1,259,863	839,468
Other liabilities		(27,427)	22,057	17,703
Net cash flows from operating activities before income tax		1,130,359	675,838	260,673
Income tax paid		(15,302)	(26,125)	(61,699)
Net cash flows from operating activities		1,115,057	649,713	198,974
Cash flows (used in) from investing activities				
Net (purchases) sales of investment securities		(654,868)	135,718	(320,028)
Proceeds from sale of investment properties and assets held for sale		69,741	43,894	85,143
Proceeds from sale of property and equipment and intangible assets		390	5,163	1,299
Purchase of property and equipment and intangible assets		(91,849)	(90,326)	(90,046)
Dividends received		632	211	-
Net cash flows (used in) from investing activities		(675,954)	94,660	(323,632)
Cash flows (used in) from financing activities				
Repurchase of debt securities issued		(120,549)	-	-
Repayment of the principal portion of the debt securities issued		(440,410)	-	-
Proceeds from Additional Tier 1 debt securities issued		-	268,160	-
Cash payments for the principal portion of the lease liability		(8,691)	(5,959)	-
Dividends paid		(33)	(138,926)	(120,000)
Contributions under share-based payment plan (Note 26)		(21,057)	(51,202)	(65,357)
Purchase of treasury shares		-	(107)	-
Purchase of interests in existing subsidiaries		(604)	(1,088)	(1,343)
Issue of share capital (Note 20)		-	-	13,318
Net cash (used in) from financing activities		(591,344)	70,878	(173,382)
Effect of exchange rates changes on cash and cash equivalents		46,775	9,016	5,665
Effect of expected credit losses on cash and cash equivalents		56	(9)	(118)
Net (decrease) increase in cash and cash equivalents		(105,410)	824,258	(292,493)
Cash and cash equivalents, beginning of the year	6	1,933,646	1,109,388	1,401,881
Cash and cash equivalents, end of the year	6	1,828,236	1,933,646	1,109,388

The accompanying Notes on pages 6 to 100 are an integral part of these financial statements.

1. Principal activities

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

Primary business activities include providing banking services to corporate and individual customers. The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and internationally, and exchanges currencies. Its main office is in Tbilisi, Georgia. At 31 December 2020, the Bank has 211 operating outlets in all major cities of Georgia (31 December 2019: 272, 31 December 2018: 276). The Bank’s registered legal address is 29a Gagarini Street, Tbilisi 0160, Georgia. The Bank’s identification number is 204378869.

As at 31 December 2017 BGEO Group PLC (“BGEO PLC”, formerly known as Bank of Georgia Holdings PLC) was a public limited liability company incorporated in England and Wales and represented the ultimate parent company of the Bank. The shares of BGEO PLC were admitted to the premium listing segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange PLC’s Main Market for listed securities, effective 28 February 2012.

Following the NBG’s intention to regulate banks in Georgia on a standalone basis and thereby limit investment in nonbanking subsidiaries by locally regulated banking entities, the Bank completed a legal restructuring in August 2015. As a result, a new holding company was established under the laws of Georgia as a parent of the Bank by BGEO PLC – JSC BGEO Group (“JSC BGEO”).

On 3 July 2017, BGEO Group PLC announced its intention to demerge BGEO Group PLC into a London-listed banking business, Bank of Georgia Group PLC, and a London-listed investment business, Georgia Capital PLC, by the end of the first half of 2018. The demerger (hereafter referred to as “the demerger”) was completed on 29 May 2018 and as a result Bank of Georgia Group PLC (“BOGG PLC”) became the 100% owner of JSC BGEO Group, principal shareholder of the Bank. As at 31 December 2020 Bank of Georgia Group PLC represented the ultimate parent company of the Bank.

As at 31 December 2020, 31 December 2019 and 31 December 2018, JSC BGEO was the principal shareholder of the Bank:

Shareholder	<i>31 December</i> <u>2020</u>	<i>31 December</i> <u>2019</u>	<i>31 December</i> <u>2018</u>
JSC BGEO Group	79.78%	79.78%	79.78%
Bank of Georgia Group PLC	19.78%	19.78%	19.78%
Others*	0.44%	0.44%	0.44%
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

* Shares listed on the Georgian Stock Exchange.

2. Basis of preparation

General

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations issued by the International Accounting Standards Board (“IASB”) effective for 2020 reporting. These separate financial statements have been prepared in accordance with the requirements of the Order No. 6 of the Service for Accounting, Reporting and Auditing Supervision (“SARAS”), dated 21 May 2019.

On 16 April 2021, the Bank has prepared consolidated financial statements, for the year ended 31 December 2020, in accordance with International Financial Reporting Standards (“IFRS”) and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations issued by the International Accounting Standards Board (“IASB”) effective for 2019 reporting. These consolidated financial statements are available on the Bank’s official website (www.bankofgeorgia.ge).

The Bank is required to maintain records and prepare financial statements for regulatory purposes in Georgian Lari. These financial statements are prepared under the historical cost convention except for:

- the measurement at fair value of financial assets and investment securities, derivative financial assets and liabilities and investment properties;
- the measurement of inventories at lower of cost and net realisable value; and
- the measurement of non-current assets classified as held for sale at lower of cost and fair value less costs to sell.

The financial statements are presented in thousands of Georgian Lari (“GEL”), except per-share amounts and unless otherwise indicated.

2. Basis of preparation (continued)

Going concern

In adopting the going concern basis for preparing the separate financial statements, the Management Board has considered the Bank's business activities, objectives and strategy, principal risks and uncertainties in achieving its objectives, and performance. The Management Board has performed a robust assessment of the Bank's financial forecasts across a range of scenarios over a 12 months period from the reporting date, by carrying out stress testing, incorporating extreme downside scenario and reverse stress testing, which involved examining the level of disruption that may cause the Bank to fail. The assessment specifically incorporated analysis of the COVID-19 pandemic impact implications on the Bank's projected performance, liquidity, funding and capital positions. Based on this, the Management Board confirms that they have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the 12 months from the date the financial statements are authorised for issue. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern for the foreseeable future. Therefore, the financial statements continue to be prepared on the going concern basis.

Subsidiaries, associates and corporate shares with shareholdings above 10%

The separate financial statements as at 31 December 2020, 31 December 2019 and 31 December 2018 include the following subsidiaries, associates and corporate shares with shareholdings above 10%:

Subsidiaries	Proportion of voting rights and ordinary share capital held			Investments			Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition	Legal form / Status
	31 December 2020	31 December 2019	31 December 2018	31 December 2020	31 December 2019	31 December 2018						
Bank of Georgia Representative Office UK Limited	100.00%	100.00%	100.00%	-	-	-	United Kingdom	84 Brook Street, London W1K 5EH	Information Sharing and Market Research	17/8/2010	-	Limited Liability Company
Tree of Life Foundation NPO (formerly known as Bank of Georgia Future Foundation, NPO)	100.00%	100.00%	100.00%	-	-	-	Georgia	3 Pushkin Street, Tbilisi 0105	Charitable activities	25/8/2008	-	Non-profit Organization
Bank of Georgia Representative Office Hungary (a)	100.00%	100.00%	100.00%	6,886	6,282	5,194	Hungary	1054 Budapest, Szabadság tér 7, Bank Center	Representative Office	18/6/2012	-	Representative Office
Representative Office of JSC Bank of Georgia in Turkey	100.00%	100.00%	100.00%	-	-	-	Turkey	Sileyman Saha Caddesi No:48 A Blok Daire 82 Akaretler Beşiktaş 34357 İtanzul	Representative Office	25/12/2013	-	Representative Office
Georgia Financial Investments, LLC	100.00%	100.00%	100.00%	3,577	3,577	3,577	Israel	7 Menahem Begin, Ramat Gan 52681, Israel	Information Sharing and Market Research	9/2/2009	-	Limited Liability Company
Teaching University of Georgian Bank, LLC	(b)	(b)	100.00%	-	-	2,476	Georgia	#29 Mitskevichi Street, Tbilisi, 0194	Education	15/10/2013	-	Limited Liability Company
Benderlock Investments Limited	100.00%	100.00%	100.00%	58,745	58,745	58,745	Cyprus	Arch. Makariou III 58, IRIS TOWER, 8th floor, Flat/Office 702 P.C. 1075, Nicosia	Investments	12/5/2009	13/10/2009	Limited Liability Company
⇒ JSC Belarusky Narodny Bank (c)	99.98%	99.98%	99.98%	110,744	105,231	102,655	Belarus	Nezavisimosty Ave. 87A, Minsk, 220012	Banking	16/4/1992	3/6/2008	Joint Stock Company
⇒ BNB Leasing, LLC	99.90%	99.90%	99.90%	11	11	10	Belarus	Nezavisimosty Ave. 87A, room 3, Minsk, 220012	Leasing	30/3/2006	3/6/2008	Limited Liability Company
Georgian Leasing Company, LLC	100.00%	100.00%	100.00%	22,414	22,414	22,414	Georgia	3-5 Kazbegi Str., Tbilisi	Leasing	29/10/2001	31/12/2004	Limited Liability Company
⇒ Prime Leasing	100.00%	100.00%	100.00%	2	2	2	Georgia	Dadube-Chugureti district, №114, Ak. Tsereteli Ave., Tbilisi	Leasing	27/1/2012	21/1/2015	Limited Liability Company

Associates	Proportion of voting rights and ordinary share capital held			Investments			Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition	Legal form / Status
	31 December 2020	31 December 2019	31 December 2018	31 December 2020	31 December 2019	31 December 2018						
JSC Credit info (d)	21.08%	21.08%	21.08%	13,099	12,949	12,371	Georgia	2 Tarkhishvili St., Tbilisi, Georgia	Financial intermediation	14/2/2005	14/2/2005	Joint Stock Company

Investment securities, corporate shares	Proportion of voting rights and ordinary share capital held			Investments			Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition	Legal form / Status
	31 December 2020	31 December 2019	31 December 2018	31 December 2020	31 December 2019	31 December 2018						
JSC United Clearing Center	16.67%	16.67%	16.67%	108	108	108	Georgia	5/1 Sulikhan-Saba St., Tbilisi, Georgia	Electronic payment services	22/07/2008	15/09/2008	Joint Stock Company

(a) The investment has been fully impaired in the separate financial statements as at 31 December 2020 and 31 December 2019.

(b) JSC Bank of Georgia sold its investment in Teaching University Georgian Bank in 2019.

(c) The presented amount is the total of investments made directly by JSC Bank of Georgia and Benderlock Investments Limited, at GEL 66,575 and GEL 44,169, respectively.

(d) JSC Credit info initial investment amounted to GEL 95, which has been increased to GEL 9,720 as a result of investment re-measurement to fair value, when an equity investment became an associate. The share of the investment's profits or losses has also been recognised in the income statement.

3. Summary of significant accounting policies

Mergers with subsidiaries and goodwill

The investment in the subsidiary is initially measured at cost. Giving up the shares for the underlying assets is essentially a change in perspective of the parent of its investment, from a 'direct equity interest' to 'the reported results and net assets.' Hence, at the date of legal merger the values recognised in the combined financial statements become the cost of these assets for the parent. The acquired assets (including investments in subsidiaries, associates, or joint ventures held by the merged subsidiary) and assumed liabilities are recognised at the carrying amounts in the combined financial statements as of the date of the legal merger. This includes any associated goodwill, intangible assets, or other adjustments arising from measurement at fair value upon acquisition that were recognised when the subsidiary was originally acquired, less the subsequent related amortisation, depreciation, impairment losses, as applicable.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Bank are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment as defined in IFRS 8 "Operating Segments".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses cannot be reversed in future periods.

Investments in subsidiaries

Investments in subsidiaries, including those acquired through common control transactions, are measured at acquisition cost less impairment losses, if any.

Investments in associates

Associates are entities in which the Bank generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Bank's share of net assets of the associate. The Bank's share of its associates' profits or losses is recognised in the separate income statement, and its share of movements in reserves is recognised in other comprehensive income. However, when the Bank's share of losses in an associate equals or exceeds its interest in the associate, the Bank does not recognise further losses, unless the Bank is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When an equity investment becomes an associate, the investment is re-measured to fair value and any gain or loss previously recognised in other comprehensive income is reclassified in profit or loss.

3. Summary of significant accounting policies (continued)

Fair value measurement

The Bank measures financial instruments, such as trading and investment securities, certain loans to customers, derivatives and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 28.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets and liabilities

Classification and measurement for financial assets and liabilities

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

- fair value through profit or loss (FVPL);
- fair value through other comprehensive income (FVOCI) with recycling to profit or loss upon disposal for debt instruments;
- fair value through other comprehensive income (FVOCI) without recycling to profit or loss for equity instruments; and
- amortised cost.

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Classification and measurement for financial assets and liabilities (continued)

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL if they are held for trading.

Embedded derivatives are not separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms.

All derivative instruments are measured at FVPL.

Measurement of financial instruments at initial recognition

When financial instruments are recognised initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Bank determines that the fair value at initial recognition differs from the transaction price, then:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Bank recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Bank recognises that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

Subsequent measurement of financial instruments

➤ *Financial instruments measured at amortised cost*

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

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

The details of these conditions are outlined below.

Business model

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The business model is not assessed on an instrument by instrument basis, but at a higher level of aggregated portfolios per instrument type and is based on the following observable factors:

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and
- How financial assets held within particular business model are evaluated and reported to key management personnel.

There are three business models available under IFRS 9:

- Hold to collect: it is intended to hold the asset to maturity to earn interest, collecting repayments of principal and interest from the counterparty.
- Hold to collect and sell: this model is similar to the hold to collect model, except that the entity may elect to sell some or all of the assets before maturity as circumstances change or to hold the assets for liquidity purposes.
- Other: all those models that do not meet the 'hold to collect' or 'hold to collect and sell' qualifying criteria.

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Subsequent measurement of financial instruments (continued)

- *Financial instruments measured at amortised cost (continued)*

Solely Payments of Principal and Interest (SPPI)

If a financial asset is held in either to a 'hold to collect', or a 'hold to collect and sell' business model, then the Bank assesses whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding at initial recognition to determine the classification. The SPPI test is performed on an individual instrument basis.

Contractual cash flows that represent solely payments of principal and interest on the principal amount outstanding are consistent with basic lending arrangements. Interest is consideration for the time value of money and the credit risk associated with the principal amount outstanding during a particular period of time. It can also include consideration for other basic lending risks (e.g. liquidity risk) and costs (e.g. administrative costs) associated with holding the financial asset for a particular period of time, and a profit margin that is consistent with a basic lending arrangement.

In assessing whether the contractual cash flows are SPPI, the Bank considers whether the contractual terms of the financial asset contain a term that could change the timing or amount of contractual cash flows arising over the life of the instrument which could affect whether the instrument is considered to meet the SPPI test.

If the SPPI test is failed, such financial assets are measured at FVTPL with interest earned recognised in other interest income.

- *Debt instruments at FVOCI*

The Bank measures debt investment securities at FVOCI when both of the following categories are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows, selling financial assets and holding such financial instruments for liquidity management purposes.
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt investment securities are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

- *Equity instruments at FVOCI – option*

Upon initial recognition, the Bank may elect to classify irrevocably its equity instruments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument by instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss. Equity instruments at FVOCI are not subject to impairment assessment.

- *Financial assets at FVTPL*

Groups of financial assets for which the business model is other than 'hold to collect' and 'hold to collect and sell' are measured at FVTPL.

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Subsequent measurement of financial instruments (continued)

➤ *Derivatives recorded at fair value through profit or loss*

The Bank enters into derivative transactions with various counterparties. These include interest rate swaps, Forwards and other similar instruments. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Net changes in the fair value of derivatives are included in net gain / loss from financial instruments measured at FVTPL, excluding gain/loss on foreign exchange derivatives which are presented in net foreign currency gain. From the beginning of 2019, the Bank enters into certain cross-currency swap agreements to match its funding costs in certain currencies with the income generated from lending activities in these currencies. As a result, the Bank economically hedges the interest rate risk, however no hedge accounting under IFRS 9 is applied. Net changes in the fair value of such derivative financial instruments, which are presented in net foreign currency gain, excludes unwinding of the locked-in interest differential which is presented as part of interest expense to reflect risk management objective of the Bank.

➤ *Financial guarantees, letters of credit and other financial commitments*

Financial guarantees, letters of credit and other financial commitments are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised, less cumulative amortisation recognised in the income statement and an ECL provision.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the separate statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from central banks, excluding obligatory reserves with central banks, and amounts due from credit institutions that mature within 90 days of the date of origination, and are free from contractual encumbrances and readily convertible to known amounts of cash.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions and amounts due to customers (including promissory notes issued). These are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost, using the effective interest method. Gains and losses are recognised in the separate income statement when the borrowings are derecognised as well as through the amortisation process.

Issued Additional Tier 1 instruments with perpetual maturity and discretionary interest payments are classified as financial liabilities when the instruments are not convertible into equity and the Bank does not have unconditional right to avoid delivering cash upon a predetermined trigger event. Such instruments are measured at amortised cost with respective interest presented as part of interest expense in the separate income statement.

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the separate income statement.

Subordinated debt

Subordinated debt represents long-term funds attracted by the Bank on the international financial markets or domestic market. The holders of subordinated debt would be subordinate to all other creditors to receive repayment of debt in case of the Bank's liquidation. Subordinated debt is carried at amortised cost.

3. Summary of significant accounting policies (continued)

Leases (policy applicable as at 1 January 2019)

The Bank as a lessee

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Bank considers the commencement date of the lease the date on which the lessor makes an underlying asset available for use to the Bank. If the lease contract contains several lease components, the Bank allocates the consideration in the contract to each lease component on the basis of their relative standalone prices and accounts for them separately.

The Bank's main leasing activities include the leases of service centres and ATM spaces. A non-cancellable lease period is up to ten years. Lease payments are fixed in most cases. The contracts don't generally carry extension or termination options for the lease term and do not impose any covenants.

➤ *Recognition of right-of-use asset and lease liability*

The Bank recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimated dismantling costs, if any. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term. The Bank applies the cost model to right-of-use assets, except for those assets that would meet the definition of investment property, in which case the revaluation model would be applied.

The lease liability is initially measured at the present value of the future lease payments excluding payments for VAT, discounted using the Bank's incremental borrowing rate (IBR). The lease liability is subsequently measured at amortised cost using the IBR.

➤ *Recognition exemptions*

The Bank applies the recognition exemptions on lease contracts for which the lease term ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

➤ *Modifications of lease contracts*

If the lease contract is modified by either changing the scope of the lease, or the consideration for a lease that was not part of the original terms and conditions of the lease, the Bank determines whether the modification results in:

- a separate lease; or
- a change in the accounting for the existing lease.

The Bank accounts for a lease modification as a separate lease when both of the following conditions are met:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases commensurate with the standalone price for the increase in scope and any adjustments to that standalone price reflect the circumstances of the particular contract.

For the lease modifications that are not accounted as separate leases, the Bank re-measures the lease liability by:

- decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The Bank recognises in profit or loss any gain or loss relating to the partial or full termination of the lease; or
- making a corresponding adjustment to the right-of-use asset for all other lease modifications.

The Bank as a lessor

At the inception of the lease, the Bank classifies each of its leases as either an operating lease or a finance lease.

➤ *Finance lease*

Leases that transfer substantially all the risks and benefits incidental to ownership of the lease item to the lessee are classified as finance leases. All other leases are classified as operating leases. The Bank recognises finance lease receivables in the separate statement of financial Position at a value equal to the net investment in the lease, starting from the date of commencement of the lease term. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease. Initial direct costs are included in the initial measurement of the finance lease receivables. Lease payments received are apportioned between the finance income and the reduction of the outstanding lease receivable. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding.

3. Summary of significant accounting policies (continued)

Leases (policy applicable as of 1 January 2019)

➤ *Operating lease*

The Bank presents assets subject to operating leases in the separate statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the separate income statement on a straight-line basis over the lease term as net other income. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset. Lease accounting policy applicable before 1 January 2019 can be found in the previous year separate financial statements.

Impairment of financial assets

Overview of the ECL principles

The Bank records an allowance for expected credit loss for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial assets'. Equity instruments are not subject to impairment under IFRS 9.

The allowance is based on the ECL associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit-impaired, the allowance is based on the change in the lifetime ECL.

The Bank applies the simplified approach for trade, lease and other receivables and contract assets and records lifetime expected losses on them.

In order to calculate ECL, the Bank first evaluates individually whether objective evidence of impairment exists for loans that are individually significant. It then collectively assesses loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment available under the individual assessment.

Staged approach to the determination of expected credit losses

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

- Stage 1: The Bank recognises a credit loss allowance at an amount equal to 12-month expected credit losses. This represents the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, assuming that credit risk has not increased significantly after initial recognition. For those financial assets with a remaining maturity of less than 12 months, a probability of default (PD) is used that corresponds to the remaining maturity.
- Stage 2: The Bank recognises a credit loss allowance at an amount equal to lifetime expected credit losses (LTECL) for those financial instruments which are considered to have experienced a significant increase in credit risk since initial recognition. This requires the computation of ECL based on lifetime probability of default (LTPD) that represents the probability of default occurring over the remaining lifetime of the financial instrument. Allowance for credit losses are higher in this stage because of an increase in credit risk and the impact of a longer time horizon being considered compared with 12 months in Stage 1. Financial Instruments in stage 2 are not yet deemed to be credit-impaired.
- Stage 3: If the financial instrument is credit-impaired, it is then moved to Stage 3. The Bank recognises a loss allowance at an amount equal to lifetime expected credit losses, reflecting a PD of 100% for those financial instruments that are credit-impaired.

Financial instruments within the scope of the impairment requirements of IFRS 9 are classified into one of the above three stages. Unless purchased or originated credit-impaired, newly originated assets are classified as Stage 1 and remain in that stage unless there is considered to have been a significant increase in credit risk since initial recognition, at which point the asset is reclassified to Stage 2.

Purchased or originated credit-impaired (POCI) assets are financial instruments that are credit-impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit adjusted EIR (CAEIR). CAEIR takes into account all contractual terms of the financial asset and expected credit losses. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses where ECLs are calculated based on lifetime expected credit loss. Once the financial asset is recognised as POCI, it retains this status until derecognised.

Key judgements and estimates used under IFRS 9 are disclosed in Note 4.

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities

Derecognition of financial assets

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

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

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank’s continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Derecognition and modification of financial assets

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of financial assets. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms, based on qualitative and quantitative criteria. The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, except for cases when renegotiation of contractual terms happens due to financial difficulties of the borrower. Once the financial asset is derecognised, the difference is recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to derecognise a financial instrument, the Bank considers the following factors:

- change in currency of the loan;
- change in interest rate type;
- introduction of an equity feature;
- change in counterparty;
- if the modification is such that the instrument would no longer meet the SPPI criterion.

If the terms are not substantially different, or the renegotiation is due to the financial difficulties of the borrower, such renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in interest income. The new gross carrying amount is calculated by discounting the modified cash flows at the original effective interest rate.

Forbearance and modified loans

The Bank sometimes makes concessions or modifications to the original terms of the loans as a response to the borrower’s financial difficulties, rather than taking possession or otherwise enforcing collection of collateral. The Bank considers a loan forbore when such concessions or modifications are provided as a result of the borrower’s present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. Once the asset has been identified as forbore, the assets are classified in Stage 3. The decision as to how long the asset remains in the forbore category is determined on a case-by-case basis for commercial and SME loans, when a minimum six consecutive payments are required for the rest of the loans to exit from the forbearance category and transfer to Stage 2. Once the loan is transferred to Stage 2, the Bank continues to reassess whether there has been a significant increase in credit risk, however, such assets remain in Stage 2 for a minimum 12-month probation period before being transferred to Stage 1. Certain overlays to the above rules were introduced as a result of mass scale restructurings of loan contracts in 2020 triggered by COVID-19. For details see Note 4.

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Derecognition of financial liabilities

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

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

Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Non-current assets held for sale and discontinued operations

The Bank classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification are regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Immediately before the initial classification of the asset as held for sale, the carrying amount of the asset is measured in accordance with applicable IFRSs.

Property and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately from other assets and liabilities in the statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or;
- is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss. Net cash flows attributable to the operating, investing and financing activities of discontinued operations are presented separately in the separate statement of cash flows.

Taxation

The current income tax expense is calculated in accordance with the regulations in force in the respective territories in Georgia.

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

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

3. Summary of significant accounting policies (continued)

Taxation

Deferred tax liabilities are provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Investment properties

Investment property is land or building or a part of a building held to earn rental income or for capital appreciation and which is not used by the Bank.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Bank's investment property is determined on the basis of various sources including reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category. With regards to certain investment properties with repurchase option granted to previous owners, fair value of the property at the reporting date is capped at repurchase price.

Gains and losses resulting from changes in the fair value of investment property as well as earned rental income are recorded in the income statement within net other income.

If an investment property becomes owner-occupied, it is reclassified to property and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated. If an investment property satisfies asset held for sale criteria, it is reclassified to the assets held for sale category.

Property and equipment

Property and equipment is carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of the equipment when that cost is incurred if the recognition criteria are met.

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

Depreciation of an asset commences from the date the asset is ready and available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Office buildings and service centres	Up to 100
Furniture and fixtures	3-20
Computers and equipment	5-10
Motor vehicles	2-7

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

Assets under construction are stated at cost and are not depreciated until the time they are available for use and reclassified to their respective group of property and equipment.

Leasehold improvements are depreciated over the shorter life of the related leased asset and the expected lease term.

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

3. Summary of significant accounting policies (continued)

Intangible assets

The Bank's intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The economic lives of intangible assets are assessed to be finite and amortised over four to 15 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Bank can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete the asset and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during the development. Other research and software development costs are recognised as an expense as incurred.

Provisions

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

Share-based payment transactions

Employees (including senior executives) of the Bank receive share-based remuneration, whereby they render services and receive equity instruments of the Bank ("equity-settled transactions") as consideration for the services provided.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted.

The cost of equity-settled transactions is recognised together with the corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest. The separate income statement charge or credit for the period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for the awards that do not ultimately vest except for the awards where vesting is conditional upon market conditions which are treated as vesting irrespective of whether the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of the modification.

Where a new equity-settled award is designated as a replacement of a cancelled equity-settled award, the replacement of equity instruments are accounted for as a modification.

Where an equity-settled award is cancelled, it is treated as if it has vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as the replacement award on the date that it is granted, the cancelled and the new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

3. Summary of significant accounting policies (continued)

Equity

Share capital

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

Treasury shares

Where the Bank purchases the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at par value, with adjustment of premiums against additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the separate financial statements are authorised for issue. All expenses associated with dividend distribution are added to dividend amount and recorded directly through equity.

Contingencies

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

Income and expense recognition

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

Interest and similar income and expense

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

For financial instruments in Stage 1 and Stage 2, the Bank calculates interest income by applying the effective interest rate (EIR) to the gross carrying amount. Interest income for financial assets in Stage 3 is calculated by applying the EIR to the amortised cost (i.e. the gross carrying amount less credit loss allowance). For financial instruments classified as POCI only, interest income is calculated by applying a credit adjusted EIR to the amortised cost of these POCI assets. The Bank presents interest revenue calculated using the EIR method separately in the income statement.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee and commission income is recognised when the Bank satisfies a performance obligation. Fee income can be divided into the following categories:

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

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission incomes and asset management, custody, package services on bundled products and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn-down and other credit-related fees are deferred (together with any incremental costs), and recognised as an adjustment to the effective interest rate on the loan.

3. Summary of significant accounting policies (continued)

Income and expense recognition (continued)

Customer loyalty programme

Customer loyalty programme points accumulated in the business are treated as deferred revenue and recognised in revenues gradually as they are earned. The Bank recognises gross revenue earned from customer loyalty programmes when the performance obligation is satisfied, i.e. when the customer redeems the points or the points expire, where the Bank acts as a principal. Conversely, the Bank measures its revenue as the net amount retained on its account representing the difference between the consideration allocated to the award credits and the amount payable to the third party for supplying the awards as soon as the award credits are granted, where the Bank acts as an agent. At each reporting date, the Bank estimates the portion of accumulated points that is expected to be utilised by customers based on statistical data. These points are treated as a liability in the statement of financial position and are only recognised in revenue when points are earned or expired.

Performance obligations satisfied at a point in time

Fees and commissions earned from providing transaction-type services such as settlement, brokerage, cash and currency conversion operations are recognised when the service has been completed, provided such fees and commissions are not subject to refund or another contingency beyond the control of the Bank. Fees from currency conversion operations represent additional commission (other than currency dealing revenue recognised in net foreign currency gain) charged on currency conversion service provided to customers on cards used abroad.

Dividend income

Dividend revenue is recognised when the Bank's right to receive the payment is established.

Non-recurring items

The Bank separately classifies and discloses those income and expenses that are non-recurring by nature. The Bank defines non-recurring income or expense as an income or expense triggered by, or originated from, an economic, business or financial event that is not inherent to the regular and ordinary business course of the Bank and is caused by uncertain or unpredictable external factors that cannot be reasonably expected to occur in the future, and thus should not be taken into account when making projections of future results.

Functional, reporting currencies and foreign currency translation

The separate financial statements are presented in Georgian Lari, which is the Bank's presentation currency. The Bank's functional currency is Georgian Lari. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the separate income statement as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in the income statement.

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing). The official NBG exchange rates at 31 December 2020, 31 December 2019 and 31 December 2018 were:

	<i>Lari to GBP</i>	<i>Lari to USD</i>	<i>Lari to EUR</i>	<i>Lari to BYN</i>
31 December 2020	4.4529	3.2766	4.0233	1.2647
31 December 2019	3.7593	2.8677	3.2095	1.3639
31 December 2018	3.3955	2.6766	3.0701	1.2418

3. Summary of significant accounting policies (continued)

Functional, reporting currencies and foreign currency translation (continued)

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations, and translated at the rate at the reporting date.

Adoption of new or revised standards and interpretations

Amendments effective from 1 January 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. This results in accounting for the concession as variable lease payments in the period(s) in which payment reduction occurred. The amendment is effective for annual reporting periods beginning on or after 1 June 2020 with early application permitted.

The Bank has early adopted the Amendment.

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 Bank’s separate financial statements.

Standards issued but not yet effective

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

IFRS 9 Financial Instruments – Fees in the “10%” test for derecognition of financial liabilities

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

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

3. Summary of significant accounting policies (continued)

Adoption of new or revised standards and interpretations (continued)

Standards issued but not yet effective (continued)

Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

In August 2020 the IASB issued Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, (IBOR reform Phase 2) to address the accounting issues which arise upon the replacement of an IBOR with a RFR.

The amendment includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free rate (RFR).

Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis. The amendments apply for annual periods beginning on or after 1 January 2021. Earlier application is permitted.

The Bank is currently working on the transition and will apply amendment from its effective date 1 January 2021.

Other standards issued but not yet effective have no material impact on the Bank's separate financial statements.

4. Significant accounting judgements and estimates

In the process of applying the Bank's accounting policies, the Board of Directors and management use their judgement and make estimates in determining the amounts recognised in the separate financial statements. The most significant judgements and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the separate 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 28).

Measurement of fair value of investment properties

The fair value of investment properties is determined by independent, professionally qualified appraisers. Fair value is determined using a combination of the internal capitalisation method (also known as discounted future cash flow method) and the sales comparison method.

The Bank 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. 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 Bank hired independent valuator to perform the valuation of its assets. Results of this valuation are presented in Note 11, while valuation inputs and techniques are presented in Note 28. The Bank's properties are spread across the different parts of the country. While the secondary market in Georgia provides adequate market information for fair value measurements for small and medium-sized properties, valuation of large properties involves application of various observable and unobservable inputs to determine adjustments to the available comparable sale prices. These estimates and assumptions are based on the best available information, however actual results could be different.

Allowance for financial assets

IFRS 9 requires management to make a number of judgements, assumptions and estimates that affect the allowance for ECL. Estimates and judgements are based on management's knowledge and historical experience.

The impact of COVID-19 resulted in the application of further judgement within those areas due to the limited recent experience of the economic and financial impacts of such an event. Given the unprecedented nature of the COVID-19 pandemic and the uncertainties associated with it, the Bank reconsidered the existing accounting judgements and estimates and applied management overlays to the methodology. As a result, the Bank has made a number of changes in the significant judgements that were applied as at the end of the previous reporting date. A summary of the key judgements made by management is set out below.

4. Significant accounting judgements and estimates (continued)

Definition of default, credit-impaired and cure (Note 27)

The Bank's definition of default is based on quantitative and qualitative criteria. The definition may differ across products. The definition is consistent with the definition used for internal credit risk management purposes and it corresponds with internal financial instrument risk classification rules. A counterparty is classified as defaulted at the latest when payments of interest, principal or fees are overdue for more than 90 days or when bankruptcy, fraud, insolvency proceedings of enforced liquidation have commenced, or there is other evidence that the payment obligations will not be fully met. The determination of whether a financial instrument is credit-impaired focuses on default risk, without taking into consideration the effects of credit risk mitigations such as collateral or guarantees.

An instrument is classified as credit-impaired if the counterparty is defaulted and/or the instrument is POCI.

Once the financial asset is classified as credit-impaired (except for POCIs) it remains as such unless all past due amounts have been rectified or there is general evidence of credit recovery. A minimum period of six consecutive months' payment is applied as exit criteria to financial assets restructured due to credit risk other than corporate loan portfolio and debt instruments measured at FVOCI, where exit criteria are determined as exit from bankruptcy or insolvency status, disappearance of liquidity problems or existence of other general evidence of credit recovery assessed on individual basis. For other credit-impaired financial instruments, exit criteria is determined as repayment of the entire overdue amount other than through refinancing or foreclosure.

Once a credit-impaired financial asset meets default exit criteria, it remains in Stage 2 at least for the next 12 consecutive months. In case no default status is assigned during the 12 consecutive months, it is transferred to Stage 1 if its credit risk is not significantly higher than at origination date.

Significant increase in credit risk (SICR)

A significant increase in credit risk is not a defined term per IFRS 9, and is determined by management, based on their experience and judgement. In assessing whether the credit risk has significantly increased, the Bank has identified a series of qualitative and quantitative criteria based on undertaking the holistic analysis of various factors including those which are specific to a particular financial instrument or to a borrower as well as those applicable to particular sub-portfolios. These criteria are:

- A significant increase in credit risk, expressed in the relative and/or absolute increase in the risk of default since initial recognition. SICR is determined based on comparison between credit risk ratings (internal or external) as of the origination date and credit risk ratings as of the reporting date for each financial asset individually. Thresholds are determined separately for corporate, retail and SME and other financial instrument portfolios, depending on initial grade assigned at origination.
- Existence of forecast of adverse changes in commercial, financial or economic conditions that adversely affect the creditworthiness of the borrower.
- Modification of the contractual terms due to financial problems of the borrower other than default
- The days past due on individual contract level breached the threshold of 30 days.
- Other qualitative indicators, such as external market indicators of credit risk or general economic conditions, which indicate that the level of risk has been increased significantly since origination.

The above noted SICR indicators are identified at financial instrument level in order to track changes in credit risk since initial recognition date.

4. Significant accounting judgements and estimates (continued)

Significant increase in credit risk (SICR) (continued)

In response to COVID-19 outbreak the Bank came out with an initiative to grant three-month payment holidays to its borrowers in March 2020 in order to significantly reduce the requirement for customers to physically visit Bank branches. Such event was not automatically considered as SICR event (i.e. trigger to transfer the exposure from Stage 1 to Stage 2) and the exposure 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.

Retail portfolio:

Subsequent to March 2020, the Bank continued to offer full or partial payment holiday options to the retail segment borrowers on a mass scale basis. In assessing whether the credit risk of the borrowers who accepted payment holidays has significantly increased, the Bank identified a series of qualitative and quantitative criteria based on holistic analysis of various factors. Loans with full grace granted (i.e. grace on principal as well as interest) were transferred either to Stage 2 or Stage 3 depending on payment-to-income (PTI) ratios, prolongation period and other relevant parameters.

Corporate:

The Bank applied individual approach to identify if SICR occurred since loan origination. The loan was transferred to stage 2 only when observable evidence of financial difficulties of the borrower indicated that the level of risk has increased significantly since loan origination. Specifically, if the borrower was not expected to fully serve the loan after release of lockdown measures, the loan was considered to have experienced SICR.

Measurement of expected credit losses

ECL reflects an unbiased, probability-weighted estimate based on a combination of the following principal factors: probability of default (PD), loss given default (LGD), and exposure at default (EAD), which are further explained below:

PD estimation: The Bank estimates PD based on a combination of rating model calibration results and a migration matrices approach which is further adjusted for macroeconomic expectations for a minimum three years onwards for all portfolios, to represent the forward-looking estimators of the PD parameters. The migration matrix is built in a way to reflect the weighted average yearly migration over the historical data period. The risk groups are determined in a way to ensure intra-group homogeneity and differentiation of expected PD levels. For loan portfolios other than corporate loans, PD is further adjusted considering time since financial instrument origination. The models incorporate both qualitative and quantitative information and, where practical, build on information from top rating agencies, Credit Bureau or internal credit rating systems. Since Stage 3 financial instruments are defaulted, the probability of default in this case is equal to 100%.

Exposure at default (EAD): The EAD represents an estimate of the exposure to credit risk at the time of a potential default occurring during the life of a financial asset. It represents the cash flows outstanding at the time of default, considering expected repayments, interest payments and accruals discounted at the EIR. To calculate EAD for a Stage 1 financial instrument, the Bank assesses the possible default events within 12 months for the calculation of the 12 months ECL. For Stage 2, Stage 3 and POCI financial instruments, the exposure at default is considered for events over the lifetime of the instruments. The Bank determines EAD differently for products with the repayment schedules and those without repayment schedules. For financial instruments with repayment schedules, the Bank estimates forward-looking EAD using the contractual cash flow approach with further corrections for expected prepayments and overdue days. For products without the repayment schedules such as credit cards, credit lines and financial guarantees, the Bank estimates the forward-looking EAD using the limit utilisation approach. Under the above approach EAD is calculated using the expected utilization rate based on historical data of actual draw-down amounts.

Loss given default (LGD): LGD is defined as the likely loss in case of a counterparty default. It provides an estimation of the exposure that cannot be recovered in a default event and therefore captures the severity of a loss. The determination of the LGD takes into account expected future cash flows from collateral and other credit enhancements, or expected payouts from bankruptcy proceedings for unsecured claims and where applicable time to realisation of collateral and the seniority of claims. The Bank segments its financial instruments into homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g. product type, wider range of collateral types). Based on this information, the Bank estimates the recovery rate (other than through collateral), cure rate and probability of re-default. Recovery through collateral is further considered in LGD calculations individually for each financial instrument.

With the purpose to incorporate the uncertainties caused by the COVID-19 pandemic while determination of expected losses, the Bank further discounted recovery and cure rates by 20%.

4. Significant accounting judgements and estimates (continued)

Assets considered in the ECL calculations

IFRS 9 requires cash flows expected from collateral and other credit enhancements to be reflected in the ECL calculation. The treatment and reflection of collateral for IFRS 9 purposes is in line with general risk management principles, policies and processes of the Bank. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. The fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and reassessed on an annual basis for all material exposures. To reflect the effect of the pandemic on the year-end ECL additional haircut has been applied to collateral values.

Forward-looking information

Under IFRS 9, the allowance for credit losses is based on reasonable and supportable forward-looking information obtainable without undue cost or effort, which takes into consideration past events, current conditions and forecasts of future economic conditions.

To incorporate forward-looking information into the Bank's allowance for credit losses, the Bank uses the macroeconomic forecasts provided by the National Bank of Georgia (NBG). Macroeconomic variables covered by these forecasts and which the Bank incorporated in its ECL assessment model include GDP growth, foreign exchange rate and inflation rate. These forward-looking macroeconomic variables are generally updated on a semi-annual basis.

The determination of the probability-weighted ECL requires evaluating a range of diverse and relevant future economic conditions. To accommodate this requirement, the Bank uses three different economic scenarios in the ECL calculation: an upside (weight 0.25), a base case (weight 0.50) and a downside (weight 0.25) scenario relevant for each respective portfolio. A weight is calculated for each scenario by using a probabilistic economic model that considers recent information as well as historical data provided by National Bank of Georgia.

The economic environment remains uncertain and future impairment charges may be subject to further volatility depending on the longevity of the COVID-19 pandemic and related containment and other measures.

The Bank considers these forecasts to represent its best estimate of the possible outcomes, based on reliable available information.

Forward-looking variable assumptions

The most significant period end assumptions used for ECL estimate as at 31 December 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 31 December 2020			Assigned weight	As at 31 December 2019			Assigned weight	As at 31 December 2018		
			2021	2022	2023		2020	2021	2022		2019	2020	2021
GDP growth in %	Upside	25%	-3.00%	6.00%	5.00%	25%	5.50%	6.00%	5.00%	25%	6.00%	5.50%	5.00%
	Base case	50%	-4.00%	4.50%	5.00%	50%	4.50%	5.00%	5.00%	50%	5.00%	5.00%	5.00%
	Downside	25%	-9.00%	2.50%	4.00%	25%	2.50%	3.50%	4.50%	25%	2.00%	2.50%	3.50%
GEL/USD exchange rate	Upside	25%	5.00%	5.00%	0.00%	25%	5.00%	5.00%	0.00%	25%	10.00%	5.00%	-5.00%
	Base case	50%	0.00%	0.00%	0.00%	50%	0.00%	0.00%	0.00%	50%	0.00%	0.00%	0.00%
	Downside	25%	-10.00%	-5.00%	5.00%	25%	-10.00%	-5.00%	5.00%	25%	-15.00%	-10.00%	5.00%
CPI inflation rate in %	Upside	25%	5.50%	4.00%	3.00%	25%	4.50%	3.50%	3.00%	25%	3.40%	3.20%	3.00%
	Base case	50%	4.50%	1.50%	2.50%	50%	4.50%	2.50%	3.00%	50%	2.90%	3.00%	3.00%
	Downside	25%	7.00%	2.00%	2.50%	25%	7.00%	5.00%	3.00%	25%	4.50%	4.00%	3.00%

The above information is based on the macroeconomic forecasts provided by the NBG as of May 2020.

All other parameters held constant, increase in GDP growth and decrease in foreign exchange rate and 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.

4. Significant accounting judgements and estimates (continued)

Forward-looking variable assumptions (continued)

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

Key drivers	As at 31 December 2020				
	Reported ECL	Reported ECL coverage	ECL coverage by scenarios		
			Upside	Base case	Downside
Commercial loans	155,315	3.39%	3.36%	3.38%	3.43%
Residential mortgage loans	48,552	1.30%	1.07%	1.07%	1.97%
Micro and SME loans	93,830	3.00%	2.65%	2.69%	3.97%
Consumer loans	112,811	5.52%	5.12%	5.16%	6.62%
Gold – pawn loans	227	0.22%	0.21%	0.21%	0.23%

Key drivers	As at 31 December 2019				
	Reported ECL	Reported ECL coverage	ECL coverage by scenarios		
			Upside	Base case	Downside
Commercial loans	78,410	2.15%	2.14%	2.15%	2.17%
Residential mortgage loans	9,012	0.30%	0.29%	0.30%	0.30%
Micro and SME loans	37,944	1.50%	1.48%	1.49%	1.54%
Consumer loans	72,187	3.71%	3.67%	3.70%	3.77%
Gold – pawn loans	253	0.30%	0.30%	0.30%	0.30%

Aggregation of financial instruments for collective assessment

For the purpose of a collective evaluation of impairment, financial instruments are grouped within homogeneous pools as follows: corporate loan portfolio is grouped on the basis of loan repayment source type; and retail loan portfolio is grouped on the basis of credit risk characteristics such as an asset type, collateralisation level, repayment source type and other relevant factors. As for SME and Micro loan portfolios, financial instruments are grouped based on asset type, overdue buckets, collateralisation level and other relevant factors.

Determination of expected life for revolving facilities

For revolving products, the expected life of financial instruments is determined either with reference to the next renewal date or with reference to the behavioural expected life of the financial instrument estimated based on the empirical observation of the lifetime.

Write-offs

The Bank writes off financial assets when there is no reasonable expectation of recovery, which is materially unchanged for corporate and unsecured loan portfolios or for loans secured by collateral other than real estate. For mortgages and other loans secured by real estate, the balances are considered to be irrecoverable and are to be written off after 1,460 days of being overdue. If the amount to be written off is greater than the accumulated loan loss allowance, the difference is first treated as an expected credit loss expense. Any subsequent recoveries are credited to expected credit loss expense.

Backtesting of ECL calculation model

In order to monitor the quality and reliability of the Bank's ECL calculation model, the Bank performs backtesting and benchmarking procedures, whereby model outcomes are compared with actual results, based on internal experience as well as externally observed results. For PD, the Bank uses statistical modelling to derive a predicted distribution of the number of defaults. The observed number of defaults is then compared with this distribution, allowing the Bank to derive a statistical level of confidence in the model. For LGD, the backtesting compares observed losses with predicted LGDs. If any statistically significant deviations or shortcomings in parameterizations are observed, the relevant models are redefined and recalibrated. Any changes in the model as a result of backtesting procedures are accounted as changes in accounting estimates with prospective application.

4. Significant accounting judgements and estimates (continued)

Post-model adjustments

Limitations in the Bank's impairment model or input data may be identified through the on-going assessment and validation of the output of the models. If management considers that impairment models do not sufficiently capture all material risks, appropriate adjustments are made to the ECL. In order to incorporate the uncertainties related to the economic outlook caused by COVID-19 pandemic into ECL calculated as at the end of the reporting period, the Bank applied post-model adjustments. The effect of such overlays as at 31 December 2020 amounted to GEL 84,103 .

<i>As at 31 December 2020</i>				
	<i>Modelled ECL</i>	<i>Post-model adjustments and management overlays</i>	<i>Total ECL</i>	<i>Adjustments as a % of total ECL</i>
Commercial loans	151,743	3,572	155,315	2.3%
Residential mortgage loans	21,764	26,788	48,552	55.2%
Micro and SME loans	67,128	26,702	93,830	28.5%
Consumer loans	85,824	26,987	112,811	23.9%
Gold – pawn loans	173	54	227	23.8%
Total	326,632	84,103	410,735	20.5%

5. Segment information

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

In 2020 the Bank 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 Bank is organised into the following operating segments based on products and services as follows:

- RB - Retail Banking - principally provides consumer loans, mortgage loans, overdrafts, credit cards and other credit facilities, funds transfers and settlement services, and handling of customers' deposits for both individuals and legal entities. The Retail Banking business targets the emerging retail, mass retail and mass affluent segments, together with small and medium-sized enterprises, and micro businesses.
- CB - Corporate Banking - 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.
- IB - Investment Banking - principally provides private banking services to high net worth clients.

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 separate income statement.

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

The Bank's operations are primarily concentrated in Georgia.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's operating income in 2020, 2019 or 2018.

5. Segment information (continued)

The following table presents the income statement and certain asset and liability information regarding the Bank's operating segments as at and for the year ended 31 December 2020:

	<i>Corporate Banking</i>	<i>Retail Banking</i>	<i>Investment Banking</i>	<i>Total</i>
Net interest income	219,600	471,907	23,651	715,158
Net fee and commission income	33,549	95,792	988	130,329
Net foreign currency gain	40,581	53,224	2,746	96,551
Net other income	18,353	20,651	1,310	40,314
Operating income	312,083	641,574	28,695	982,352
Operating expenses	(58,854)	(285,709)	(11,429)	(355,992)
Profit from associates	-	782	-	782
Operating income before cost of risk	253,229	356,647	17,266	627,142
Cost of risk	(81,543)	(187,099)	(456)	(269,098)
Net operating income before non-recurring items	171,686	169,548	16,810	358,044
Net non-recurring expense/loss	(1,278)	(39,924)	(89)	(41,291)
Profit before income tax	170,408	129,624	16,721	316,753
Income tax expense	(11,430)	(5,192)	(1,410)	(18,032)
Profit for the year	158,978	124,432	15,311	298,721
Assets and liabilities				
Total assets	7,371,914	13,325,710	52,434	20,750,058
Total liabilities	6,244,815	11,990,802	39,245	18,274,862
Other segment information				
Property and equipment	4,038	58,301	1,610	63,949
Intangible assets	2,391	28,848	277	31,516
Capital expenditure	6,429	87,149	1,887	95,465
Depreciation, amortisation and impairment	(7,501)	(62,242)	(1,032)	(70,775)

5. Segment information (continued)

The following table presents the income statement and certain asset and liability information regarding the Bank's operating segments as at and for the year ended 31 December 2019:

	<i>Corporate Banking</i>	<i>Retail Banking</i>	<i>Investment Banking</i>	<i>Total</i>
Net interest income	172,015	545,605	25,825	743,445
Net fee and commission income	30,353	113,114	1,365	144,832
Net foreign currency gain	43,864	49,900	4,606	98,370
Net other income	9,243	6,397	(67)	15,573
Operating income	255,475	715,016	31,729	1,002,220
Operating expenses	(71,457)	(275,588)	(12,540)	(359,585)
Profit from associates	-	789	-	789
Operating income before cost of risk	184,018	440,217	19,189	643,424
Cost of risk	(6,160)	(89,823)	1	(95,982)
Net operating income before non-recurring items	177,858	350,394	19,190	547,442
Net non-recurring expense/loss	(9,030)	(3,109)	(140)	(12,279)
Profit before income tax	168,828	347,285	19,050	535,163
Income tax expense	(21,543)	(34,024)	(1,866)	(57,433)
Profit for the year	147,285	313,261	17,184	477,730
Assets and liabilities				
Total assets	6,013,022	11,254,771	82,473	17,350,266
Total liabilities	5,096,659	10,115,833	69,053	15,281,545
Other segment information				
Property and equipment	7,503	70,684	809	78,996
Intangible assets	2,415	28,022	176	30,613
Capital expenditure	9,918	98,706	985	109,609
Depreciation, amortisation and impairment	(6,663)	(61,492)	(671)	(68,826)

5. Segment information (continued)

The following table presents the income statement and certain asset and liability information regarding the Bank's operating segments as at and for the year ended 31 December 2018:

	<i>Corporate Banking</i>	<i>Retail Banking</i>	<i>Investment Banking</i>	<i>Total</i>
Net interest income	123,870	547,904	25,888	697,662
Net fee and commission income	22,305	98,489	821	121,615
Net foreign currency gain	50,343	55,386	3,947	109,676
Net other income	3,944	(597)	5	3,352
Operating income	200,462	701,182	30,661	932,305
Operating expenses	(59,638)	(251,843)	(11,054)	(322,535)
Profit from associates	-	1,339	-	1,339
Operating income (expense) before cost of risk	140,824	450,678	19,607	611,109
Cost of risk	(25,280)	(130,743)	(77)	(156,100)
Net operating income (loss) before non-recurring items	115,544	319,935	19,530	455,009
Net non-recurring expense/loss	(14,827)	(52,037)	(1,948)	(68,812)
Profit (loss) before income tax	100,717	267,898	17,582	386,197
Income tax expense	(13,758)	(36,735)	(2,402)	(52,895)
Profit (loss) for the year	86,959	231,163	15,180	333,302
Assets and liabilities				
Total assets	4,170,663	9,649,388	77,624	13,897,675
Total liabilities	3,657,346	8,406,444	66,395	12,130,185
Other segment information				
Property and equipment	5,690	47,745	399	53,834
Intangible assets	2,763	36,087	225	39,075
Capital expenditure	8,453	83,832	624	92,909
Depreciation, amortisation and impairment	(4,265)	(36,216)	(309)	(40,790)

6. Cash and cash equivalents

	2020	2019	2018
Cash on hand	683,147	650,552	489,919
Current accounts with central banks, excluding obligatory reserves	75,230	309,255	245,921
Current accounts with credit institutions	551,282	423,609	206,148
Time deposits with credit institutions with maturities of up to 90 days	518,648	550,357	167,518
Cash and cash equivalents, gross	1,828,307	1,933,773	1,109,506
Less – Allowance for expected credit loss	(71)	(127)	(118)
Cash and cash equivalents, net	1,828,236	1,933,646	1,109,388

As at 31 December 2020, GEL 946,463 (2019: GEL 832,879, 2018: GEL 311,524) was placed on current and time deposit accounts with internationally recognised OECD banks and central banks that are the counterparties of the Bank in performing international settlements. The Bank earned up to 0.21% interest per annum on these deposits (2019: up to 2.20%, 2018: up to 2.50%). 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

	2020	2019	2018
Obligatory reserves with central banks	1,986,931	1,570,265	1,239,848
Time deposits with maturities of more than 90 days	-	5	43,459
Inter-bank loan receivables	-	30,414	-
Amounts due from credit institutions, gross	1,986,931	1,600,684	1,283,307
Less – Allowance for expected credit loss	(376)	(297)	(543)
Amounts due from credit institutions, net	1,986,555	1,600,387	1,282,764

Obligatory reserves with central banks represent amounts deposited with the NBG. Credit institutions are required to maintain cash deposits (obligatory reserve) with the NBG, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw these deposits is restricted by regulation. The Bank earned up to 1.25% interest on obligatory reserves with NBG for the year ended 31 December 2020 (2019: 1.25%, 2018: 0.50%).

As at 31 December 2020, inter-bank loan receivables include GEL Nil deposits placed with non-OECD banks (2019: nil, 2018: GEL nil).

8. Investment securities

	2020	2019	2018
Investment securities measured at FVOCI - debt instruments	2,415,676	1,676,739	1,864,423
Investment securities designated as at FVOCI - equity investments	3,337	2,711	395
Investment securities	2,419,013	1,679,450	1,864,818
	2020	2019	2018
Ministry of Finance of Georgia treasury bonds*	1,344,404	647,886	899,024
Ministry of Finance of Georgia treasury bills**	36,879	120,519	100,111
Foreign treasury bonds	79,974	-	-
Certificates of deposit of central banks	-	-	11,512
Other debt instruments***	954,419	908,334	853,776
Investment securities measured at FVOCI - debt instruments	2,415,676	1,676,739	1,864,423

* Treasury bonds of GEL 1,044,066 was pledged for short-term loans from the NBG (2019: GEL 576,017, 2018: GEL 573,517), and GEL 8,188 was pledged as security for cash kept by the NBG at the Bank's premises under the cash custodian services (2019: nil, 2018: nil).

** No treasury bills were pledged for short-term loans from the NBG (2019: GEL 74,564, 2018: nil), and GEL 9,180 was pledged as security for cash kept by the NBG at the Bank's premises under the cash custodian services (2019: nil, 2018: nil).

*** Corporate bonds of GEL 685,901 was pledged for short-term loans from the NBG (2019: GEL 684,546, 2018: GEL 674,616).

8. Investment securities (continued)

Other debt instruments as at 31 December 2020 mainly comprises bonds issued by the European Bank for Reconstruction and Development of GEL 312,144 (2019: GEL 309,351, 2018: GEL 249,659), GEL-denominated bonds issued by International Finance Corporation of GEL 211,250 (2019: GEL 208,948, 2018: GEL 110,545), GEL-denominated bonds issued by The Netherlands Development Finance Company of GEL 162,949 (2019: GEL 156,494, 2018: GEL 163,454), GEL-denominated bonds issued by Black Sea Trade and Development Bank of GEL 151,592 (2019: GEL 150,865, 2018: GEL 136,504), and GEL-denominated bonds issued by Asian Development Bank of GEL 61,350 (2019: GEL 58,863, 2018: GEL 65,145).

Foreign treasury bonds comprise of US Treasury Notes in amount of GEL 52,992 (2019: Nil , 2018: Nil), and Ministry of Finance of the Republic of Lithuania treasury bonds in amount of GEL 26,982 (2019: Nil , 2018: Nil).

9. Loans to customers and finance lease receivables

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Commercial loans	4,584,832	3,649,795	2,551,358
Residential mortgage loans	3,745,679	3,051,970	2,548,643
Micro and SME loans	3,128,671	2,526,253	2,007,167
Consumer loans	2,045,258	1,943,440	1,817,362
Gold – pawn loans	103,384	85,539	80,771
Loans to customers at amortised cost, gross	13,607,824	11,256,997	9,005,301
Less – Allowance for expected credit loss	(410,735)	(197,806)	(288,513)
Loans to customers at amortised cost, net	13,197,089	11,059,191	8,716,788
Finance lease receivables, gross	3,919	4,611	6,176
Less – Allowance for expected credit loss	(21)	(13)	(20)
Finance lease receivables, net	3,898	4,598	6,156
Total loans to customers and finance lease receivables	13,200,987	11,063,789	8,722,944

As at 31 December 2020, loans to customers carried at GEL 692,052 (2019: GEL 577,246, 2018: GEL 357,342) were pledged for short-term loans from the NBG.

Expected credit loss

Movements of the gross loans and respective allowance for expected credit loss / impairment of loans to customers by class are provided in the table below, within which the new financial asset originated or purchased and the assets repaid during the year include the effects from revolving loans and increase of exposure to clients, where existing loans have been repaid with new contracts issued during the year. All new financial assets are originated either in Stage 1 or POCI category. Utilisation of additional tranches on existing financial assets are reflected in Stage 2 or Stage 3 if the credit risk of the borrower has deteriorated since initiation. Foreign exchange movement relates to foreign currency denominated loans issued by the Bank. Net other changes in gross loan balances includes the effects of changes in accrued interest. Net other measurement of ECL includes the effect of changes in ECL due to post-model adjustments, changes in PDs and other inputs, as well as the effect from ECL attributable to changes in accrued interest.

In 2020 there were significant transfers of loans to stage 2 and 3 as compared to previous years. This was basically driven by the COVID-19 effect on the creditworthiness of borrowers in all sectors and the related ECL model overlays to identify SICR and default cases. For details on the model overlays see Note 4.

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

Expected credit loss (continued)

Commercial loans at amortised cost, gross:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	3,162,054	335,699	144,381	7,661	3,649,795
New financial asset originated or purchased	3,116,864	45,343	2,156	-	3,164,363
Transfer to Stage 1	366,839	(366,839)	-	-	-
Transfer to Stage 2	(569,236)	615,396	(46,160)	-	-
Transfer to Stage 3	(58,180)	(62,866)	121,046	-	-
Assets derecognised due to pass-through arrangement	(30,363)	(10,340)	(52)	-	(40,755)
Assets repaid	(2,538,373)	(213,839)	(53,791)	(575)	(2,806,578)
Resegmentation	21,133	-	-	-	21,133
Impact of modifications	(809)	94	(4)	(7)	(726)
Write-offs	-	-	(6,535)	-	(6,535)
Recoveries of amounts previously written off	-	-	13,492	127	13,619
Unwind of discount	-	-	8,723	6	8,729
Foreign exchange movement	487,551	35,956	24,329	928	548,764
Net other changes	29,624	871	2,292	236	33,023
Balance at 31 December 2020	3,987,104	379,475	209,877	8,376	4,584,832
Individually assessed	-	-	205,649	-	205,649
Collectively assessed	3,987,104	379,475	4,228	8,376	4,379,183
Balance at 31 December 2020	3,987,104	379,475	209,877	8,376	4,584,832

Commercial loans at amortised cost, ECL:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	5,443	2,461	70,205	301	78,410
New financial asset originated or purchased	2,014	1,249	572	-	3,835
Transfer to Stage 1	3,336	(3,336)	-	-	-
Transfer to Stage 2	(2,634)	7,374	(4,740)	-	-
Transfer to Stage 3	(539)	(9,749)	10,288	-	-
Impact on ECL of exposures transferred between stages during the year	(26,700)	(4,124)	23,089	-	(7,735)
Assets derecognised due to pass-through arrangement	(9)	(294)	(12)	-	(315)
Assets repaid	(5,640)	(9,559)	(27,069)	(304)	(42,572)
Resegmentation	140	-	-	-	140
Impact of modifications	1	8	(6)	-	3
Write-offs	-	-	(6,535)	-	(6,535)
Recoveries of amounts previously written off	-	-	13,492	127	13,619
Unwind of discount	-	-	8,723	6	8,729
Foreign exchange movement	967	(782)	12,544	20	12,749
Net other measurement of ECL	48,872	24,821	21,437	(143)	94,987
Balance at 31 December 2020	25,251	8,069	121,988	7	155,315
Individually assessed	-	-	119,840	-	119,840
Collectively assessed	25,251	8,069	2,148	7	35,475
Balance at 31 December 2020	25,251	8,069	121,988	7	155,315

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

Expected credit loss (continued)

Residential mortgage loans at amortised cost, gross:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	2,750,246	160,038	109,413	32,273	3,051,970
New financial asset originated or purchased	1,193,449	430	151	3,101	1,197,131
Transfer to Stage 1	460,610	(419,004)	(41,606)	-	-
Transfer to Stage 2	(541,211)	599,958	(58,747)	-	-
Transfer to Stage 3	(155,375)	(40,591)	195,966	-	-
Assets repaid	(779,867)	(37,503)	(51,741)	(13,696)	(882,807)
Resegmentation	(945)	-	-	-	(945)
Impact of modifications	(8,730)	954	(134)	(854)	(8,764)
Write-offs	-	-	(5,368)	(215)	(5,583)
Recoveries of amounts previously written off	-	-	734	767	1,501
Unwind of discount	1	-	292	91	384
Foreign exchange movement	287,057	23,746	12,847	3,604	327,254
Net other changes	32,448	25,886	6,426	778	65,538
Balance at 31 December 2020	3,237,683	313,914	168,233	25,849	3,745,679
Individually assessed	-	-	3,274	-	3,274
Collectively assessed	3,237,683	313,914	164,959	25,849	3,742,405
Balance at 31 December 2020	3,237,683	313,914	168,233	25,849	3,745,679

Residential mortgage loans at amortised cost, ECL:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	456	160	6,588	1,808	9,012
New financial asset originated or purchased	18	2	4	162	186
Transfer to Stage 1	14,010	(7,432)	(6,578)	-	-
Transfer to Stage 2	(2,419)	10,026	(7,607)	-	-
Transfer to Stage 3	(71)	(849)	920	-	-
Impact on ECL of exposures transferred between stages during the year	(19,477)	(6,079)	2,726	-	(22,830)
Assets repaid	(2,432)	(965)	(8,594)	(3,399)	(15,390)
Resegmentation	(17)	-	-	-	(17)
Impact of modifications	(15)	468	499	(213)	739
Write-offs	-	-	(5,368)	(215)	(5,583)
Recoveries of amounts previously written off	-	-	734	767	1,501
Unwind of discount	1	-	292	91	384
Foreign exchange movement	136	(63)	1,029	474	1,576
Net other measurement of ECL	18,416	16,136	40,586	3,836	78,974
Balance at 31 December 2020	8,606	11,404	25,231	3,311	48,552
Individually assessed	-	-	398	-	398
Collectively assessed	8,606	11,404	24,833	3,311	48,154
Balance at 31 December 2020	8,606	11,404	25,231	3,311	48,552

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

Expected credit loss (continued)

Micro and SME loans at amortised cost, gross:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	2,318,749	95,682	110,073	1,749	2,526,253
New financial asset originated or purchased	2,049,139	4,652	887	2,928	2,057,606
Transfer to Stage 1	440,795	(428,390)	(12,405)	-	-
Transfer to Stage 2	(882,557)	916,156	(33,599)	-	-
Transfer to Stage 3	(55,889)	(98,426)	154,315	-	-
Assets repaid	(1,545,744)	(151,131)	(66,086)	(1,224)	(1,764,185)
Resegmentation	(19,958)	-	-	-	(19,958)
Impact of modifications	(6,109)	(786)	(2,560)	(1)	(9,456)
Write-offs	-	-	(29,092)	(976)	(30,068)
Recoveries of amounts previously written off	-	-	6,103	102	6,205
Unwind of discount	11	-	1,079	25	1,115
Foreign exchange movement	228,987	33,026	11,509	293	273,815
Net other changes	3,254	58,690	24,825	575	87,344
Balance at 31 December 2020	2,530,678	429,473	165,049	3,471	3,128,671
Individually assessed	-	-	13,478	-	13,478
Collectively assessed	2,530,678	429,473	151,571	3,471	3,115,193
Balance at 31 December 2020	2,530,678	429,473	165,049	3,471	3,128,671

Micro and SME loans at amortised cost, ECL:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	11,283	3,460	22,325	876	37,944
New financial asset originated or purchased	673	84	24	50	831
Transfer to Stage 1	23,238	(20,153)	(3,085)	-	-
Transfer to Stage 2	(10,777)	17,680	(6,903)	-	-
Transfer to Stage 3	(312)	(8,062)	8,374	-	-
Impact on ECL of exposures transferred between stages during the year	(24,848)	(3,986)	6,095	-	(22,739)
Assets repaid	(11,553)	(8,290)	(19,706)	(270)	(39,819)
Resegmentation	(123)	-	-	-	(123)
Impact of modifications	(158)	(173)	(1,148)	-	(1,479)
Write-offs	-	-	(29,092)	(976)	(30,068)
Recoveries of amounts previously written off	-	-	6,103	102	6,205
Unwind of discount	11	-	1,079	25	1,115
Foreign exchange movement	661	37	2,140	76	2,914
Net other measurement of ECL	36,544	38,947	63,377	181	139,049
Balance at 31 December 2020	24,639	19,544	49,583	64	93,830
Individually assessed	-	-	6,999	-	6,999
Collectively assessed	24,639	19,544	42,584	64	86,831
Balance at 31 December 2020	24,639	19,544	49,583	64	93,830

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

Expected credit loss (continued)

Consumer loans at amortised cost, gross:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	1,716,146	109,778	107,775	9,741	1,943,440
New financial asset originated or purchased	1,540,090	7,125	2,925	1,016	1,551,156
Transfer to Stage 1	291,495	(244,593)	(46,902)	-	-
Transfer to Stage 2	(393,312)	434,124	(40,812)	-	-
Transfer to Stage 3	(99,310)	(49,208)	148,518	-	-
Assets repaid	(1,371,138)	(80,432)	(69,508)	(3,242)	(1,524,320)
Resegmentation	(230)	-	263	-	33
Impact of modifications	(12,300)	(1,149)	(3,328)	(148)	(16,925)
Write-offs	-	-	(34,742)	(8)	(34,750)
Recoveries of amounts previously written off	-	-	21,166	65	21,231
Unwind of discount	(143)	-	424	18	299
Foreign exchange movement	16,413	3,656	3,549	419	24,037
Net other changes	55,650	14,466	10,287	654	81,057
Balance at 31 December 2020	1,743,361	193,767	99,615	8,515	2,045,258
Individually assessed	-	-	11	-	11
Collectively assessed	1,743,361	193,767	99,604	8,515	2,045,247
Balance at 31 December 2020	1,743,361	193,767	99,615	8,515	2,045,258

Consumer loans at amortised cost, ECL:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	16,629	6,259	49,085	214	72,187
New financial asset originated or purchased	15,177	1,736	907	374	18,194
Transfer to Stage 1	45,215	(23,786)	(21,429)	-	-
Transfer to Stage 2	(17,722)	38,666	(20,944)	-	-
Transfer to Stage 3	(536)	(8,861)	9,397	-	-
Impact on ECL of exposures transferred between stages during the year	(39,334)	(13,741)	(6,052)	-	(59,127)
Assets repaid	(29,212)	(10,086)	(44,778)	(439)	(84,515)
Resegmentation	-	-	-	-	-
Impact of modifications	(519)	(171)	(1,704)	(7)	(2,401)
Write-offs	-	-	(34,742)	(8)	(34,750)
Recoveries of amounts previously written off	-	-	21,166	65	21,231
Unwind of discount	(143)	-	424	18	299
Foreign exchange movement	138	46	744	21	949
Net other measurement of ECL	50,356	35,372	94,224	792	180,744
Balance at 31 December 2020	40,049	25,434	46,298	1,030	112,811
Individually assessed	-	-	11	-	11
Collectively assessed	40,049	25,434	46,287	1,030	112,800
Balance at 31 December 2020	40,049	25,434	46,298	1,030	112,811

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

Expected credit loss (continued)

Gold – pawn loans at amortised cost, gross:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	80,794	1,114	3,631	-	85,539
New financial asset originated or purchased	139,676	-	475	-	140,151
Transfer to Stage 1	6,565	(4,313)	(2,252)	-	-
Transfer to Stage 2	(10,625)	11,552	(927)	-	-
Transfer to Stage 3	(5,331)	(877)	6,208	-	-
Assets repaid	(113,508)	(3,726)	(5,053)	-	(122,287)
Resegmentation	-	-	(263)	-	(263)
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(58)	-	(58)
Recoveries of amounts previously written off	-	-	6	-	6
Unwind of discount	-	-	6	-	6
Foreign exchange movement	148	8	(167)	-	(11)
Net other changes	56	121	124	-	301
Balance at 31 December 2020	97,775	3,879	1,730	-	103,384
Individually assessed	-	-	-	-	-
Collectively assessed	97,775	3,879	1,730	-	103,384
Balance at 31 December 2020	97,775	3,879	1,730	-	103,384

Gold – pawn loans at amortised cost, ECL:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	8	1	244	-	253
New financial asset originated or purchased	-	-	-	-	-
Transfer to Stage 1	79	(6)	(73)	-	-
Transfer to Stage 2	(10)	45	(35)	-	-
Transfer to Stage 3	(1)	(1)	2	-	-
Impact on ECL of exposures transferred between stages during the year	(82)	(1)	-	-	(83)
Assets repaid	(17)	(4)	(227)	-	(248)
Resegmentation	-	-	-	-	-
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(58)	-	(58)
Recoveries of amounts previously written off	-	-	6	-	6
Unwind of discount	-	-	6	-	6
Foreign exchange movement	(1)	-	1	-	-
Net other measurement of ECL	63	(18)	306	-	351
Balance at 31 December 2020	39	16	172	-	227
Individually assessed	-	-	-	-	-
Collectively assessed	39	16	172	-	227
Balance at 31 December 2020	39	16	172	-	227

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

Expected credit loss (continued)

Commercial loans at amortised cost, gross:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	2,009,494	308,116	226,711	7,037	2,551,358
New financial asset originated or purchased	4,027,936	163,280	6,632	-	4,197,848
Transfer to Stage 1	569,345	(569,345)	-	-	-
Transfer to Stage 2	(853,676)	878,060	(24,384)	-	-
Transfer to Stage 3	(10,482)	(42,704)	53,186	-	-
Assets derecognised due to pass-through arrangement	(60,246)	(17,550)	-	-	(77,796)
Assets repaid	(2,811,844)	(432,618)	(60,127)	(257)	(3,304,846)
Resegmentation	176,365	3,134	2,608	-	182,107
Impact of modifications	-	4	(233)	-	(229)
Write-offs	-	-	(93,673)	-	(93,673)
Recoveries of amounts previously written off	-	-	9,975	-	9,975
Unwind of discount	-	-	2,635	(143)	2,492
Foreign exchange movement	90,187	28,416	12,842	483	131,928
Net other changes	24,975	16,906	8,209	541	50,631
Balance at 31 December 2019	3,162,054	335,699	144,381	7,661	3,649,795
Individually assessed	-	-	139,697	-	139,697
Collectively assessed	3,162,054	335,699	4,684	7,661	3,510,098
Balance at 31 December 2019	3,162,054	335,699	144,381	7,661	3,649,795

Commercial loans at amortised cost, ECL:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	2,560	3,501	151,163	525	157,749
New financial asset originated or purchased	10,351	282	887	-	11,520
Transfer to Stage 1	1,082	(1,082)	-	-	-
Transfer to Stage 2	(2,885)	5,355	(2,470)	-	-
Transfer to Stage 3	(3,466)	(143)	3,609	-	-
Impact on ECL of exposures transferred between stages during the year	(156)	(221)	4,788	-	4,411
Assets derecognised due to pass-through arrangement	(439)	-	-	-	(439)
Assets repaid	(1,878)	(4,435)	(27,737)	-	(34,050)
Resegmentation	103	6	-	-	109
Impact of modifications	-	-	6	-	6
Write-offs	-	-	(93,673)	-	(93,673)
Recoveries of amounts previously written off	-	-	9,975	-	9,975
Unwind of discount	-	-	2,635	(143)	2,492
Foreign exchange movement	62	63	10,751	49	10,925
Net other measurement of ECL	109	(865)	10,271	(130)	9,385
Balance at 31 December 2019	5,443	2,461	70,205	301	78,410
Individually assessed	-	-	69,842	-	69,842
Collectively assessed	5,443	2,461	363	301	8,568
Balance at 31 December 2019	5,443	2,461	70,205	301	78,410

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

Expected credit loss (continued)

Residential mortgage loans at amortised cost, gross:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	2,350,397	86,809	88,249	23,188	2,548,643
New financial asset originated or purchased	1,410,680	472	7	23,136	1,434,295
Transfer to Stage 1	249,103	(216,701)	(32,402)	-	-
Transfer to Stage 2	(350,322)	378,751	(28,429)	-	-
Transfer to Stage 3	(110,097)	(62,530)	172,627	-	-
Assets repaid	(908,347)	(34,746)	(97,063)	(15,457)	(1,055,613)
Resegmentation	(9,538)	272	(4)	-	(9,270)
Impact of modifications	-	-	(1,372)	(389)	(1,761)
Write-offs	-	-	(4,646)	-	(4,646)
Recoveries of amounts previously written off	-	-	557	-	557
Unwind of discount	-	-	27	76	103
Foreign exchange movement	101,201	6,139	5,236	1,189	113,765
Net other changes	17,169	1,572	6,626	530	25,897
Balance at 31 December 2019	2,750,246	160,038	109,413	32,273	3,051,970
Individually assessed	-	-	1,374	-	1,374
Collectively assessed	2,750,246	160,038	108,039	32,273	3,050,596
Balance at 31 December 2019	2,750,246	160,038	109,413	32,273	3,051,970

Residential mortgage loans at amortised cost, ECL:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	237	31	5,383	1,089	6,740
New financial asset originated or purchased	1,922	-	1	320	2,243
Transfer to Stage 1	598	(254)	(344)	-	-
Transfer to Stage 2	(137)	795	(658)	-	-
Transfer to Stage 3	(1,706)	(60)	1,766	-	-
Impact on ECL of exposures transferred between stages during the year	(440)	(528)	2,005	-	1,037
Assets repaid	(156)	(37)	(3,294)	(1,005)	(4,492)
Resegmentation	-	-	-	-	-
Impact of modifications	-	-	(43)	(1)	(44)
Write-offs	-	-	(4,646)	-	(4,646)
Recoveries of amounts previously written off	-	-	557	-	557
Unwind of discount	-	-	27	76	103
Foreign exchange movement	15	3	363	88	469
Net other measurement of ECL	123	210	5,471	1,241	7,045
Balance at 31 December 2019	456	160	6,588	1,808	9,012
Individually assessed	-	-	-	-	-
Collectively assessed	456	160	6,588	1,808	9,012
Balance at 31 December 2019	456	160	6,588	1,808	9,012

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

Expected credit loss (continued)

Micro and SME loans at amortised cost, gross:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	1,822,943	64,090	117,899	2,235	2,007,167
New financial asset originated or purchased	2,387,152	3,020	170	597	2,390,939
Transfer to Stage 1	130,258	(118,734)	(11,524)	-	-
Transfer to Stage 2	(253,672)	264,819	(11,147)	-	-
Transfer to Stage 3	(32,840)	(68,397)	101,237	-	-
Assets repaid	(1,632,259)	(48,577)	(68,922)	(1,715)	(1,751,473)
Resegmentation	(166,727)	(3,134)	(2,605)	-	(172,466)
Impact of modifications	-	(26)	(3,985)	(27)	(4,038)
Write-offs	-	-	(31,481)	-	(31,481)
Recoveries of amounts previously written off	-	-	3,611	-	3,611
Unwind of discount	-	-	1,309	32	1,341
Foreign exchange movement	55,605	2,011	4,971	190	62,777
Net other changes	8,289	610	10,540	437	19,876
Balance at 31 December 2019	2,318,749	95,682	110,073	1,749	2,526,253
Individually assessed	-	-	2,882	-	2,882
Collectively assessed	2,318,749	95,682	107,191	1,749	2,523,371
Balance at 31 December 2019	2,318,749	95,682	110,073	1,749	2,526,253

Micro and SME loans at amortised cost, ECL:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	7,492	2,372	22,635	70	32,569
New financial asset originated or purchased	13,902	1	-	-	13,903
Transfer to Stage 1	6,492	(4,202)	(2,290)	-	-
Transfer to Stage 2	(4,361)	7,187	(2,826)	-	-
Transfer to Stage 3	(2,097)	(4,323)	6,420	-	-
Impact on ECL of exposures transferred between stages during the year	(2,857)	(1,628)	(1,342)	-	(5,827)
Assets repaid	(8,772)	(1,402)	(11,797)	(358)	(22,329)
Resegmentation	(103)	(6)	-	-	(109)
Impact of modifications	-	-	(1,022)	(1)	(1,023)
Write-offs	-	-	(31,481)	-	(31,481)
Recoveries of amounts previously written off	-	-	3,611	-	3,611
Unwind of discount	-	-	1,309	32	1,341
Foreign exchange movement	57	18	560	55	690
Net other measurement of ECL	1,530	5,443	38,548	1,078	46,599
Balance at 31 December 2019	11,283	3,460	22,325	876	37,944
Individually assessed	-	-	1,243	-	1,243
Collectively assessed	11,283	3,460	21,082	876	36,701
Balance at 31 December 2019	11,283	3,460	22,325	876	37,944

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

Expected credit loss (continued)

Consumer loans at amortised cost, gross:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	1,591,143	100,853	120,895	4,471	1,817,362
New financial asset originated or purchased	1,952,404	9,012	2,492	9,421	1,973,329
Transfer to Stage 1	225,420	(163,865)	(61,555)	-	-
Transfer to Stage 2	(320,982)	358,967	(37,985)	-	-
Transfer to Stage 3	(219,006)	(117,070)	336,076	-	-
Assets repaid	(1,535,569)	(77,789)	(199,110)	(4,323)	(1,816,791)
Resegmentation	(100)	(272)	138	-	(234)
Impact of modifications	-	-	(3,270)	(62)	(3,332)
Write-offs	-	-	(86,290)	-	(86,290)
Recoveries of amounts previously written off	-	-	17,753	-	17,753
Unwind of discount	-	-	3,859	15	3,874
Foreign exchange movement	16,513	1,232	1,566	86	19,397
Net other changes	6,323	(1,290)	13,206	133	18,372
Balance at 31 December 2019	1,716,146	109,778	107,775	9,741	1,943,440
Individually assessed	-	-	1,384	-	1,384
Collectively assessed	1,716,146	109,778	106,391	9,741	1,942,056
Balance at 31 December 2019	1,716,146	109,778	107,775	9,741	1,943,440

Consumer loans at amortised cost, ECL:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	19,461	9,250	62,061	389	91,161
New financial asset originated or purchased	64,766	1,384	1,295	42	67,487
Transfer to Stage 1	33,516	(9,919)	(23,597)	-	-
Transfer to Stage 2	(9,439)	26,960	(17,521)	-	-
Transfer to Stage 3	(55,573)	(9,593)	65,166	-	-
Impact on ECL of exposures transferred between stages during the year	(25,460)	(14,026)	38,434	-	(1,052)
Assets repaid	(11,637)	(6,521)	(64,359)	(311)	(82,828)
Resegmentation	-	-	-	-	-
Impact of modifications	-	-	(895)	(5)	(900)
Write-offs	-	-	(86,290)	-	(86,290)
Recoveries of amounts previously written off	-	-	17,753	-	17,753
Unwind of discount	-	-	3,859	15	3,874
Foreign exchange movement	53	22	242	17	334
Net other measurement of ECL	942	8,702	52,937	67	62,648
Balance at 31 December 2019	16,629	6,259	49,085	214	72,187
Individually assessed	-	-	8	-	8
Collectively assessed	16,629	6,259	49,077	214	72,179
Balance at 31 December 2019	16,629	6,259	49,085	214	72,187

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

Expected credit loss (continued)

Gold – pawn loans at amortised cost, gross:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	75,483	541	4,747	-	80,771
New financial asset originated or purchased	106,339	-	154	-	106,493
Transfer to Stage 1	5,671	(1,307)	(4,364)	-	-
Transfer to Stage 2	(2,414)	3,825	(1,411)	-	-
Transfer to Stage 3	(10,459)	(1,333)	11,792	-	-
Assets repaid	(93,933)	(604)	(6,750)	-	(101,287)
Resegmentation	-	-	(137)	-	(137)
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(292)	-	(292)
Recoveries of amounts previously written off	-	-	1	-	1
Unwind of discount	-	-	(2)	-	(2)
Foreign exchange movement	175	2	28	-	205
Net other changes	(68)	(10)	(135)	-	(213)
Balance at 31 December 2019	80,794	1,114	3,631	-	85,539
Individually assessed	-	-	-	-	-
Collectively assessed	80,794	1,114	3,631	-	85,539
Balance at 31 December 2019	80,794	1,114	3,631	-	85,539

Gold – pawn loans at amortised cost, ECL:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	11	-	283	-	294
New financial asset originated or purchased	214	-	-	-	214
Transfer to Stage 1	36	-	(36)	-	-
Transfer to Stage 2	-	61	(61)	-	-
Transfer to Stage 3	(215)	-	215	-	-
Impact on ECL of exposures transferred between stages during the year	(36)	(61)	218	-	121
Assets repaid	(7)	-	(295)	-	(302)
Resegmentation	-	-	-	-	-
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(292)	-	(292)
Recoveries of amounts previously written off	-	-	1	-	1
Unwind of discount	-	-	(2)	-	(2)
Foreign exchange movement	-	-	2	-	2
Net other measurement of ECL	5	1	211	-	217
Balance at 31 December 2019	8	1	244	-	253
Individually assessed	-	-	-	-	-
Collectively assessed	8	1	244	-	253
Balance at 31 December 2019	8	1	244	-	253

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

Expected credit loss (continued)

Commercial loans at amortised cost, gross:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	1,522,630	332,038	283,309	26,847	2,164,824
New financial asset originated or purchased	2,573,389	88,529	9,875	-	2,671,793
Transfer to Stage 1	358,195	(358,073)	(122)	-	-
Transfer to Stage 2	(480,880)	530,296	(49,416)	-	-
Transfer to Stage 3	(23,976)	(37,819)	61,795	-	-
Assets derecognised (excluding write-offs)	(106,070)	(847)	-	-	(106,917)
Assets repaid	(1,954,759)	(244,936)	(67,918)	(13,664)	(2,281,277)
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(39,657)	-	(39,657)
Recoveries of amounts previously written off	-	-	2,914	-	2,914
Unwind of discount	72	-	3,437	(151)	3,358
Net other changes	120,893	(1,072)	22,494	(5,995)	136,320
Balance at 31 December 2018	2,009,494	308,116	226,711	7,037	2,551,358
Individually assessed	-	-	225,000	988	225,988
Collectively assessed	2,009,494	308,116	1,711	6,049	2,325,370
Balance at 31 December 2018	2,009,494	308,116	226,711	7,037	2,551,358

Commercial loans at amortised cost, ECL:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	2,427	2,548	160,284	5,506	170,765
New financial asset originated or purchased	4,696	43	277	-	5,016
Transfer to Stage 1	1,338	(1,338)	-	-	-
Transfer to Stage 2	(444)	505	(61)	-	-
Transfer to Stage 3	(88)	-	88	-	-
Impact on ECL of exposures transferred between stages during the year	(373)	278	705	-	610
Assets derecognised (excluding write-offs)	-	-	-	-	-
Assets repaid	(1,613)	(794)	(13,470)	(415)	(16,292)
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(39,657)	-	(39,657)
Recoveries of amounts previously written off	-	-	2,914	-	2,914
Unwind of discount	72	-	3,437	(151)	3,358
Net other measurement of ECL	(3,455)	2,259	36,646	(4,415)	31,035
Balance at 31 December 2018	2,560	3,501	151,163	525	157,749
Individually assessed	-	-	150,724	495	151,219
Collectively assessed	2,560	3,501	439	30	6,530
Balance at 31 December 2018	2,560	3,501	151,163	525	157,749

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

Expected credit loss (continued)

Residential mortgage loans at amortised cost, gross:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	1,583,403	83,581	52,043	751	1,719,778
New financial asset originated or purchased	1,784,047	532	17	24,088	1,808,684
Transfer to Stage 1	161,836	(152,752)	(9,084)	-	-
Transfer to Stage 2	(226,504)	234,139	(7,635)	-	-
Transfer to Stage 3	(73,754)	(49,756)	123,510	-	-
Assets derecognised (excluding write-offs)	-	-	(1,830)	-	(1,830)
Assets repaid	(939,728)	(31,367)	(71,161)	(2,025)	(1,044,281)
Impact of modifications	-	-	(689)	(1)	(690)
Write-offs	-	-	(2,195)	(86)	(2,281)
Recoveries of amounts previously written off	-	-	2,338	-	2,338
Unwind of discount	-	-	414	21	435
Net other changes	61,097	2,432	2,521	440	66,490
Balance at 31 December 2018	2,350,397	86,809	88,249	23,188	2,548,643
Individually assessed	-	-	732	2,451	3,183
Collectively assessed	2,350,397	86,809	87,517	20,737	2,545,460
Balance at 31 December 2018	2,350,397	86,809	88,249	23,188	2,548,643

Residential mortgage loans at amortised cost, ECL:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	302	59	3,267	61	3,689
New financial asset originated or purchased	1,309	-	-	595	1,904
Transfer to Stage 1	230	(92)	(138)	-	-
Transfer to Stage 2	(57)	209	(152)	-	-
Transfer to Stage 3	(982)	(37)	1,019	-	-
Impact on ECL of exposures transferred between stages during the year	(173)	(106)	1,436	-	1,157
Assets derecognised (excluding write-offs)	-	-	(41)	-	(41)
Assets repaid	(94)	(9)	(4,237)	(94)	(4,434)
Impact of modifications	-	-	-	4	4
Write-offs	-	-	(2,195)	(86)	(2,281)
Recoveries of amounts previously written off	-	-	2,338	-	2,338
Unwind of discount	-	-	414	21	435
Net other measurement of ECL	(298)	7	3,672	588	3,969
Balance at 31 December 2018	237	31	5,383	1,089	6,740
Individually assessed	-	-	-	-	-
Collectively assessed	237	31	5,383	1,089	6,740
Balance at 31 December 2018	237	31	5,383	1,089	6,740

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

Expected credit loss (continued)

Micro and SME loans at amortised cost, gross:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	1,523,616	50,879	84,652	3,401	1,662,548
New financial asset originated or purchased	1,831,588	3,787	96	1,123	1,836,594
Transfer to Stage 1	83,195	(77,946)	(5,249)	-	-
Transfer to Stage 2	(184,483)	192,586	(8,103)	-	-
Transfer to Stage 3	(36,233)	(63,053)	99,286	-	-
Assets derecognised (excluding write-offs)	-	-	(956)	-	(956)
Assets repaid	(1,421,789)	(43,671)	(50,953)	(1,098)	(1,517,511)
Impact of modifications	-	-	(1,150)	(2)	(1,152)
Write-offs	-	-	(16,447)	(28)	(16,475)
Recoveries of amounts previously written off	-	-	7,198	-	7,198
Unwind of discount	-	-	2,197	10	2,207
Net other changes	27,049	1,508	7,328	(1,171)	34,714
Balance at 31 December 2018	1,822,943	64,090	117,899	2,235	2,007,167
Individually assessed	-	-	-	-	-
Collectively assessed	1,822,943	64,090	117,899	2,235	2,007,167
Balance at 31 December 2018	1,822,943	64,090	117,899	2,235	2,007,167

Micro and SME loans at amortised cost, ECL:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	4,185	1,097	12,768	410	18,460
New financial asset originated or purchased	8,136	-	-	201	8,337
Transfer to Stage 1	3,622	(2,473)	(1,149)	-	-
Transfer to Stage 2	(2,543)	3,686	(1,143)	-	-
Transfer to Stage 3	(1,782)	(2,117)	3,899	-	-
Impact on ECL of exposures transferred between stages during the year	(1,396)	(554)	109	-	(1,841)
Assets derecognised (excluding write-offs)	-	-	(200)	-	(200)
Assets repaid	(4,042)	(793)	(11,079)	(1)	(15,915)
Impact of modifications	-	-	-	(183)	(183)
Write-offs	-	-	(16,447)	(28)	(16,475)
Recoveries of amounts previously written off	-	-	7,198	-	7,198
Unwind of discount	-	-	2,197	10	2,207
Net other measurement of ECL	1,312	3,526	26,482	(339)	30,981
Balance at 31 December 2018	7,492	2,372	22,635	70	32,569
Individually assessed	-	-	-	-	-
Collectively assessed	7,492	2,372	22,635	70	32,569
Balance at 31 December 2018	7,492	2,372	22,635	70	32,569

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

Expected credit loss (continued)

Consumer loans at amortised cost, gross:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	1,513,534	146,925	75,340	88	1,735,887
New financial asset originated or purchased	2,078,859	11,259	2,224	4,776	2,097,118
Transfer to Stage 1	272,003	(241,160)	(30,843)	-	-
Transfer to Stage 2	(456,760)	470,591	(13,831)	-	-
Transfer to Stage 3	(166,859)	(175,892)	342,751	-	-
Assets derecognised (excluding write-offs)	-	-	(363)	-	(363)
Assets repaid	(1,664,054)	(110,685)	(173,957)	(472)	(1,949,168)
Impact of modifications	-	-	(2,124)	59	(2,065)
Write-offs	-	-	(126,865)	(73)	(126,938)
Recoveries of amounts previously written off	-	-	22,743	-	22,743
Unwind of discount	-	-	5,839	16	5,855
Net other changes	14,420	(185)	19,981	77	34,293
Balance at 31 December 2018	1,591,143	100,853	120,895	4,471	1,817,362
Individually assessed	-	-	29	-	29
Collectively assessed	1,591,143	100,853	120,866	4,471	1,817,333
Balance at 31 December 2018	1,591,143	100,853	120,895	4,471	1,817,362

Consumer loans at amortised cost, ECL:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	38,413	15,602	42,709	14	96,738
New financial asset originated or purchased	92,211	2,050	883	255	95,399
Transfer to Stage 1	40,694	(26,099)	(14,595)	-	-
Transfer to Stage 2	(29,905)	36,752	(6,847)	-	-
Transfer to Stage 3	(52,632)	(21,261)	73,893	-	-
Impact on ECL of exposures transferred between stages during the year	(17,313)	(2,343)	26,556	-	6,900
Assets derecognised (excluding write-offs)	-	-	(3)	-	(3)
Assets repaid	(37,709)	(12,817)	(73,092)	(36)	(123,654)
Impact of modifications	-	-	-	(420)	(420)
Write-offs	-	-	(126,865)	(73)	(126,938)
Recoveries of amounts previously written off	-	-	22,743	-	22,743
Unwind of discount	-	-	5,839	16	5,855
Net other measurement of ECL	(14,298)	17,366	110,840	633	114,541
Balance at 31 December 2018	19,461	9,250	62,061	389	91,161
Individually assessed	-	-	29	-	29
Collectively assessed	19,461	9,250	62,032	389	91,132
Balance at 31 December 2018	19,461	9,250	62,061	389	91,161

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

Expected credit loss (continued)

Gold – pawn loans at amortised cost, gross:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	65,670	431	1,839	-	67,940
New financial asset originated or purchased	80,944	-	96	-	81,040
Transfer to Stage 1	4,300	(1,855)	(2,445)	-	-
Transfer to Stage 2	(3,396)	3,694	(298)	-	-
Transfer to Stage 3	(8,800)	(1,641)	10,441	-	-
Assets derecognised (excluding write-offs)	-	-	-	-	-
Assets repaid	(63,239)	(92)	(4,553)	-	(67,884)
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(609)	-	(609)
Recoveries of amounts previously written off	-	-	113	-	113
Unwind of discount	-	-	8	-	8
Net other changes	4	4	155	-	163
Balance at 31 December 2018	75,483	541	4,747	-	80,771
Individually assessed	-	-	-	-	-
Collectively assessed	75,483	541	4,747	-	80,771
Balance at 31 December 2018	75,483	541	4,747	-	80,771

Gold – pawn loans at amortised cost, ECL:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	-	-	34	-	34
New financial asset originated or purchased	76	-	-	-	76
Transfer to Stage 1	22	-	(22)	-	-
Transfer to Stage 2	-	10	(10)	-	-
Transfer to Stage 3	(76)	-	76	-	-
Impact on ECL of exposures transferred between stages during the year	(22)	(10)	77	-	45
Assets derecognised (excluding write-offs)	-	-	-	-	-
Assets repaid	(3)	(1)	(220)	-	(224)
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(609)	-	(609)
Recoveries of amounts previously written off	-	-	113	-	113
Unwind of discount	-	-	8	-	8
Net other measurement of ECL	14	1	836	-	851
Balance at 31 December 2018	11	-	283	-	294
Individually assessed	-	-	-	-	-
Collectively assessed	11	-	283	-	294
Balance at 31 December 2018	11	-	283	-	294

The contractual amounts outstanding on loans to customers that have been written off during the reporting period but are still subject to enforcement activity was GEL 48,700 (2019: GEL 58,627, 2018: GEL 67,001).

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

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, equipment and machinery, corporate shares, inventory, trade receivables, third-party corporate guarantees and personal guarantees of shareholders.
- For retail lending, mortgages over residential properties, cars, gold and jewellery, third-party corporate guarantees and personal guarantees of shareholders.

Management requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for expected credit loss/impairment of loans.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion or to hold them for capital appreciation or earning rentals, as appropriate in each case. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

Without taking into account the discounted value of collateral, the ECL for credit-impaired loans would be as follows:

- for commercial loans: GEL 211,235 as at 31 December 2020 (2019: GEL 145,323, 2018: GEL 233,806);
- for residential mortgage loans: GEL 146,803 as at 31 December 2020 (2019: GEL 101,542, 2018: GEL 75,073);
- for micro and SME: GEL 148,438 as at 31 December 2020 (2019: GEL 96,583, 2018: GEL 98,175);
- for consumer loans: GEL 84,698 as at 31 December 2020 (2019: GEL 85,551, 2018: GEL 86,325); and
- gold – pawn loans: GEL 1,430 as at 31 December 2020 (2019: GEL 2,561, 2018: GEL 283).

Without taking into account the discounted value of collateral, the allowance for expected credit loss/impairment of loans would be GEL 344,920 higher as at 31 December 2020 (2019: GEL 279,914 higher, 2018: GEL 250,064 higher).

Concentration of loans to customers

As at 31 December 2020, the concentration of loans granted by the Bank to the ten largest third-party borrowers comprised GEL 1,213,986 accounting for 9% of the gross loan portfolio of the Bank (2019: GEL 1,023,217 and 9% respectively, 2018: GEL 788,216 and 9% respectively). An allowance of GEL 7,970 (2019: GEL 1,634, 2018: GEL 44,079) was established against these loans.

As at 31 December 2020, the concentration of loans granted by the Bank to the ten largest third-party group of borrowers comprised GEL 1,849,423 accounting for 14% of the gross loan portfolio of the Bank (2019: GEL 1,602,923 and 14% respectively, 2018: GEL 1,067,718 and 12% respectively). An allowance of GEL 11,285 (2019: GEL 60,953, 2018: GEL 42,108) was established against these loans.

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

Concentration of loans to customers (continued)

As at 31 December 2020, 31 December 2019 and 31 December 2018, loans were principally issued within Georgia, and their distribution by industry sector was as follows:

	2020	2019	2018
Individuals	7,395,492	6,350,714	5,443,549
Manufacturing	1,086,377	1,075,292	882,848
Trade	1,025,082	1,095,800	851,918
Real estate	944,364	611,767	342,859
Hospitality	843,890	392,976	289,830
Transport & communication	279,607	219,474	105,528
Construction	268,114	566,756	351,906
Electricity, gas and water supply	251,433	49,117	76,574
Service	244,706	213,753	145,757
Mining and quarrying	200,407	117,613	127,835
Financial intermediation	92,405	68,247	61,691
Other	975,947	495,488	325,006
Loans to customers, gross	13,607,824	11,256,997	9,005,301
Less – Allowance for expected credit loss	(410,735)	(197,806)	(288,513)
Loans to customers, net	13,197,089	11,059,191	8,716,788

COVID-19 had affected many areas of the country's economy. However, some of the sectors, such as the hospitality sector, retail and micro businesses were more affected than others.

Loans have been extended to the following types of customers:

	2020	2019	2018
Individuals	7,395,492	6,350,714	5,443,549
Private companies	6,192,198	4,891,681	3,558,975
State-owned entities	20,134	14,602	2,777
Loans to customers, gross	13,607,824	11,256,997	9,005,301
Less – Allowance for expected credit loss	(410,735)	(197,806)	(288,513)
Loans to customers, net	13,197,089	11,059,191	8,716,788

Finance lease receivables

	2020	2019	2018
Minimum lease payments receivable	6,318	7,720	8,281
Less – Unearned finance lease income	(2,399)	(3,109)	(2,105)
	3,919	4,611	6,176
Less – Allowance for expected credit loss / impairment loss	(21)	(13)	(20)
Finance lease receivables, net	3,898	4,598	6,156

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

As at 31 December 2020, finance lease receivables carried at GEL were pledged for inter-bank loans received from several credit institutions (2019: GEL, 2018:).

As at 31 December 2020, the concentration of investment in the five largest lease receivables comprised GEL 3,919 or 100% of total finance lease receivables (2019: GEL 4,599 or 100%, 2018: GEL 5,928 or 96%) and finance income received from them for the year ended 31 December 2020 comprised GEL 426 or 95% of total finance income from lease (2019: GEL 511 or 93%, 2018: GEL 792 or 36%).

Future minimum lease payments to be received after 31 December 2020, 31 December 2019 and 31 December 2018 are as follows:

	2020	2019	2018
Within 1 year	3,783	3,992	3,698
From 1 to 5 years	2,535	2,862	3,024
More than 5 years	-	866	1,559
Minimum lease payment receivables	6,318	7,720	8,281

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	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	4,611	-	-	-	4,611
New financial asset originated or purchased	-	-	-	-	-
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Assets repaid	(1,161)	-	-	-	(1,161)
Resegmentation	-	-	-	-	-
Impact of modifications	-	-	-	-	-
Write-offs	-	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-	-
Unwind of discount	-	-	-	-	-
Foreign exchange movement	8	-	-	-	8
Net other changes	461	-	-	-	461
Balance at 31 December 2020	3,919	-	-	-	3,919
Individually assessed	-	-	-	-	-
Collectively assessed	3,919	-	-	-	3,919
Balance at 31 December 2020	3,919	-	-	-	3,919
Finance lease receivables, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	13	-	-	-	13
New financial asset originated or purchased	-	-	-	-	-
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Impact on ECL of exposures transferred between stages during the year	-	-	-	-	-
Assets repaid	(3)	-	-	-	(3)
Resegmentation	-	-	-	-	-
Impact of modifications	-	-	-	-	-
Write-offs	-	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-	-
Unwind of discount	-	-	-	-	-
Foreign exchange movement	-	-	-	-	-
Net other measurement of ECL	11	-	-	-	11
Balance at 31 December 2020	21	-	-	-	21
Individually assessed	-	-	-	-	-
Collectively assessed	21	-	-	-	21
Balance at 31 December 2020	21	-	-	-	21

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

Finance lease receivables (continued)

Finance lease receivables, gross	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	6,176	-	-	-	6,176
New financial asset originated or purchased	34	-	-	-	34
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Assets repaid	(2,246)	-	-	-	(2,246)
Resegmentation	-	-	-	-	-
Impact of modifications	-	-	-	-	-
Write-offs	-	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-	-
Unwind of discount	-	-	-	-	-
Foreign exchange movement	15	-	-	-	15
Net other changes	632	-	-	-	632
Balance at 31 December 2019	4,611	-	-	-	4,611
Individually assessed	-	-	-	-	-
Collectively assessed	4,611	-	-	-	4,611
Balance at 31 December 2019	4,611	-	-	-	4,611
Finance lease receivables, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	20	-	-	-	20
New financial asset originated or purchased	-	-	-	-	-
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Impact on ECL of exposures transferred between stages during the year	-	-	-	-	-
Assets repaid	(7)	-	-	-	(7)
Resegmentation	-	-	-	-	-
Impact of modifications	-	-	-	-	-
Write-offs	-	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-	-
Unwind of discount	-	-	-	-	-
Foreign exchange movement	-	-	-	-	-
Net other measurement of ECL	-	-	-	-	-
Balance at 31 December 2019	13	-	-	-	13
Individually assessed	-	-	-	-	-
Collectively assessed	13	-	-	-	13
Balance at 31 December 2019	13	-	-	-	13

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

Finance lease receivables (continued)

Finance lease receivables, gross	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	6,697	-	-	-	6,697
New financial asset originated or purchased	8,923	-	-	-	8,923
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Assets derecognised (excluding write-offs)	-	-	-	-	-
Assets repaid	(10,494)	-	-	-	(10,494)
Impact of modifications	-	-	-	-	-
Write-offs	-	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-	-
Unwind of discount	-	-	-	-	-
Net other changes	1,050	-	-	-	1,050
Balance at 31 December 2018	6,176	-	-	-	6,176
Individually assessed	-	-	-	-	-
Collectively assessed	6,176	-	-	-	6,176
Balance at 31 December 2018	6,176	-	-	-	6,176

Finance lease receivables, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	94	-	-	-	94
New financial asset originated or purchased	125	-	-	-	125
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Impact on ECL of exposures transferred between stages during the year	-	-	-	-	-
Assets derecognised (excluding write-offs)	-	-	-	-	-
Assets repaid	(147)	-	-	-	(147)
Impact of modifications	-	-	-	-	-
Write-offs	-	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-	-
Unwind of discount	-	-	-	-	-
Net other measurement of ECL	(52)	-	-	-	(52)
Balance at 31 December 2018	20	-	-	-	20
Individually assessed	-	-	-	-	-
Collectively assessed	20	-	-	-	20
Balance at 31 December 2018	20	-	-	-	20

10. Right-of-use assets, lease liabilities, and property and equipment

	2020	2019	2018
Right-of-use assets	77,763	90,039	N/A
Lease liability	89,812	88,535	N/A

Administrative expenses include occupancy and rent expenses on lease contracts where the recognition exemptions have been applied:

	2020	2019	2018
Short-term leases	(2,853)	(5,404)	N/A
Leases of low-value assets	(1,161)	(484)	N/A
	(4,014)	(5,888)	N/A

10. Right-of-use assets, lease liabilities, and property and equipment (continued)

The movements in right-of-use assets were as follows:

	<i>Office buildings & service centres</i>	<i>Total</i>
Cost		
31 December 2019	107,038	107,038
Additions	9,778	9,778
Disposals	(6,657)	(6,657)
31 December 2020	110,159	110,159
Accumulated impairment		
31 December 2019	-	-
31 December 2020	-	-
Accumulated depreciation		
31 December 2019	16,999	16,999
Depreciation charge	16,395	16,395
Disposals	(998)	(998)
31 December 2020	32,396	32,396
Net book value		
31 December 2019	90,039	90,039
31 December 2020	77,763	77,763
	<i>Office buildings & service centres</i>	<i>Total</i>
Cost		
1 January 2019	75,865	75,865
Additions	34,545	34,545
Disposals	(3,372)	(3,372)
31 December 2019	107,038	107,038
Accumulated impairment		
1 January 2019	-	-
31 December 2019	-	-
Accumulated depreciation		
1 January 2019	-	-
Depreciation charge	17,717	17,717
Disposals	(718)	(718)
31 December 2019	16,999	16,999
Net book value		
1 January 2019	75,865	75,865
31 December 2019	90,039	90,039

10. Right-of-use assets, lease liabilities, and property and equipment (continued)

The movements in property and equipment were as follows:

	<i>Office buildings & service centres</i>	<i>Furniture & fixtures</i>	<i>Computers & equipment</i>	<i>Motor vehicles</i>	<i>Leasehold improve- ments</i>	<i>Assets under construction</i>	<i>Total</i>
Cost							
31 December 2019	179,447	173,128	154,269	3,900	27,531	5,834	544,109
Additions	249	8,742	27,939	1,057	-	25,962	63,949
Transfers	21,600	-	-	-	6,254	(27,854)	-
Transfers to investment properties	(11,068)	-	-	(22)	-	-	(11,090)
Transfers to assets held for sale	1,333	-	-	-	-	-	1,333
Transfers to other assets	(101)	(4,930)	(8,895)	-	-	(820)	(14,746)
Disposals	-	(90)	-	(84)	-	-	(174)
Write-offs	(293)	(3,004)	(3,396)	(174)	(2,990)	-	(9,857)
31 December 2020	191,167	173,846	169,917	4,677	30,795	3,122	573,524
Accumulated impairment							
31 December 2019	1,359	-	-	-	-	-	1,359
31 December 2020	1,359	-	-	-	-	-	1,359
Accumulated depreciation							
31 December 2019	18,190	91,169	95,451	2,494	12,870	-	220,174
Depreciation charge	3,761	11,819	16,377	782	4,614	-	37,353
Transfers	-	-	-	-	-	-	-
Transfers to investment properties	(2,160)	-	-	(20)	-	-	(2,180)
Transfers to assets held for sale	-	-	-	-	-	-	-
Transfers to other assets	-	(1,111)	(3,077)	-	-	-	(4,188)
Disposals	-	-	-	-	-	-	-
Write-offs	(265)	(2,617)	(3,390)	(134)	(2,857)	-	(9,263)
31 December 2020	19,526	99,260	105,361	3,122	14,627	-	241,896
Net book value							
31 December 2019	159,898	81,959	58,818	1,406	14,661	5,834	322,576
31 December 2020	170,282	74,586	64,556	1,555	16,168	3,122	330,269

	<i>Office buildings & service centres</i>	<i>Furniture & fixtures</i>	<i>Computers & equipment</i>	<i>Motor vehicles</i>	<i>Leasehold improve- ments</i>	<i>Assets under construction</i>	<i>Total</i>
Cost							
31 December 2018	176,890	202,721	80,891	4,234	23,433	2,999	491,168
Additions	1,469	25,816	28,560	558	-	22,593	78,996
Transfers	13,000	(51,830)	51,830	-	5,306	(18,306)	-
Transfers to investment properties	(3,211)	(3)	-	(47)	-	-	(3,261)
Transfers to other assets	-	(1,994)	(6,359)	-	-	(1,451)	(9,804)
Disposals	(4,100)	(76)	(170)	(845)	-	(1)	(5,192)
Write-offs	(4,601)	(1,506)	(483)	-	(1,208)	-	(7,798)
31 December 2019	179,447	173,128	154,269	3,900	27,531	5,834	544,109
Accumulated impairment							
31 December 2018	1,359	-	-	-	-	-	1,359
31 December 2019	1,359	-	-	-	-	-	1,359
Accumulated depreciation							
31 December 2018	15,117	113,740	54,359	2,194	9,752	-	195,162
Depreciation charge	4,445	10,551	13,350	687	4,326	-	33,359
Transfers	-	(31,200)	31,200	-	-	-	-
Transfers to investment properties	(331)	-	-	(36)	-	-	(367)
Transfers to other assets	-	(1,883)	(3,290)	-	-	-	(5,173)
Disposals	(80)	(39)	(38)	(351)	-	-	(508)
Write-offs	(961)	-	(130)	-	(1,208)	-	(2,299)
31 December 2019	18,190	91,169	95,451	2,494	12,870	-	220,174
Net book value							
31 December 2018	160,414	88,981	26,532	2,040	13,681	2,999	294,647
31 December 2019	159,898	81,959	58,818	1,406	14,661	5,834	322,576

10. Right-of-use assets, lease liabilities, and property and equipment (continued)

	<i>Office buildings & service centres</i>	<i>Furniture & fixtures</i>	<i>Computers & equipment</i>	<i>Motor vehicles</i>	<i>Leasehold improve- ments</i>	<i>Assets under construction</i>	<i>Total</i>
Cost							
31 December 2017	179,617	195,581	70,266	7,045	17,599	7,832	477,940
Additions	-	23,855	13,317	918	-	15,744	53,834
Transfers	11,200	(972)	-	-	6,651	(16,879)	-
Transfers to investment properties	(14,472)	-	-	-	-	(3,741)	(18,213)
Transfers (to) from other assets	-	(12,874)	(2,201)	(1,101)	-	43	(16,133)
Revaluation	2,227	-	-	-	-	-	2,227
Disposals	(1,682)	(2,869)	(491)	(2,628)	(817)	-	(8,487)
31 December 2018	176,890	202,721	80,891	4,234	23,433	2,999	491,168
Accumulated impairment							
31 December 2017	1,359	-	-	-	-	-	1,359
31 December 2018	1,359	-	-	-	-	-	1,359
Accumulated depreciation							
31 December 2017	15,454	116,107	47,630	3,982	5,522	-	188,695
Depreciation charge	1,818	14,695	7,974	845	5,042	-	30,374
Transfers	-	-	-	-	-	-	-
Transfers to investment properties	(911)	-	-	-	-	-	(911)
Transfers (to) from other assets	-	(14,760)	(1,048)	-	-	-	(15,808)
Disposals	(1,244)	(2,302)	(197)	(2,633)	(812)	-	(7,188)
31 December 2018	15,117	113,740	54,359	2,194	9,752	-	195,162
Net book value							
31 December 2017	162,804	79,474	22,636	3,063	12,077	7,832	287,886
31 December 2018	160,414	88,981	26,532	2,040	13,681	2,999	294,647

11. Investment properties

	2020	2019	2018
At 1 January	204,885	132,327	185,493
Additions	79,761	107,988	66,159
Disposals	(39,388)	(36,578)	(74,278)
Net gains (losses) from revaluation of investment property	19,425	12,685	(1,184)
Net transfers to property and equipment, other assets and assets held for sale*	(45,678)	(11,537)	(43,863)
At 31 December	219,005	204,885	132,327

* Comprised GEL 55,120 transfer to assets held for sale (2019: GEL 14,402 , 2018: GEL 54,687), GEL 8,910 transfer from property and equipment (2019: GEL 2,894 , 2018: GEL 17,302), GEL 532 transfer from finance lease receivables (2019: transfer to finance lease receivables GEL 29 and 2018: transfer to finance lease receivables GEL 6,478), and GEL - transfer to other assets - inventories (2019: nil, 2018: nil).

Investment properties are stated at fair value. The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. As at 31 December 2020, the fair values of the properties are based on valuations performed by accredited independent valuers. Refer to Note 28 for details on fair value measurements of investment properties.

12. Goodwill

Movements in goodwill were as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Cost			
1 January	<u>33,453</u>	<u>33,453</u>	<u>33,453</u>
At 31 December	<u>33,453</u>	<u>33,453</u>	<u>33,453</u>
Accumulated impairment			
1 January	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December	<u>-</u>	<u>-</u>	<u>-</u>
Net book value:			
1 January	<u>33,453</u>	<u>33,453</u>	<u>33,453</u>
At 31 December	<u>33,453</u>	<u>33,453</u>	<u>33,453</u>

Impairment test for goodwill

Goodwill acquired through business combinations with indefinite lives have been allocated to two individual cash-generating units, for impairment testing: Corporate Banking and Retail Banking.

The carrying amount of goodwill allocated to each of the cash-generating units (“CGU”) is as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Retail Banking	23,488	23,488	23,488
Corporate Banking	9,965	9,965	9,965
Total	<u>33,453</u>	<u>33,453</u>	<u>33,453</u>

Key assumptions used in value-in-use calculations

The recoverable amounts of the CGUs have been determined based on a value-in-use calculation, using cash flow projections based on financial budgets approved by senior management covering a one to three-year period. Discount rates were not adjusted for either a constant or a declining growth rate beyond the three-year periods covered in financial budgets. For the purposes of the impairment test, a 3% permanent growth rate has been assumed when assessing the future operating cash flows of the CGU.

The following discount rates were used by the Bank for Corporate Banking and Retail Banking:

	<u>Corporate Banking</u>			<u>Retail Banking</u>		
	<u>2020, %</u>	<u>2019, %</u>	<u>2018, %</u>	<u>2020, %</u>	<u>2019, %</u>	<u>2018, %</u>
Discount rate	4.4%	5.0%	4.7%	7.7%	6.7%	6.2%

Discount rates

Discount rates reflect management’s estimate of return required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using pre-tax weighted average cost of capital (“WACC”).

For the Retail and Corporate Banking CGUs, the following additional assumptions were made:

- stable, business as usual growth of loans and deposits;
- no material changes in cost / income structure or ratio; and
- stable, business as usual growth of trade finance and other documentary businesses.

Sensitivity to changes in assumptions

Management believes that reasonable possible changes to key assumptions used to determine the recoverable amount for each CGU will not result in an impairment of goodwill. The excess of value-in-use over carrying value is determined by reference to the net book value as at 31 December 2020. Possible change was taken as +/-1% in discount rate and growth rate.

13. Investments in subsidiaries

Cost of shares of the investments in subsidiaries are as follows:

	2020	2019	2018
Bank of Georgia Representative Office UK Limited	-	-	-
Tree of Life Foundation NPO	-	-	-
Bank of Georgia Representative Office Hungary	-	-	5,194
Representative Office of JSC Bank of Georgia in Turkey	-	-	-
Georgia Financial Investments, LLC	3,577	3,577	3,577
Teaching University of Georgian Bank, LLC	-	-	2,476
Benderlock Investments Limited	58,745	58,745	58,745
JSC Belarusky Narodny Bank	66,575	66,575	66,575
Georgian Leasing Company, LLC	22,414	22,414	22,414
Investments in subsidiaries	151,311	151,311	158,981

The Bank assessed impairment indicators for all the subsidiaries. No such impairment indicators have been identified as at 31 December 2020, 31 December 2019 and 31 December 2018, except for Bank of Georgia Representative Office in Hungary, which has been fully impaired since 31 December 2019.

The key combined financial figures of Benderlock Investments Limited and JSC Belarusky Narodny Bank as at 31 December 2020, 31 December 2019 and 31 December 2018 are as follows:

	2020	2019	2018
Total assets	1,062,029	990,802	726,731
Total equity	175,880	156,928	132,089
Total comprehensive income	18,952	30,105	5,553
Cash paid	125,320	125,320	125,320
Cost of acquisition	125,320	125,320	125,320

The key consolidated financial figures of Georgian Leasing Company, LLC as at 31 December 2020, 31 December 2019 and 31 December 2018 are as follows:

	2020	2019	2018
Total assets	179,536	192,133	116,698
Total equity	21,905	26,634	20,645
Total comprehensive income	(4,746)	6,007	2,330
Cost of acquisition*	22,414	22,414	22,414

* In 2017, loans and receivables to Georgian Leasing Company, LLC in amount of GEL 12,348 was converted into capital of subsidiary.

14. Taxation

The corporate income tax expense in income statement comprises:

	2020	2019	2018
Current income benefit (expense)	6,626	(45,887)	(34,154)
Deferred income tax expense	(24,658)	(11,546)	(18,741)
Income tax expense	(18,032)	(57,433)	(52,895)

Income tax expense in other comprehensive income comprises solely of deferred tax related to items charged or credited to other comprehensive income during the years ended 31 December 2020, 2019 and 2018 was as follows:

	2020	2019	2018
Net losses on investment securities	-	-	(140)
Income tax expense in other comprehensive income	-	-	(140)

The income tax rate applicable to the Bank's income is 15% (2019: 15%, 2018: 15%).

14. Taxation (continued)

On 12 June 2018, an amendment to the current corporate taxation model applicable to financial institutions, including banks and insurance businesses, became effective. The change implies a zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings starting from 1 January 2023, instead of 1 January 2019 as previously enacted in 2016. The change had an immediate impact on deferred tax asset and deferred tax liability balances attributable to previously recognised temporary differences arising from prior periods. As at 30 June 2018, deferred tax assets and liabilities balances have been re-measured, in line with the new date for the change to be implemented. The Bank has calculated the portion of deferred taxes that is expected to be realised before 1 January 2023 for financial businesses and has recognised the respective portion of deferred tax assets and liabilities. During the transitional period, the Bank will only continue to recognise the portion of deferred tax assets and liabilities arising on items charged or credited to the income statement during the same period, which it expects to be realised before 1 January 2023.

The effective income tax rate differs from the statutory income tax rates. As at 31 December 2020, 31 December 2019 and 31 December 2018, a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Profit before income tax expense	316,753	535,163	386,197
Average tax rate	15%	15%	15%
Theoretical income tax expense at average tax rate	(47,513)	(80,274)	(57,930)
Non-taxable income	35,825	24,093	22,534
Non-deductible expenses	(3,321)	(1,504)	(2,764)
Correction of prior year declarations	(3,343)	-	-
Effects from changes in tax legislation	-	-	(15,696)
Other	320	252	961
Income tax expense	<u>(18,032)</u>	<u>(57,433)</u>	<u>(52,895)</u>

Applicable taxes in Georgia include corporate income tax (profit tax), individuals' withholding taxes, property tax and value added tax, among others. However, regulations are often unclear or non-existent and few precedents have been established. This creates tax risks in Georgia, substantially more significant than typically found in countries with more developed tax systems. Management believes that the Bank is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretative issues.

As at 31 December 2020, 31 December 2019 and 31 December 2018, income tax assets and liabilities consist of the following:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current income tax assets	21,325	-	19,159
Deferred income tax assets	-	-	-
Income tax assets	<u>21,325</u>	<u>-</u>	<u>19,159</u>
Current income tax liabilities	-	603	-
Deferred income tax liabilities	59,663	35,005	23,459
Income tax liabilities	<u>59,663</u>	<u>35,608</u>	<u>23,459</u>

14. Taxation (continued)

Deferred tax assets and liabilities as at 31 December 2020, 31 December 2019 and 31 December 2018, and their movements for the respective years, are as follows:

	<i>Origination and reversal of temporary differences</i>					<i>Origination and reversal of temporary differences</i>		<i>Origination and reversal of temporary differences</i>	
	<i>In the income statement</i>		<i>IFRS 15 adoption</i>		<i>IFRS 9 adoption</i>		<i>In other comprehensive income</i>		
	2017	2018	2019	2020	2018	2019	2020		
Tax effect of deductible temporary differences:									
Cash and cash equivalents	-	8	-	10	-	18	1	19	
Amounts due from credit institutions	-	4	-	77	-	81	(37)	44	
Investment securities	-	-	-	-	-	-	66	66	
Investment properties	-	-	-	-	-	-	-	59	
Intangible assets	-	174	-	-	-	174	25	199	
Lease liability	-	-	-	-	-	-	7,022	7,022	
Accruals and deferred income	-	-	-	-	-	-	2,009	2,009	
Other assets and liabilities	1,130	2,900	1,844	-	5,874	-	(4,234)	1,640	
Deferred tax assets	1,130	3,086	1,844	87	-	6,147	4,852	10,999	
Tax effect of taxable temporary differences:									
Amounts due to credit institutions	761	1,792	-	-	-	2,553	(654)	1,899	
Debt securities issued	-	2,722	-	-	-	2,722	(411)	2,311	
Investment securities	-	(109)	-	83	140	114	(114)	-	
Loans to customers and finance lease	4,407	13,258	-	(1,176)	-	16,489	7,538	24,027	
Property and equipment	211	5,831	-	-	-	6,042	3,118	9,160	
Right-of-use assets	-	-	-	-	-	-	7,152	7,152	
Investment properties	-	584	-	-	-	584	(356)	228	
Assets held for sale	-	1,102	-	-	-	1,102	125	1,227	
Other assets and liabilities	3,353	(3,353)	-	-	-	-	-	-	
Deferred tax liabilities	8,732	21,827	-	(1,093)	140	29,606	16,398	46,004	
Net deferred tax liabilities	(7,602)	(18,741)	1,844	1,180	(140)	(23,459)	(11,546)	(35,005)	

15. Other assets and other liabilities

Other assets comprise:

	2020	2019	2018
Derivatives margin	210,816	2,093	-
Receivables from remittance operations	25,992	33,909	8,866
Other receivables	15,157	11,939	9,048
Investments in associates	13,099	12,949	12,371
Derivative financial assets	10,270	31,920	31,084
Foreclosed assets	5,082	5,663	1,458
Operating tax assets	2,934	5,911	112
Other	4,197	4,882	32,454
Other assets, gross	287,547	109,266	95,393
Less – Allowance for impairment of other assets	(14,979)	(6,644)	(1,451)
Other assets, net	272,568	102,622	93,942

15. Other assets and other liabilities (continued)

Other liabilities comprise:

	2020	2019	2018
Derivative financial liabilities	231,888	10,748	11,569
Creditors	33,680	25,464	11,330
Provisions	14,359	5,269	3,745
Payables for remittance operations	8,597	19,331	10,107
Other taxes payable	6,537	11,762	6,776
Dividends payable	1,545	1,578	1,304
Derivatives margin	-	12,532	-
Advances received	-	5,072	8,279
Other	4,681	6,201	6,611
Other liabilities	301,287	97,957	59,721

In 2020, the Bank's derivative financial liabilities comprised mainly of USD-EUR contracts, the balance on which has significantly increased as a result of an apparent devaluation of USD as compared to EUR. The Bank was also required to provide respective collateral for the exposure in the form of a derivatives margin.

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

	2020		
	Notional amount	Fair value	
		Asset	Liability
Foreign exchange contracts			
Forwards and swaps – domestic	600,120	8,091	2,908
Forwards and swaps – foreign	6,836,950	630	227,878
Interest rate contracts			
Options - foreign (IR)	7,864	1,549	1,102
Total derivative assets / liabilities	7,444,934	10,270	231,888

	2019			2018		
	Notional amount	Fair value		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
Foreign exchange contracts						
Forwards and swaps – domestic	783,400	5,620	1,202	721,906	3,110	981
Forwards and swaps – foreign	5,237,095	23,734	7,632	1,783,252	15,338	4,228
Interest rate contracts						
Forwards and swaps – foreign	-	-	-	1,109,990	12,636	6,360
Options - foreign (IR)	8,351	2,566	1,914	-	-	-
Total derivative assets / liabilities	6,028,846	31,920	10,748	3,615,148	31,084	11,569

16. Client deposits and notes

The amounts due to customers include the following:

	2020	2019	2018
Time deposits	7,584,777	4,571,710	3,767,421
Current accounts	5,911,701	4,965,493	4,044,340
Client deposits and notes	13,496,478	9,537,203	7,811,761

At 31 December 2020, amounts due to customers of GEL 2,951,893 (22%) were due to the ten largest customers (2019: GEL 828,952 (9%), 2018: GEL 966,873 (12%)).

16. Client deposits and notes (continued)

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Individuals	7,406,060	6,072,006	4,611,854
Private enterprises	4,174,873	3,103,188	2,659,687
State and state-owned entities	1,915,545	362,009	540,220
Client deposits and notes	<u>13,496,478</u>	<u>9,537,203</u>	<u>7,811,761</u>

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Individuals	7,406,060	6,072,006	4,611,854
Government services	1,866,346	320,470	508,410
Financial intermediation	824,730	562,668	457,293
Trade	773,058	460,504	478,417
Construction	563,026	598,319	549,444
Transport & communication	495,891	389,821	324,478
Service	423,482	302,430	307,572
Manufacturing	274,609	225,880	144,325
Real estate	146,293	96,010	81,316
Electricity, gas and water supply	75,212	93,757	95,987
Hospitality	65,825	62,084	40,216
Other	581,946	353,254	212,449
Client deposits and notes	<u>13,496,478</u>	<u>9,537,203</u>	<u>7,811,761</u>

Growth in Government services deposits were mainly driven by deposits placed by Ministry of Finance of Georgia and Pension Agency during the year ended 31 December 2020.

17. Amounts owed to credit institutions

Amounts due to credit institutions comprise:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Borrowings from international credit institutions	1,260,060	1,123,657	812,189
Short-term loans from National Bank of Georgia	590,293	1,551,953	1,118,100
Time deposits and inter-bank loans	75,813	78,156	90,903
Correspondent accounts	196,892	264,122	118,904
	<u>2,123,058</u>	<u>3,017,888</u>	<u>2,140,096</u>
Non-convertible subordinated debt	707,648	461,481	419,181
Amounts due to credit institutions	<u>2,830,706</u>	<u>3,479,369</u>	<u>2,559,277</u>

During the year ended 31 December 2020, the Bank paid up to 5.49% on US\$ borrowings from international credit institutions (2019: up to 6.50%, 2018: up to 6.10%). During the year ended 31 December 2020, the Bank paid up to 9.39% on Dollar subordinated debt (2019: up to 11.13%, 2018: up to 10.00%).

Some long-term borrowings from international credit institutions are received upon certain conditions (the "Lender Covenants") that the Bank maintains different limits for capital adequacy, liquidity, currency positions, credit exposures, leverage and others. At 31 December 2020, 31 December 2019 and 31 December 2018, the Bank complied with all the Lender Covenants of the significant borrowings from international credit institutions.

17. Amounts owed to credit institutions (continued)

In May 2015, the Bank entered into a USD 90 million subordinated loan agreement with the International Finance Corporation (“IFC”). The loan facility, which includes USD 20 million participation from the European Fund for Southeast Europe (“EFSE”), has a maturity of ten years. The loan facility has been approved as the Bank’s Tier 2 capital by the NBG under Basel II framework and has been grandfathered by the NBG until its maturity to serve as the Bank’s Tier 2 capital in light of new Basel III framework. The loan contains certain information and financial covenants customary in a contract with a development financial institution, and the early repayment options in cases of customary events of default (except for insolvency and/or liquidation events per applicable regulations) are available only (i) after expiry of the 5 years of the term of the facility; and (ii) only after the NBG’s prior approval towards such acceleration.

In June 2019, the Bank and the European Fund for Southeast Europe (“EFSE”) have entered into a USD 10 million subordinated loan agreement with a maturity of ten years. The subordinated loan facility qualifies for Tier II capital under the Basel III framework recently introduced in Georgia.

In September 2019, the Bank and responsAbility Micro and SME Finance Fund have entered into a USD 10 million subordinated loan agreement with a maturity of ten years. The subordinated loan facility qualifies for Tier II capital under the Basel III framework recently introduced in Georgia.

In December 2019, the Bank signed a ten-year USD 107 million subordinated syndicated loan agreement arranged by FMO - Dutch entrepreneurial development bank in collaboration with other participating lenders. The disbursed portion of the facility has been included into the Bank’s Tier 2 capital by approval of the National Bank of Georgia under the Basel III framework in the amount of USD 52 million for which the regulatory approval on classification was received in December 2019. The remaining undrawn portions are similarly expected to be included into the Bank’s Tier 2 Capital subject to the relevant NBG approvals. In accordance with applicable Tier 2 rules, the facility provides for the possibilities of acceleration by the lenders only in case of insolvency or liquidation events as defined in NBG regulations. The other possibilities of early repayment include (i) failure of the facility or its portion to be qualified as Tier 2 Capital by NBG within 45 days of the relevant disbursement; and (ii) repayment with the NBG’s specific prior approval in limited cases of illegality or change of control after expiry of 5 years of the term of the facility.

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.

Subordinated debt contracts details (more than 10% of total subordinated debt, on a contract basis):

Facility provider	Commencement date	Maturity date	Interest rate	Currency	Original contractual value	Carrying value as at 31 December 2020	Carrying value as at 31 December 2019
International Finance Corporation	29-Jun-15	15-Jun-25	Libor + 7.5%	USD	90,000	293,964	258,020
FMO - Dutch entrepreneurial development bank	20-Dec-19	20-Dec-29	Libor + 5.65%	USD	107,000	347,087	144,778

18. Debt securities issued

Debt securities issued comprise:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Eurobonds and notes issued	1,020,428	1,442,298	1,350,921
Additional Tier 1 capital notes issued	323,320	282,407	-
Certificates of deposit	106,850	274,098	285,008
Debt securities issued	<u>1,450,598</u>	<u>1,998,803</u>	<u>1,635,929</u>

On 21 March 2019, JSC Bank of Georgia successfully issued an inaugural US\$ 100 million offering of 11.125% Additional Tier 1 Capital Perpetual Subordinated Notes callable after 5.25 years and on every subsequent interest payment date, subject to prior consent of the National Bank of Georgia (the “Notes”). The Notes have been issued in accordance with Regulation S as adopted by the United States SEC and sold at an issue price of 100.00%. The notes qualify as the Bank’s Additional Tier 1 Capital under Basel III framework, with the NBG’s approval.

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

Changes in liabilities arising from financing activities

	<u>Eurobonds and notes issued</u>	<u>Additional Tier 1 capital notes issued</u>
Carrying amount at 31 December 2017	<u>454,954</u>	<u>-</u>
Other movements	895,967	-
Carrying amount at 31 December 2018	<u>1,350,921</u>	<u>-</u>
Proceeds from debt securities issued	-	268,160
Other movements	91,377	14,247
Carrying amount at 31 December 2019	<u>1,442,298</u>	<u>282,407</u>
Repurchase of debt securities issued	(120,549)	-
Repayment of the principal portion of the debt securities issued	(440,410)	-
Other movements	139,089	40,913
Carrying amount at 31 December 2020	<u>1,020,428</u>	<u>323,320</u>

19. Commitments and contingencies

Legal

Sai-invest

As at 31 December 2020, the Bank was engaged in litigation 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 Bank’s management is of the opinion that the probability of incurring material losses on this claim is low, and, accordingly, no provision has been made in these separate financial statements.

Rustavi Azoti

The dispute launched by East-West United Bank S.A., Agrochim S.A. and Systema Holding Limited (claimants) against the Bank, JSC BGEO Group and others (respondents) claiming restitution and/or damages (in the amount of circa 93.6 million US Dollars) in relation to foreclosure on security (movable and immovable property and intangible assets) through auction on a defaulted loan of Rustavi Azoti LLC, disclosed in 2019 financial statements, finalized in favour of the Bank and BGEO in December 2020, by Supreme Court of Georgia’s full and final dismissal of all claims of claimants against respondents.

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

19. Commitments and contingencies (continued)

Financial commitments and contingencies

As at 31 December 2020, 31 December 2019 and 31 December 2018, the Bank's financial commitments and contingencies comprised the following:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Credit-related commitments			
Guarantees issued	1,460,511	1,321,380	991,816
Letters of credit	124,911	54,815	43,815
Undrawn loan facilities	624,386	221,187	237,222
	<u>2,209,808</u>	<u>1,597,382</u>	<u>1,272,853</u>
Less – Cash held as security against letters of credit and guarantees (Note 16)	(131,946)	(90,227)	(125,217)
Less – Provisions	(14,359)	(5,269)	(3,745)
Operating lease commitments			
Not later than 1 year	1,949	1,494	27,514
Later than 1 year but not later than 5 years	2,827	877	72,824
Later than 5 years	1,657	146	28,754
	<u>6,433</u>	<u>2,517</u>	<u>129,092</u>
Capital expenditure commitments	<u>2,561</u>	<u>4,275</u>	<u>6,616</u>

The Bank discloses its undrawn loan facility balances based on the contractual terms and existing practice in regards to disbursement of these amounts. The balances are disclosed as commitments if the Bank has an established practice of disbursing undrawn amounts without any subsequent approval. In 2020 the Bank has modified its disbursement practice in regards to certain revolving credit facilities resulting in increased commitment balances.

20. Equity

Share capital

As at 31 December 2020, 31 December 2019 and 31 December 2018, authorised common capital comprised 43,308,125 common shares. As at 31 December 2020, 31 December 2019 and 31 December 2018, issued share capital comprised 27,993,660 common shares, all of which were fully paid. Each share has a nominal value of one (1) Georgian Lari. Shares issued and outstanding as at 31 December 2020 are described below:

	<i>Number of ordinary shares</i>	<i>Amount of ordinary shares</i>
31 December 2017	<u>27,821,150</u>	<u>27,821</u>
Issue of share capital	172,510	173
31 December 2018	<u>27,993,660</u>	<u>27,994</u>
31 December 2019	<u>27,993,660</u>	<u>27,994</u>
31 December 2020	<u>27,993,660</u>	<u>27,994</u>

Treasury shares

The number of treasury shares held by the Bank as at 31 December 2020, comprised 10,173 (31 December 2019: 10,173, 31 December 2018: 8,995), with nominal amount of GEL 10 (31 December 2019: GEL 10, 31 December 2018: GEL 9).

20. Equity (continued)

Dividends

Shareholders are entitled to dividends in Georgian Lari.

No dividends have been declared by Bank of Georgia Group PLC in 2020.

On 14 May 2019, the annual general meeting of shareholders' of JSC Bank of Georgia declared a final dividend for 2018 of Georgian Lari 4.97 per share. Payment of the total GEL 139,200 final dividends was received by shareholders on 17 June 2019.

On 14 June 2018, the annual general meeting of shareholders' of JSC Bank of Georgia declared an interim dividend for 2018 of Georgian Lari 4.31 per share. Payment of the total GEL 120,000 interim dividends was received by shareholders on 2 July 2018.

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.

Earnings per share

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<i>Basic and diluted earnings per share</i>			
Profit for the year attributable to ordinary shareholders of the Bank	298,721	477,730	333,302
Weighted average number of ordinary shares outstanding during the year	27,984,000	27,983,827	27,826,807
Earnings per share	10.6747	17.0716	11.9777

21. Net interest income

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Interest income calculated using EIR method	1,471,673	1,330,854	1,247,608
From loans to customers	1,285,904	1,183,946	1,090,112
From investment securities	164,436	130,669	133,129
From amounts due from credit institutions	17,474	25,599	28,274
Net gain (loss) on modification of financial assets	3,859	(9,360)	(3,907)
Other interest income	516	547	2,194
From finance lease receivable	450	547	2,194
From other assets	66	-	-
Interest income	<u>1,472,189</u>	<u>1,331,401</u>	<u>1,249,802</u>
On client deposits and notes	(421,212)	(273,536)	(245,407)
On amounts owed to credit institutions	(236,810)	(191,672)	(190,896)
On debt securities issued	(132,292)	(154,654)	(110,990)
Interest element of cross-currency swaps	47,582	43,048	-
On lease liability	(5,193)	(4,783)	-
Interest expense	<u>(747,925)</u>	<u>(581,597)</u>	<u>(547,293)</u>
Deposit insurance fees	(9,106)	(6,359)	(4,847)
Net interest income	<u><u>715,158</u></u>	<u><u>743,445</u></u>	<u><u>697,662</u></u>

In 2020, a GEL 39,730 net one-off loss on modification of financial assets was recorded in relation to the three-month payment holidays on principal and interest offered to our Retail Banking clients, as an immediate response to COVID-19 pandemic outbreak, in order to reduce the requirement for customers to physically visit Bank branches and reduce the risk of the virus spread. The net loss incurred as a result of these modifications has been classified as a non-recurring item in the income statement.

22. Net fee and commission income

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Settlements operations	201,550	204,339	173,018
Guarantees and letters of credit	27,458	24,898	17,307
Cash operations	14,135	18,351	14,866
Currency conversion operations	8,438	10,870	1,610
Brokerage service fees	48	38	-
Other	3,595	5,238	3,892
Fee and commission income	<u>255,224</u>	<u>263,734</u>	<u>210,693</u>
Settlements operations	(113,927)	(106,077)	(80,660)
Guarantees and letters of credit	(126)	(1,092)	(889)
Cash operations	(5,398)	(5,947)	(4,742)
Currency conversion operations	(1,468)	(1,256)	(289)
Insurance brokerage service fees	(963)	(1,007)	(256)
Other	(3,013)	(3,523)	(2,242)
Fee and commission expense	<u>(124,895)</u>	<u>(118,902)</u>	<u>(89,078)</u>
Net fee and commission income	<u>130,329</u>	<u>144,832</u>	<u>121,615</u>

Revenue from customers

In 2020, the Bank recognised GEL 229,008 revenue from contracts with customers in the income statement, including fee and commission as well as net other income (2019: GEL 272,828, 2018: GEL 224,668).

Contract assets and liabilities

As at 31 December 2020, the Bank has recognised GEL 33,699 revenue-related contract liabilities (2019: GEL 25,709, 2018: GEL 21,627). Accounts receivable are recognised when the right to consideration becomes unconditional. Deferred revenue is recognised as revenue as we perform under the contract.

The Bank does not adjust the promised amount of consideration for the effects of a significant financing component if the Bank expects, at contract inception, that the period between when the Bank transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

In 2020, the Bank recognised GEL 8,639 revenue (2019: GEL 7,222, 2018: GEL 6,873) that relates to carried-forward contract liabilities and is included in the deferred income.

Transaction price allocated to the remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied at the reporting date:

	<u>In 1 year</u>	<u>In 2 years</u>	<u>In 3 years</u>	<u>In 3 to 5 years</u>	<u>In 5 to 10 years</u>	<u>Total</u>
As at 31 December 2020	9,951	1,544	1,303	2,198	18,703	33,699
As at 31 December 2019	27,071	13,913	8,299	5,025	2,690	56,998
As at 31 December 2018	21,523	9,427	5,533	2,169	152	38,804

The Bank applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

23. Salaries and other employee benefits, and general and administrative expenses

Salaries and other employee benefits

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Salaries and bonuses	(193,755)	(199,044)	(181,502)
Pension costs	(2,908)	(2,627)	(858)
Salaries and other employee benefits	<u>(196,663)</u>	<u>(201,671)</u>	<u>(182,360)</u>

In 2020, salaries and bonuses include GEL 54,200 of the Equity Compensation Plan costs (2019: GEL 57,129, 2018: GEL 48,061), associated with the existing share-based compensation scheme approved in the Bank (Note 26).

The average number of staff employed by the Bank for the years ended 31 December 2020, 31 December 2019 and 31 December 2018, comprised:

Average number of employees for the year:	<u>2020</u>	<u>2019</u>	<u>2018</u>
Permanent employment:			
<i>Top management</i>	13	13	7
<i>Middle management</i>	49	43	50
<i>Other employees</i>	5,697	5,729	5,585
	<u>5,759</u>	<u>5,785</u>	<u>5,642</u>
Temporary employment:			
<i>Top management</i>	-	-	-
<i>Middle management</i>	-	-	-
<i>Other employees</i>	24	21	9
	<u>24</u>	<u>21</u>	<u>9</u>
Total	<u>5,783</u>	<u>5,806</u>	<u>5,651</u>

General and administrative expenses

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Repairs and maintenance	(18,180)	(10,665)	(10,423)
Marketing and advertising	(18,958)	(16,608)	(16,168)
Operating taxes	(11,031)	(8,500)	(5,298)
Legal and other professional services	(8,810)	(10,795)	(9,842)
Office supplies	(5,509)	(5,166)	(5,185)
Communication	(4,681)	(4,525)	(4,155)
Occupancy and rent	(4,014)	(5,888)	(24,797)
Insurance	(3,057)	(2,769)	(2,290)
Travel expenses	(3,051)	(3,820)	(1,599)
Security	(2,502)	(1,392)	(2,593)
Personnel training and recruitment	(1,694)	(3,195)	(5,928)
Corporate hospitality and entertainment	(1,275)	(9,254)	(5,651)
Other	(1,850)	(2,562)	(2,769)
General and administrative expenses	<u>(84,612)</u>	<u>(85,139)</u>	<u>(96,698)</u>

Auditor remuneration

Auditor remuneration is included within legal and other professional services expenses above and comprises:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Fees for the audit of the Bank's annual financial statements	578	521	520
Expenditures for other assurance services	491	487	-
Total fees	<u>1,069</u>	<u>1,008</u>	<u>520</u>

The figures shown in the above table relate to fees paid to EY LLC ("EY") and its associates. No assurance or other services have been provided for the Bank by any other auditor during the years ended 31 December 2020, 31 December 2019 and 31 December 2018.

24. Expected credit loss

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

	Stage 1	Stage 2	Stage 3		POCI	Total
	Collective	Collective	Individual	Collective		
Cash and cash equivalents	56	-	-	-	-	56
Amounts due from credit institutions	(79)	-	-	-	-	(79)
Investment securities measured at FVOCI - debt instruments	130	-	-	-	-	130
Loans to customers at amortised cost	(64,896)	(52,126)	(56,156)	(62,439)	(1,211)	(236,828)
Finance lease receivables	(8)	-	-	-	-	(8)
Other financial assets	(13,948)	-	-	-	-	(13,948)
Financial guarantees	(4,086)	(33)	(3,091)	-	-	(7,210)
Letter of credit to customers	(1,317)	-	(380)	-	-	(1,697)
For the year ended 31 December 2020	(84,148)	(52,159)	(59,627)	(62,439)	(1,211)	(259,584)

	Stage 1	Stage 2	Stage 3		POCI	Total
	Collective	Collective	Individual	Collective		
Cash and cash equivalents	(9)	-	-	-	-	(9)
Amounts due from credit institutions	244	-	-	-	-	244
Investment securities measured at FVOCI - debt instruments	125	-	-	-	-	125
Loans to customers at amortised cost	(4,058)	2,813	76,280	(159,859)	(1,146)	(85,970)
Finance lease receivables	7	-	-	-	-	7
Financial guarantees	(396)	(17)	145	138	-	(130)
Letter of credit to customers	(207)	117	(13)	-	-	(103)
For the year ended 31 December 2019	(4,294)	2,913	76,412	(159,721)	(1,146)	(85,836)

	Stage 1	Stage 2	Stage 3		POCI	Total
	Collective	Collective	Individual	Collective		
Cash and cash equivalents	(51)	-	-	-	-	(51)
Amounts due from credit institutions	(29)	-	-	-	-	(29)
Investment securities measured at FVOCI - debt instruments	(827)	-	-	-	-	(827)
Loans to customers at amortised cost	15,638	4,152	9,119	(170,154)	3,627	(137,618)
Finance lease receivables	74	-	-	-	-	74
Financial guarantees	(1,836)	18	304	83	-	(1,431)
Letter of credit to customers	186	15	-	621	-	822
For the year ended 31 December 2018	13,155	4,185	9,423	(169,450)	3,627	(139,060)

25. Net non-recurring items

	2020	2019	2018
Modification loss of financial assets*	(39,730)	-	-
Corporate social responsibility expense**	(1,454)	-	(11,478)
Termination benefits	-	(3,985)	(4,401)
Loss from sale of subsidiary	-	(2,828)	(3,659)
Demerger-related expenses***	-	-	(34,984)
Loss on early repayment of parent loan	-	-	(10,432)
Other	(107)	(5,466)	(3,858)
Net non-recurring expense/loss	(41,291)	(12,279)	(68,812)

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

** *In 2020, corporate social responsibility expense: in order to assist in the fight against the COVID-19 the Bank purchased and donated laboratory tests, respiratory equipment, etc. to the Government of Georgia on a one-off basis. In 2018, corporate social responsibility comprises the one-off project to support the fibre-optic broadband infrastructure development in rural Georgia.*

*** *Demerger-related expenses comprise: employee compensation expenses in amount of GEL 31,913 including acceleration of share-based compensation of Investment Business employees, Demerger costs recognised in the Consolidated Income Statement in amount of GEL 1,663 and other Demerger-related expenses in amount of GEL 1,408.*

26. Share-based payments

Executives' Equity Compensation Plan ("EECP") and Employees' Equity Compensation Plan ("EECP")

In 2015, the Bank set up Executive Equity Compensation Trustee - Sanne Fiduciary Services Limited (the "Trustee") which acts as the trustee of the Bank's Executives' Equity Compensation Plan ("EECP"). The Bank makes contributions to the Trustee in respect of the awards granted within EECP. JSC BGEO Group has the legal obligation to settle the awards. In granting the awards, the Bank acts as the agent of the parent and the ultimate parent.

In 2019, the Bank set up Employee Equity Compensation Trustee - Sanne Fiduciary Services Limited (the "Trustee") which acts as the trustee of the Bank's Employees' Equity Compensation Plan ("EECP").

In 2020, the Bank contributed GEL 21,057 (2019: GEL 51,302, 2018: GEL 65,420) as intra-group recharge under share-based compensation schemes described above.

Following the Demerger, BOGG's Remuneration Committee resolved to amend the contingent share-based compensation of Management Board members using estimated valuation of the relative share prices of BGEO before the Demerger and BOGG after the listing.

In January 2020, BOGG's Remuneration Committee resolved to award 271,460 ordinary shares of Bank of Georgia Group PLC to the members of the Management Board and 315,869 ordinary shares of Bank of Georgia Group PLC to the Bank's 49 executives. Shares awarded to the Management Board are subject to two-year vesting and two-year holding periods, while those awarded to the other 49 executives are subject to three-year vesting with continuous employment being the only vesting condition for both awards. The Bank considers 31 January 2020 as the grant date. The Bank estimates that the fair value of the shares awarded on 31 January 2020 was Georgian Lari 56.98 per share.

In March 2019, BOGG's Remuneration Committee resolved to award 344,000 ordinary shares of Bank of Georgia Group PLC to the members of the Management Board and 185,670 ordinary shares of Bank of Georgia Group PLC to the Bank's 33 executives. Shares awarded to the Management Board and the other 33 executives are subject to three-year vesting with continuous employment being the only vesting condition for both awards. The Bank considers 10 and 20 March 2019 as the grant date. The Bank estimates that the fair value of the shares awarded on 10 and 20 March 2019 was Georgian Lari 56.51 and 59.04 per share, respectively.

26. Share-based payments (continued)

Executives' Equity Compensation Plan ("EECP") and Employees' Equity Compensation Plan ("EECP") (continued)

In February 2018, BGEO's Remuneration Committee resolved to award 232,548 ordinary shares of BGEO Group PLC to the members of the Management Board and 79,050 ordinary shares of BGEO to the Bank's 16 executives. Shares awarded to the Management Board and the other 16 executives are subject to three-year vesting with continuous employment being the only vesting condition for both awards. The Bank considers 14 February 2018 as the grant date. The Bank estimates that the fair value of the shares awarded on 14 February 2018 was Georgian Lari 114.56 per share.

In 2020, new Management Board members and one key executive signed new three-year fixed contingent share-based compensation agreements with the total of 120,000 and 30,000 ordinary shares of BOGG, respectively. The total amount of shares fixed to each executive will be awarded in three equal instalments during the three consecutive years, of which each award will be subject to a three-year vesting period. The Bank considers 3 June 2020 and 29 December 2020 as the grant dates for the awards. The Bank estimates that the fair value of the shares on 3 June 2020 and 29 December 2020 were Georgian Lari 39.91 and 54.61, respectively.

In 2020, existing Management Board members' share-based compensation agreements were amended with the total effect of 33,333 ordinary shares of BOGG. The Bank considers 23 December 2020 as the grant date for the awards. The Bank estimates that the fair value of the shares on 23 December 2020 was Georgian Lari 53.48.

In 2019, the Management Board members signed new three and five-year fixed contingent share-based compensation agreements with the total of 915,000 ordinary shares of BOGG. The total amount of shares fixed to each executive will be awarded in three and five equal instalments during the three and five consecutive years, of which each award will be subject to a four-year vesting period. The Bank considers 9 Jan 2019, 1 May 2019 and 3 May 2019 as the grant dates for the awards. The Bank estimates that the fair value of the shares on 9 Jan 2019, 1 May 2019 and 3 May 2019 were Georgian Lari 52.04, 60.57 and 60.14, respectively.

In 2018, the Management Board members signed new three-year fixed contingent share-based compensation agreements with the total of 82,000 ordinary shares of BGEO Group PLC and 115,000 ordinary shares of BOGG. The total amount of shares fixed to each executive will be awarded in three equal instalments during the three consecutive years starting January 2019, of which each award will be subject to a four-year vesting period. The Bank considers 16 February 2018, 23 March 2018 and 10 July 2018 as the grant dates for the awards. The Bank estimates that the fair value of the shares on 16 February 2018, 23 March 2018 and 10 July 2018 were Georgian Lari 115.03, 122.23 and 60.47, respectively.

The Bank grants share compensation to its non-executive employees. In January 2020, March 2019 and February 2018, the Supervisory Board of the Bank resolved to award 231,914, 256,436 and 158,960 ordinary shares, respectively, to its certain non-executive employees. All these awards are subject to three-year vesting, with continuous employment being the only vesting condition for all awards. The Bank considers 31 January 2020, 10 March 2019 and 14 February 2018 as the grant dates of these awards, respectively. The Bank estimates that the fair values of the shares awarded on 31 January 2020, 10 March 2019 and 14 February 2018 were Georgian Lari 56.98, 56.51 and 114.56 per share, respectively.

Summary

Fair value of the shares granted at the measurement date is determined based on available market quotations.

The weighted average fair value of share-based awards at the grant date comprised Georgian Lari 55.89 per share in year ended 31 December 2020 (31 December 2019: Georgian Lari 56.92 per share, 31 December 2018: Georgian Lari 106.38).

The Bank's total share-based payment expenses for the year ended 31 December 2020 comprised GEL 54,200 (31 December 2019: GEL 61,114, 31 December 2018: GEL 82,483) and are included in "salaries and other employee benefits", as "salaries and bonuses". Below is the summary of the share-based payments-related data:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total number of equity instruments awarded	1,002,576	1,701,106	667,558
– Among them, to Management Board	424,793	1,259,000	429,548
Weighted average value at grant date, per share (GEL in full amount)	55.89	56.92	106.38
Value at grant date, total (GEL)	<u>56,031</u>	<u>96,832</u>	<u>71,012</u>
Total expense recognised during the year (GEL)*	<u>(54,200)</u>	<u>(61,114)</u>	<u>(82,483)</u>

* 2019 Expense recognised during the year includes GEL 3,985 recorded in non-recurring expenses. 2018 Expense recognised during the year includes GEL 34,422 recorded in non-recurring expenses.

27. Risk management

Introduction

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

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

Risk Management structure

In 2019, the Bank commenced the implementation of its new Risk Management Framework and Risk Appetite Framework policies, which are based on Enterprise Risk Management's three lines of defence model and mirror the requirement of the Corporate Governance Code adopted by the NBG. The new framework and policies were fully implemented by the end of 2020. The three lines of defence model enhances the understanding of risk management and control by clarifying roles and duties within the Bank of different risk management bodies and units in order to increase the effective management of risk and control.

Committees operating under the Supervisory Board:

Audit and Corporate Governance Committee

The Audit Committee assists the Supervisory Board in relation to the oversight of the Bank's financial and reporting processes. It monitors the integrity of the financial statements and is responsible for governance around both the Internal Audit function and external auditor, reporting back to the Supervisory Board. It reviews the effectiveness of the policies, procedures and systems in place related to, among other operational risks, compliance, IT and Internal Security (including cyber-security), and works closely with the Risk Committee in connection with assessing the effectiveness of the risk management and internal control framework.

Risk Committee

The Risk Committee assists the Supervisory Board in relation to the oversight of risk. It reviews the Bank's risk appetite in line with strategy, identifies and monitors risk exposure and the risk management infrastructure, oversees the implementation of strategy to address risk, and in conjunction with the Audit Committee, assesses the strength and effectiveness of the risk management and internal control framework.

Special Committee

The Special Committee assists the Supervisory Board in relation to the oversight of post-demerger processes, including review and approval of certain transactions between the Bank and Georgia Capital Group PLC (former investment arm of BGEO Group PLC) group companies.

Other risk management bodies:

Management Board

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

Bank Asset and Liability Management Committee

The Bank's Asset and Liability Management Committee ("ALCO") is the core Risk Management body that establishes policies and guidelines with respect to capital adequacy, market risks and respective limits, funding liquidity risk and respective limits, interest rate and prepayment risks and respective limits, money market general terms and credit exposure limits, that designs and implements respective Risk Management and stress testing models in practice and regularly monitors compliance with the pre-set risk limits.

Internal Audit

The Internal Audit department is responsible for the annual audit of the Bank's Risk Management, internal control and corporate governance processes, with the aim of reducing the levels of operational and other risks, auditing the Bank's internal control systems and detecting any infringements or errors on the part of the Bank's departments and divisions. It examines both the adequacy and the Bank's compliance with those procedures. The Bank's Internal Audit department discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

27. Risk management (continued)

Introduction (continued)

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects the expected loss likely to arise in both normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on different forecasting models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank runs three different basic scenarios, of which one is base case (forecast under normal business conditions) and the other two are troubled and distressed scenarios, which are worse and worst case scenarios, respectively, that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks are primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, and the head of each business division. The reports include aggregate credit exposures and their limits, exceptions to those limits, liquidity ratios and liquidity limits, market risk ratios and their limits, and changes to the risk profile. Senior management assesses the appropriateness of the expected credit loss on a monthly basis. The Management Board receives a comprehensive credit risk report and ALCO report. These reports are designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, relevant and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Bank on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall Risk Management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. While these are intended for hedging, they do not qualify for hedge accounting.

The Bank actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or these counterparties represent related parties to each other, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations also involve combined, aggregate exposures of large and significant credits compared with the total outstanding balance of the respective financial instrument. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on, maintaining a diversified portfolio of financial assets. Identified concentrations of credit risks or liquidity / repayment risks are controlled and managed accordingly.

27. Risk management (continued)

Credit risk

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

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision.

The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action. The maximum credit exposure is limited to the carrying value of respective instruments and notional amounts of guarantees and commitments provided.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of the financial position.

Credit-related commitment risks

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

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank through internal and external credit ratings used in ECL calculations.

For corporate loan portfolios, the Bank runs an internal rating model in which its customers are rated from 1 to 7 using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to each borrower, utilising supplemental external information that could affect the borrower's behaviour. It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. Attributable risk ratings are assessed and updated regularly.

For Retail, Micro and SME loans, the Bank uses external ratings provided by Credit Bureau.

The Bank's treasury, trading and inter-bank relationships and counterparties comprise financial services institutions, banks and broker-dealers. For these, where external ratings provided by rating agencies are available, the Bank Credit Risk department uses such external ratings. For those where external ratings are not available internal ratings are assigned.

27. Risk management (continued)

Credit risk (continued)

The table below shows internal and external grades used in ECL calculating.

Internal Rating Description*	Internal Rating Grades	External Rating Grades		
		Credit Bureau	Standard & Poor's	
High grade				
	Aaa	1	A	AAA
	Aa1	2+	B	AA+
	Aa2	2	C1	AA
	Aa3	2-	C2	AA-
	A1	3+	C3	A+
	A2	3		A
	A3	3-		A-
	Baa1	4+		BBB+
	Baa2	4		BBB
	Baa3	4-		BBB-
Standard grade				
	Ba1	5+	D1	BB+
	Ba2	5	D2	BB
	Ba3	5-	D3	BB-
	B1	6+		B+
	B2	6		B
Low grade				
	B3	6-	E1	B-
	Caa1	7+	E2	CCC+
	Caa2	7	E3	CCC
	Caa3	7-		CCC-
	Ca			CC
				C

*Grades are not supposed to be linked to each other across the rating categories above.

27. Risk management (continued)

Credit risk (continued)

The table below shows the credit quality by class of asset in the statement of financial position, presented in gross amounts, based on the Bank's credit rating system.

A defaulted financial asset that is past due more than 90 days is assessed as a non-performing loan or as determined on individual basis based on other available information regarding financial difficulties of the borrower.

Cash and cash equivalents, excluding cash on hand

	<u>Stage 1</u>	<u>Total</u>
High grade	1,053,231	1,053,231
Standard grade	91,025	91,025
Low grade	739	904
Not rated	-	-
Balance at 31 December 2020	<u>1,144,995</u>	<u>1,145,160</u>

Amounts due from credit institutions

	<u>Stage 1</u>	<u>Total</u>
High grade	-	-
Standard grade	1,986,931	1,986,931
Low grade	-	-
Not rated	-	-
Balance at 31 December 2020	<u>1,986,931</u>	<u>1,986,931</u>

Investment securities measured at FVOCI - debt instruments

	<u>Stage 1</u>	<u>Total</u>
High grade	1,010,178	1,010,178
Standard grade	1,384,245	1,384,245
Low grade	11,003	11,003
Not rated	13,542	13,542
Balance at 31 December 2020	<u>2,418,968</u>	<u>2,418,968</u>

Commercial loans at amortised cost

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>POCI</u>	<u>Total</u>
High grade	1,801,002	41,693	-	-	1,842,695
Standard grade	1,145,486	110,608	-	-	1,256,094
Low grade	361,573	194,295	-	7,402	563,270
Not rated	679,043	32,879	-	-	711,922
Defaulted					
Non-performing	-	-	209,877	974	210,851
Other	-	-	-	-	-
Balance at 31 December 2020	<u>3,987,104</u>	<u>379,475</u>	<u>209,877</u>	<u>8,376</u>	<u>4,584,832</u>

Residential mortgage loans at amortised cost

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>POCI</u>	<u>Total</u>
High grade	2,521,205	108,883	-	1,283	2,631,371
Standard grade	534,592	102,058	-	4,390	641,040
Low grade	111,250	101,843	-	4,968	218,061
Not rated	70,636	1,130	-	-	71,766
Defaulted					
Non-performing	-	-	110,378	6,056	116,434
Other	-	-	57,855	9,152	67,007
Balance at 31 December 2020	<u>3,237,683</u>	<u>313,914</u>	<u>168,233</u>	<u>25,849</u>	<u>3,745,679</u>

27. Risk management (continued)

Credit risk (continued)

Micro and SME loans at amortised cost	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
High grade	1,278,944	151,938	-	409	1,431,291
Standard grade	834,885	135,345	-	309	970,539
Low grade	96,053	86,728	-	1,987	184,768
Not rated	320,796	55,462	-	11	376,269
Defaulted					
Non-performing	-	-	136,014	706	136,720
Other	-	-	29,035	49	29,084
Balance at 31 December 2020	2,530,678	429,473	165,049	3,471	3,128,671

Consumer loans at amortised cost	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
High grade	1,041,103	31,976	-	412	1,073,491
Standard grade	514,395	51,890	-	965	567,250
Low grade	150,067	109,522	-	2,388	261,977
Not rated	37,796	379	-	-	38,175
Defaulted					
Non-performing	-	-	66,073	1,619	67,692
Other	-	-	33,542	3,131	36,673
Balance at 31 December 2020	1,743,361	193,767	99,615	8,515	2,045,258

Gold – pawn loans at amortised cost	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
High grade	31,764	262	-	-	32,026
Standard grade	42,352	703	-	-	43,055
Low grade	21,929	2,914	-	-	24,843
Not rated	1,730	-	-	-	1,730
Defaulted					
Non-performing	-	-	406	-	406
Other	-	-	1,324	-	1,324
Balance at 31 December 2020	97,775	3,879	1,730	-	103,384

Finance lease receivables	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
High grade	-	-	-	-	-
Standard grade	-	-	-	-	-
Low grade	-	-	-	-	-
Not rated	3,919	-	-	-	3,919
Defaulted					
Non-performing	-	-	-	-	-
Other	-	-	-	-	-
Balance at 31 December 2020	3,919	-	-	-	3,919

Accounts receivable	<i>Stage 1</i>	<i>Total</i>
Not rated	1,186	1,186
Balance at 31 December 2020	1,186	1,186

Other financial assets	<i>Stage 1</i>	<i>Total</i>
Not rated	41,149	41,149
Balance at 31 December 2020	41,149	41,149

27. Risk management (continued)

Credit risk (continued)

Guarantees issued	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
High grade	160,612	7,628	-	168,240
Standard grade	40,554	7,414	-	47,968
Low grade	39,485	5,250	-	44,735
Not rated	1,168,545	6	-	1,168,551
Defaulted				
Other	-	-	31,017	31,017
Balance at 31 December 2020	1,409,196	20,298	31,017	1,460,511

Letters of credit	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
High grade	49,162	-	-	49,162
Standard grade	10,970	-	-	10,970
Low grade	261	-	-	261
Not rated	58,578	-	-	58,578
Defaulted				
Other	-	-	5,940	5,940
Balance at 31 December 2020	118,971	-	5,940	124,911

Undrawn loan facilities	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
High grade	450,119	2,683	-	452,802
Standard grade	62,708	878	-	63,586
Low grade	15,682	14,740	-	30,422
Not rated	76,182	287	-	76,469
Defaulted				
Other	-	-	1,107	1,107
Balance at 31 December 2020	604,691	18,588	1,107	624,386

Cash and cash equivalents, excluding cash on hand	<i>Stage 1</i>	<i>Total</i>
High grade	912,625	912,625
Standard grade	369,748	369,748
Low grade	848	848
Not rated	-	-
Balance at 31 December 2019	1,283,221	1,283,221

Amounts due from credit institutions	<i>Stage 1</i>	<i>Total</i>
High grade	30,414	30,414
Standard grade	1,570,270	1,570,270
Low grade	-	-
Not rated	-	-
Balance at 31 December 2019	1,600,684	1,600,684

Investment securities measured at FVOCI - debt instruments	<i>Stage 1</i>	<i>Total</i>
High grade	884,564	884,564
Standard grade	771,422	771,422
Low grade	11,040	11,040
Not rated	13,134	13,134
Balance at 31 December 2019	1,680,160	1,680,160

27. Risk management (continued)

Credit risk (continued)

Commercial loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	1,639,444	31,717	-	-	1,671,161
Standard grade	602,612	175,331	-	-	777,943
Low grade	334,032	116,850	-	6,583	457,465
Not rated	585,966	11,801	-	-	597,767
Defaulted					
Non-performing	-	-	126,559	-	126,559
Other	-	-	17,822	1,078	18,900
Balance at 31 December 2019	3,162,054	335,699	144,381	7,661	3,649,795

Residential mortgage loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	2,130,691	52,274	-	731	2,183,696
Standard grade	481,063	33,680	-	1,968	516,711
Low grade	101,978	73,922	-	3,050	178,950
Not rated	36,514	162	-	-	36,676
Defaulted					
Non-performing	-	-	21,005	3,399	24,404
Other	-	-	88,408	23,125	111,533
Balance at 31 December 2019	2,750,246	160,038	109,413	32,273	3,051,970

Micro and SME loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	1,361,742	13,919	-	-	1,375,661
Standard grade	645,784	31,867	-	9	677,660
Low grade	91,539	45,411	-	99	137,049
Not rated	219,684	4,485	-	-	224,169
Defaulted					
Non-performing	-	-	65,652	950	66,602
Other	-	-	44,421	691	45,112
Balance at 31 December 2019	2,318,749	95,682	110,073	1,749	2,526,253

Consumer loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	963,489	11,884	-	471	975,844
Standard grade	569,722	15,113	-	206	585,041
Low grade	155,999	82,621	-	1,673	240,293
Not rated	26,936	160	-	-	27,096
Defaulted					
Non-performing	-	-	24,954	548	25,502
Other	-	-	82,821	6,843	89,664
Balance at 31 December 2019	1,716,146	109,778	107,775	9,741	1,943,440

Gold – pawn loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	-	-	-	-	-
Standard grade	-	-	-	-	-
Low grade	-	-	-	-	-
Not rated	80,794	1,114	-	-	81,908
Defaulted					
Non-performing	-	-	101	-	101
Other	-	-	3,530	-	3,530
Balance at 31 December 2019	80,794	1,114	3,631	-	85,539

Finance lease receivables	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	-	-	-	-	-
Standard grade	-	-	-	-	-
Low grade	-	-	-	-	-
Not rated	4,611	-	-	-	4,611
Defaulted					
Non-performing	-	-	-	-	-
Other	-	-	-	-	-
Balance at 31 December 2019	4,611	-	-	-	4,611

27. Risk management (continued)

Credit risk (continued)

Accounts receivable	<i>Stage 1</i>	<i>Total</i>
Not rated	1,031	1,031
Balance at 31 December 2019	1,031	1,031

Other financial assets	<i>Stage 1</i>	<i>Total</i>
Not rated	45,848	45,848
Balance at 31 December 2019	45,848	45,848

Guarantees issued	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
High grade	178,025	-	-	178,025
Standard grade	36,410	6,220	-	42,630
Low grade	50,215	9,580	-	59,795
Not rated	1,039,915	6	-	1,039,921
Defaulted				
Other	-	-	1,009	1,009
Balance at 31 December 2019	1,304,565	15,806	1,009	1,321,380

Letters of credit	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
High grade	24,503	-	-	24,503
Standard grade	21,388	-	-	21,388
Low grade	1,147	-	-	1,147
Not rated	7,165	-	-	7,165
Defaulted				
Other	-	-	612	612
Balance at 31 December 2019	54,203	-	612	54,815

Undrawn loan facilities	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
High grade	180,375	201	-	180,576
Standard grade	24,818	372	-	25,190
Low grade	6,496	3,438	-	9,934
Not rated	4,188	11	-	4,199
Defaulted				
Other	-	-	1,288	1,288
Balance at 31 December 2019	215,877	4,022	1,288	221,187

Cash and cash equivalents, excluding cash on hand	<i>Stage 1</i>	<i>Total</i>
High grade	315,769	315,769
Standard grade	303,053	303,053
Low grade	765	765
Not rated	-	-
Balance at 31 December 2018	619,587	619,587

Amounts due from credit institutions	<i>Stage 1</i>	<i>Total</i>
High grade	26,982	26,982
Standard grade	1,256,325	1,256,325
Low grade	-	-
Not rated	-	-
Balance at 31 December 2018	1,283,307	1,283,307

27. Risk management (continued)

Credit risk (continued)

Investment securities measured at FVOCI - debt instruments

	<i>Stage 1</i>	<i>Total</i>
High grade	830,008	830,008
Standard grade	1,028,605	1,028,605
Low grade	6,246	6,246
Not rated	3,110	3,110
Balance at 31 December 2018	<u>1,867,969</u>	<u>1,867,969</u>

Commercial loans at amortised cost

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
High grade	1,327,033	59,862	-	-	1,386,895
Standard grade	373,478	166,814	-	-	540,292
Low grade	102,328	73,296	-	6,050	181,674
Not rated	206,655	8,144	-	-	214,799
Defaulted					
Non-performing	-	-	171,738	-	171,738
Other	-	-	54,973	987	55,960
Balance at 31 December 2018	<u>2,009,494</u>	<u>308,116</u>	<u>226,711</u>	<u>7,037</u>	<u>2,551,358</u>

Residential mortgage loans at amortised cost

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
High grade	1,691,375	18,777	-	311	1,710,463
Standard grade	290,796	7,038	-	-	297,834
Low grade	319,076	60,994	-	533	380,603
Not rated	49,150	-	-	-	49,150
Defaulted					
Non-performing	-	-	23,239	3,455	26,694
Other	-	-	65,010	18,889	83,899
Balance at 31 December 2018	<u>2,350,397</u>	<u>86,809</u>	<u>88,249</u>	<u>23,188</u>	<u>2,548,643</u>

Micro and SME loans at amortised cost

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
High grade	1,024,192	7,449	-	-	1,031,641
Standard grade	347,357	10,016	-	-	357,373
Low grade	240,321	45,920	-	5	286,246
Not rated	211,073	705	-	5	211,783
Defaulted					
Non-performing	-	-	70,438	1,979	72,417
Other	-	-	47,461	246	47,707
Balance at 31 December 2018	<u>1,822,943</u>	<u>64,090</u>	<u>117,899</u>	<u>2,235</u>	<u>2,007,167</u>

Consumer loans at amortised cost

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
High grade	749,583	2,731	-	109	752,423
Standard grade	299,181	4,100	-	-	303,281
Low grade	483,340	93,786	-	194	577,320
Not rated	59,039	236	76	-	59,351
Defaulted					
Non-performing	-	-	38,535	214	38,749
Other	-	-	82,284	3,954	86,238
Balance at 31 December 2018	<u>1,591,143</u>	<u>100,853</u>	<u>120,895</u>	<u>4,471</u>	<u>1,817,362</u>

Gold – pawn loans at amortised cost

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
High grade	-	-	-	-	-
Standard grade	-	-	-	-	-
Low grade	-	-	-	-	-
Not rated	75,483	541	-	-	76,024
Defaulted					
Non-performing	-	-	369	-	369
Other	-	-	4,378	-	4,378
Balance at 31 December 2018	<u>75,483</u>	<u>541</u>	<u>4,747</u>	<u>-</u>	<u>80,771</u>

27. Risk management (continued)

Credit risk (continued)

Finance lease receivables	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
High grade	6,176	-	-	-	6,176
Standard grade	-	-	-	-	-
Low grade	-	-	-	-	-
Not rated	-	-	-	-	-
Defaulted					
Non-performing	-	-	-	-	-
Other	-	-	-	-	-
Balance at 31 December 2018	6,176	-	-	-	6,176

Accounts receivable	<i>Stage 1</i>	<i>Total</i>
Not rated	18,780	18,780
Balance at 31 December 2018	18,780	18,780

Other financial assets	<i>Stage 1</i>	<i>Total</i>
Not rated	17,914	17,914
Balance at 31 December 2018	17,914	17,914

Guarantees issued	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
High grade	165,401	5,697	-	171,098
Standard grade	37,795	5,708	-	43,503
Low grade	17,791	466	-	18,257
Not rated	736,473	-	-	736,473
Defaulted				
Other	-	-	22,485	22,485
Balance at 31 December 2018	957,460	11,871	22,485	991,816

Letters of credit	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
High grade	31,381	2,553	-	33,934
Standard grade	6,649	-	-	6,649
Low grade	-	2,355	-	2,355
Not rated	877	-	-	877
Defaulted				
Other	-	-	-	-
Balance at 31 December 2018	38,907	4,908	-	43,815

Undrawn loan facilities	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
High grade	185,926	165	-	186,091
Standard grade	22,951	150	-	23,101
Low grade	19,349	3,495	-	22,844
Not rated	3,781	4	61	3,846
Defaulted				
Other	-	-	1,340	1,340
Balance at 31 December 2018	232,007	3,814	1,401	237,222

27. Risk management (continued)

Credit risk (continued)

The following table shows the ratio of the loan portfolio to the market value of collateral held by the Bank in respect of the portfolio. As at 31 December 2020, up to 76.2% of the collateral held has been re-valued within the last two years (31 December 2019: 72.9%). For residential mortgage loans, in cases where the collateral for a loan may not be officially registered until its construction is complete, respective loan is shown as unsecured, even though it is usually secured by the corporate guarantee of the construction company.

		<i>As at 31 December 2020</i>								
		<i>Loan-to-value %</i>								
<i>Total gross</i>			<i>Less than</i>	<i>50%-</i>	<i>80% -</i>	<i>90%-</i>	<i>100%-</i>	<i>200%-</i>	<i>300%-</i>	<i>More than</i>
<i>carrying amount</i>	<i>Unsecured</i>		<i>50%</i>	<i>80%</i>	<i>90%</i>	<i>100%</i>	<i>200%</i>	<i>300%</i>	<i>400%</i>	<i>400%</i>
Commercial loans	4,584,832	572,992	602,524	1,057,709	87,797	124,255	1,052,751	131,764	314,779	640,261
ECL Coverage	3.39%	2.56%	0.47%	1.17%	0.18%	9.63%	8.71%	5.74%	2.83%	0.82%
Residential mortgage loans	3,745,679	64,018	968,053	1,885,175	431,607	199,633	127,956	9,315	2,236	57,686
ECL Coverage	1.30%	4.43%	0.03%	0.78%	2.63%	3.56%	7.95%	4.64%	3.31%	2.86%
Micro and SME loans	3,128,671	341,997	899,928	915,699	251,957	205,996	460,139	29,963	3,654	19,338
ECL Coverage	3.00%	10.80%	0.10%	1.06%	2.13%	5.65%	5.24%	6.50%	14.40%	13.70%
Consumer loans	2,045,258	1,111,529	443,882	383,889	62,457	23,479	16,216	1,055	640	2,111
ECL Coverage	5.52%	9.39%	0.13%	1.12%	3.28%	1.11%	7.21%	4.83%	1.72%	1.89%
Gold – pawn loans	103,384	-	3,338	23,313	72,392	1,748	2,576	2	-	15
ECL Coverage	0.22%	N/A	0.03%	0.06%	0.20%	2.06%	0.78%	0.00%	N/A	73.33%
Loans to customers at amortised cost, gross	13,607,824	2,090,536	2,917,725	4,265,785	906,210	555,111	1,659,638	172,099	321,309	719,411

		<i>As at 31 December 2019</i>								
		<i>Loan-to-value %</i>								
<i>Total gross</i>			<i>Less than</i>	<i>50%-</i>	<i>80% -</i>	<i>90%-</i>	<i>100%-</i>	<i>200%-</i>	<i>300%-</i>	<i>More than</i>
<i>carrying amount</i>	<i>Unsecured</i>		<i>50%</i>	<i>80%</i>	<i>90%</i>	<i>100%</i>	<i>200%</i>	<i>300%</i>	<i>400%</i>	<i>400%</i>
Commercial loans	3,649,795	305,268	556,822	813,724	140,655	171,156	595,527	165,872	227,889	672,882
ECL Coverage	2.15%	1.21%	0.46%	0.00%	0.00%	0.22%	10.66%	0.32%	0.44%	1.00%
Residential mortgage loans	3,051,970	37,861	765,845	1,598,531	478,601	86,573	65,803	8,766	821	9,169
ECL Coverage	0.30%	3.78%	0.05%	0.04%	0.19%	1.68%	5.03%	7.28%	1.83%	1.91%
Micro and SME loans	2,526,253	315,832	737,905	773,048	170,420	147,257	343,450	22,747	9,281	6,313
ECL Coverage	1.50%	7.48%	0.20%	0.18%	0.47%	0.68%	2.33%	3.01%	7.45%	4.53%
Consumer loans	1,943,440	1,147,871	369,958	287,083	74,451	24,655	37,134	547	359	1,382
ECL Coverage	3.71%	6.13%	0.02%	0.17%	0.46%	1.12%	1.49%	14.44%	0.56%	1.52%
Gold – pawn loans	85,539	-	2,810	20,994	52,695	2,700	6,284	1	10	45
ECL Coverage	0.30%	N/A	0.00%	0.03%	0.28%	0.78%	0.51%	0.00%	80.00%	80.00%
Loans to customers at amortised cost, gross	11,256,997	1,806,832	2,433,340	3,493,380	916,822	432,341	1,048,198	197,933	238,360	689,791

Carrying amount per class of financial assets whose terms have been renegotiated

During the year, the Bank modified the contractual cash flows on certain loans and advances to customers. All such loans had previously been transferred to at least Stage 2, with a loss allowance measured at an amount equal to lifetime expected credit losses.

The following table provides information on financial assets that were modified while they had a loss allowance measured at an amount equal to lifetime ECL:

Financial assets modified during 2020:	Amortised cost before modification	Net gain (loss) arising from modification
Commercial loans	117,119	83
Residential mortgage loans	364,619	(34)
Micro and SME loans	347,449	(3,347)
Consumer loans	347,562	(4,625)
Gold – pawn loans	-	-
Loans to customers	1,176,749	(7,923)

27. Risk management (continued)

Credit risk (continued)

	Amortised cost before modification	Net gain (loss) arising from modification
Financial assets modified during 2019:		
Commercial loans	35,186	(229)
Residential mortgage loans	51,776	(1,761)
Micro and SME loans	77,075	(4,038)
Consumer loans	33,470	(3,332)
Gold – pawn loans	-	-
Loans to customers	197,507	(9,360)
Financial assets modified during 2018:		
Commercial loans	-	-
Residential mortgage loans	5,883	(690)
Micro and SME loans	20,810	(1,152)
Consumer loans	19,092	(2,065)
Gold – pawn loans	-	-
Loans to customers	45,785	(3,907)

The gross carrying value of loans that have previously been modified (when they were in Stage 2 or 3) which are now categorised as Stage 1, with loss allowance measured at an amount equal to 12 months expected losses, are shown in the table below (no such loans identified as at 31 December 2018):

	Gross Carrying Amount	Corresponding ECL
Financial assets modified since initial recognition, as at 31 December 2020		
Commercial loans	14,952	(1)
Residential mortgage loans	100,079	(444)
Micro and SME loans	68,748	(1,023)
Consumer loans	42,408	(1,962)
Gold – pawn loans	-	-
Loans to customers	226,187	(3,430)
Finance lease receivables	-	-
Total loans to customers and finance lease receivables	226,187	(3,430)
Financial assets modified since initial recognition, as at 31 December 2019		
Commercial loans	-	-
Residential mortgage loans	8	-
Micro and SME loans	27	-
Consumer loans	-	-
Gold – pawn loans	-	-
Loans to customers	35	-
Finance lease receivables	-	-
Total loans to customers and finance lease receivables	35	-

27. Risk management (continued)

Credit risk (continued)

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

	2020			
	Georgia	OECD	CIS and other foreign countries	Total
Assets:				
Cash and cash equivalents	776,754	946,463	105,019	1,828,236
Amounts due from credit institutions	1,986,555	-	-	1,986,555
Investment securities	1,408,604	922,077	88,332	2,419,013
Loans to customers and finance lease receivables	13,200,987	-	-	13,200,987
All other assets	1,077,287	235,989	1,991	1,315,267
	18,450,187	2,104,529	195,342	20,750,058
Liabilities:				
Client deposits and notes	11,287,812	857,028	1,351,638	13,496,478
Amounts owed to credit institutions	742,831	2,044,365	43,510	2,830,706
Debt securities issued	-	1,450,598	-	1,450,598
Lease Liability	89,812	-	-	89,812
All other liabilities	169,744	237,112	412	407,268
	12,290,199	4,589,103	1,395,560	18,274,862
Net balance sheet position	6,159,988	(2,484,574)	(1,200,218)	2,475,196

	2019				2018			
	Georgia	OECD	CIS and other foreign countries	Total	Georgia	OECD	CIS and other foreign countries	Total
Assets:								
Cash and cash equivalents	1,008,882	832,879	91,885	1,933,646	789,037	311,524	8,827	1,109,388
Amounts due from credit institutions	1,569,954	30,433	-	1,600,387	1,255,782	26,982	-	1,282,764
Investment securities	792,613	827,974	58,863	1,679,450	1,020,244	779,097	65,477	1,864,818
Loans to customers and finance lease receivables	11,063,789	-	-	11,063,789	8,722,944	-	-	8,722,944
All other assets	1,045,493	27,332	169	1,072,994	883,151	34,578	32	917,761
	15,480,731	1,718,618	150,917	17,350,266	12,671,158	1,152,181	74,336	13,897,675
Liabilities:								
Client deposits and notes	7,486,614	805,466	1,245,123	9,537,203	6,075,044	656,499	1,080,218	7,811,761
Amounts owed to credit institutions	1,767,156	1,649,486	62,727	3,479,369	1,262,352	1,241,312	55,613	2,559,277
Debt securities issued	-	1,998,803	-	1,998,803	-	1,635,929	-	1,635,929
Lease Liability	88,535	-	-	88,535	-	-	-	-
All other liabilities	168,350	9,280	5	177,635	114,507	8,573	138	123,218
	9,510,655	4,463,035	1,307,855	15,281,545	7,451,903	3,542,313	1,135,969	12,130,185
Net balance sheet position	5,970,076	(2,744,417)	(1,156,938)	2,068,721	5,219,255	(2,390,132)	(1,061,633)	1,767,490

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. 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 Bank 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 Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains a cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank primarily on a standalone Bank basis, based on certain liquidity ratios established by the NBG. The banks are required to maintain a liquidity coverage ratio, which is defined as the ratio of high-quality liquid assets to net cash outflow over the next 30 days. The order requires that, absent a stress-period, the value of the ratio be no lower than 100%. The liquidity coverage ratio as at 31 December 2020 was 138.6% (2019: 136.7%, 2018: 120.1%).

The Bank holds a comfortable buffer on top of Net Stable Funding Ratio (NSFR) requirement of 100%, which came into effect on 1 September 2019. A solid buffer over NSFR provides stable funding sources over a longer time span. This approach is designed to ensure that the funding framework is sufficiently flexible to secure liquidity under a wide range of market conditions. NSFR as at 31 December 2020 was 137.5%, (2019: 132.5%, 2018: 133.6%), all comfortably above the NBG's minimum regulatory requirements.

The Bank 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.

27. Risk management (continued)

Liquidity risk and funding management (continued)

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

Financial liabilities	<i>Less than</i>	<i>3 to 12</i>	<i>1 to 5</i>	<i>Over</i>	
As at 31 December 2020	3 months	months	years	5 years	Total
Client deposits and notes	5,629,379	6,456,283	1,604,516	352,292	14,042,470
Amounts owed to credit institutions	930,296	592,559	1,307,342	547,335	3,377,532
Debt securities issued	43,320	66,512	1,368,293	345,886	1,824,011
Lease liability	5,659	17,051	65,309	21,497	109,516
Derivative financial liabilities	84,837	127,785	19,266	-	231,888
Other liabilities	60,116	2,525	6,656	102	69,399
Total undiscounted financial liabilities	6,753,607	7,262,715	4,371,382	1,267,112	19,654,816

Financial liabilities	<i>Less than</i>	<i>3 to 12</i>	<i>1 to 5</i>	<i>Over</i>	
As at 31 December 2019	3 months	months	years	5 years	Total
Client deposits and notes	3,650,821	5,133,204	874,815	105,994	9,764,834
Amounts owed to credit institutions	1,967,803	400,603	1,095,778	783,227	4,247,411
Debt securities issued	43,943	699,436	1,388,813	334,625	2,466,817
Lease liability	5,376	15,310	61,735	26,675	109,096
Derivative financial liabilities	4,772	5,789	187	-	10,748
Other liabilities	82,612	2,213	2,061	323	87,209
Total undiscounted financial liabilities	5,755,327	6,256,555	3,423,389	1,250,844	16,686,115

Financial liabilities	<i>Less than</i>	<i>3 to 12</i>	<i>1 to 5</i>	<i>Over</i>	
As at 31 December 2018	3 months	months	years	5 years	Total
Client deposits and notes	2,918,654	4,249,045	723,925	78,764	7,970,388
Amounts owed to credit institutions	1,341,749	173,406	1,068,662	302,379	2,886,196
Debt securities issued	26,685	347,441	1,604,609	-	1,978,735
Derivative financial liabilities	10,574	995	-	-	11,569
Other liabilities	48,152	-	-	-	48,152
Total undiscounted financial liabilities	4,345,814	4,770,887	3,397,196	381,143	12,895,040

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies.

	<i>Less than</i>	<i>3 to 12</i>	<i>1 to</i>	<i>Over</i>	
	3 months	months	5 years	5 years	Total
31 December 2020	790,782	480,438	926,151	21,431	2,218,802
31 December 2019	440,748	242,684	782,161	138,581	1,604,174
31 December 2018	360,431	336,138	615,015	96,977	1,408,561

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above. Perpetual Tier 1 capital notes are presented in "Over 5 years" bucket given the fact that the management does not consider them to be covered earlier than that.

27. Risk management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Bank classifies exposures to market risk into either trading or non-trading portfolios. Trading and non-trading positions are managed and monitored using sensitivity analysis.

Interest rate risk

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

The sensitivity of the separate income statement is the effect of the assumed changes in interest rates on the net interest income for the year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2020. Changes in basis points are calculated as standard deviations of daily changes in floating rates over the last month multiplied by respective floating rates. During the years ended 31 December 2020, 2019 and 2018, sensitivity analysis did not reveal any significant potential effect on the Bank's equity.

	<i>Increase in basis points</i>	<i>Sensitivity of net interest income</i>	<i>Sensitivity of other comprehensive income</i>
<i>Currency</i>	<i>2020</i>	<i>2020</i>	<i>2020</i>
GEL	15	1,427	1,452
EUR	2	242	-
USD	3	13	-
	<i>Decrease in basis points</i>	<i>Sensitivity of net interest income</i>	<i>Sensitivity of other comprehensive income</i>
<i>Currency</i>	<i>2020</i>	<i>2020</i>	<i>2020</i>
GEL	15	(1,427)	(1,452)
EUR	2	(242)	-
USD	3	(13)	-
	<i>Increase in basis points</i>	<i>Sensitivity of net interest income</i>	<i>Sensitivity of other comprehensive income</i>
<i>Currency</i>	<i>2019</i>	<i>2019</i>	<i>2019</i>
GEL	64	4,207	5,806
EUR	2	168	-
USD	7	94	-
	<i>Decrease in basis points</i>	<i>Sensitivity of net interest income</i>	<i>Sensitivity of other comprehensive income</i>
<i>Currency</i>	<i>2019</i>	<i>2019</i>	<i>2019</i>
GEL	64	(4,207)	(5,806)
EUR	2	(168)	-
USD	7	(94)	-
	<i>Increase in basis points</i>	<i>Sensitivity of net interest income</i>	<i>Sensitivity of other comprehensive income</i>
<i>Currency</i>	<i>2018</i>	<i>2018</i>	<i>2018</i>
GEL	6	251	1,019
EUR	1	50	(2)
USD	6	121	63
	<i>Decrease in basis points</i>	<i>Sensitivity of net interest income</i>	<i>Sensitivity of other comprehensive income</i>
<i>Currency</i>	<i>2018</i>	<i>2018</i>	<i>2018</i>
GEL	6	(251)	(1,019)
EUR	1	(50)	2
USD	6	(121)	(63)

27. Risk management (continued)

Market risk (continued)

Currency risk

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

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2020 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the income statement. The reasonably possible movement of the currency rate against the Georgian Lari is calculated as a standard deviation of daily changes in exchange rates over the 12 months. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. During the year ended 31 December 2020, year ended 31 December 2019 and year ended 31 December 2018, sensitivity analysis did not reveal any significant potential effect on the Bank's equity.

Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
	2020		2019		2018	
EUR	15.1%	148	7.9%	(308)	9.9%	36
USD	13.0%	1,340	6.4%	(2,915)	7.1%	2,230

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rates fall, or other credit facilities, for similar reasons.

The Bank calculates the effect of early repayments by calculating the weighted average rates of early repayments across each loan product individually, applying these historical rates to the outstanding carrying amount of respective products as at the reporting date and multiplying by the weighted average effective annual interest rates for each product. The model does not make a distinction between different reasons for repayment (e.g. relocation, refinancing and renegotiation) and takes into account the effect of any prepayment penalties on the Bank's income.

The estimated effect of prepayment risk on net interest income of the Bank for the years ended 31 December 2020, 31 December 2019 and 31 December 2018, is as follows:

	<i>Effect on net interest income</i>
2020	(40,748)
2019	(40,014)
2018	(73,870)

27. Risk management (continued)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss.

Cyber risk, AML and compliance risk

Information-security threats have continued to increase over the past few years and the Bank has seen a number of major organisations subject to cyber-attacks. Fortunately, the Bank's operations have not been materially affected and the Bank has not suffered a data breach. Over the past few years, as the Bank's operations have expanded and the focus has been directed towards more digitalisation of banking products and services, there has been seen an increase in electronic crimes, including fraud, although losses have not been significant. Money laundering (ML) and Terrorism financing (TF) 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 lead to enforcement action by the regulator, which can result in a pecuniary penalty and negatively impact the Bank's reputation.

The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Operating environment

Most of the Bank's business is concentrated in Georgia. As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets (including the risk that the Georgian Lari is not freely convertible outside the country, and undeveloped debt and equity markets). However, over the last few years the Georgian Government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation (including new tax code and procedural laws). In the view of the Board, these steps contribute to mitigating the risks of doing business in Georgia.

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments, and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

Regional instability

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, which 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.

The Bank 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.

27. Risk management (continued)

Capital risk

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 requirements may have a material adverse effect on the Bank and may compromise its strategic targets.

The Bank maintains an actively managed capital base to cover risks inherent to its business. As part of its capital adequacy management framework, the Bank continuously monitors market conditions and review market changes, and performs stress and scenario testing to test its 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. For further details, please refer to Note 31.

COVID-19 pandemic impact risk

The COVID-19 outbreak was declared as a global pandemic at the beginning of 2020 and spread throughout the world. The outlook remains subject to significant uncertainty. The path of the pandemic, the availability of effective treatments, and the associated impact on economic activity, are inherently difficult to predict. Consequently, economic activity in services will continue to suffer in the near term. On the upside, a faster than expected development and distribution of an effective vaccine could boost confidence, support a rebound in tourism and investment, and accelerate the recovery.

At the end of March 2020, the 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.

The Bank has introduced a number of resilience protocols and a comprehensive Business Continuity Plan (BCP) aimed at curbing the spread of COVID-19 in Georgia and mitigating the negative impact on its business and the community.

Furthermore, as mentioned above, through mobilisation of financing from international organisations and through its anti-crisis stimulus plan, the Government announced a series of support measures and packages for individuals and businesses to mitigate the negative economic impact of COVID-19.

The Bank is monitoring the developing economic trends on the back of the COVID-19 pandemic and its impact on the 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 the Bank will continue to take appropriate actions to proactively manage evolving circumstances.

Emerging risks

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

The Bank has identified Climate Risk as an emerging risk. As such, the Bank intends to integrate climate change-related risks into the credit risk framework and the business resilience assessments. In 2021, the Bank will be describing and managing climate-related risks in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

28. Fair value measurements

Fair value hierarchy

For the purpose of fair value disclosures, the Bank 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 31 December 2020	<u><i>Level 1</i></u>	<u><i>Level 2</i></u>	<u><i>Level 3</i></u>	<u><i>Total</i></u>
<i>Assets measured at fair value</i>				
Total investment properties	-	-	219,005	219,005
<i>Land</i>	-	-	10,981	10,981
<i>Residential properties</i>	-	-	146,112	146,112
<i>Non-residential properties</i>	-	-	61,912	61,912
Investment securities	3,229	2,415,676	108	2,419,013
Other assets – derivative financial assets	-	10,270	-	10,270
<i>Assets for which fair values are disclosed</i>				
Amounts due from credit institutions	-	1,986,555	-	1,986,555
Loans to customers and finance lease receivables	-	-	12,911,712	12,911,712
<i>Liabilities measured at fair value</i>				
Other liabilities – derivative financial liabilities	-	231,888	-	231,888
<i>Liabilities for which fair values are disclosed</i>				
Client deposits and notes	-	13,483,208	-	13,483,208
Amounts owed to credit institutions	-	2,655,217	175,489	2,830,706
Debt securities issued	-	1,404,266	106,850	1,511,116
Lease liability	-	-	97,189	97,189
At 31 December 2019				
<i>Assets measured at fair value</i>				
Total investment properties	-	-	204,885	204,885
<i>Land</i>	-	-	56,909	56,909
<i>Residential properties</i>	-	-	75,328	75,328
<i>Non-residential properties</i>	-	-	72,648	72,648
Investment securities	2,316	1,676,739	395	1,679,450
Other assets – derivative financial assets	-	31,920	-	31,920
<i>Assets for which fair values are disclosed</i>				
Amounts due from credit institutions	-	1,600,387	-	1,600,387
Loans to customers and finance lease receivables	-	-	11,165,686	11,165,686
<i>Liabilities measured at fair value</i>				
Other liabilities – derivative financial liabilities	-	10,748	-	10,748
<i>Liabilities for which fair values are disclosed</i>				
Client deposits and notes	-	9,532,366	-	9,532,366
Amounts owed to credit institutions	-	3,341,563	137,806	3,479,369
Debt securities issued	-	1,782,277	274,098	2,056,375
Lease liability	-	-	89,406	89,406

28. Fair value measurements (continued)

Fair value hierarchy (continued)

At 31 December 2018	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets measured at fair value				
Total investment properties	-	-	132,327	132,327
<i>Land</i>	-	-	15,094	15,094
<i>Residential properties</i>	-	-	75,171	75,171
<i>Non-residential properties</i>	-	-	42,062	42,062
Investment securities	-	1,864,423	395	1,864,818
Other assets – derivative financial assets	-	31,084	-	31,084
Assets for which fair values are disclosed				
Amounts due from credit institutions	-	1,282,764	-	1,282,764
Loans to customers and finance lease receivables	-	-	8,678,666	8,678,666
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	-	11,569	-	11,569
Liabilities for which fair values are disclosed				
Client deposits and notes	-	7,807,863	-	7,807,863
Amounts owed to credit institutions	-	2,506,659	52,618	2,559,277
Debt securities issued	-	1,374,229	285,008	1,659,237

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 Bank'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.

Movements in Level 3 financial instruments measured at fair value

The following tables show a reconciliation of the opening and closing amounts of Level 3 financial assets which are recorded at fair value:

	<u>At 31</u> <u>December</u> <u>2017</u>	<u>Purchase of</u> <u>securities</u>	<u>At 31</u> <u>December</u> <u>2018</u>	<u>At 31</u> <u>December</u> <u>2019</u>	<u>Sale of</u> <u>investment</u> <u>securities</u>	<u>At 31</u> <u>December</u> <u>2020</u>
Level 3 financial assets						
Equity investment securities	201	194	395	395	(287)	108

28. Fair value measurements (continued)

Fair value hierarchy (continued)

Movements in Level 3 non-financial assets measured at fair value

All investment properties are Level 3. Reconciliations of their opening and closing amounts are provided in Note 11.

Impact on fair value of Level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the impact on the fair value of Level 3 instruments of using reasonably possible alternative assumptions:

	<i>Effect of reasonably possible alternative assumptions</i>		<i>Effect of reasonably possible alternative assumptions</i>		<i>Effect of reasonably possible alternative assumptions</i>	
	<i>Carrying amount</i>	<i>2020</i>	<i>Carrying amount</i>	<i>2019</i>	<i>Carrying amount</i>	<i>2018</i>
Level 3 financial assets						
Equity investment securities	108	+/- 16	395	+/- 59	395	+/- 59

In order to determine reasonably possible alternative assumptions, the Bank's adjusted key unobservable model inputs are as follows:

For equities, the Bank adjusted the price-over-book-value multiple by increasing and decreasing the ratio by 10%, which is considered by the Bank to be within a range of reasonably possible alternatives based on the price-over-book-value multiples used across peers within the same geographic area of the same industry.

Description of significant unobservable inputs to valuations of non-financial assets

The following tables show descriptions of significant unobservable inputs to Level 3 valuations of investment properties:

	2020	Valuation technique	Significant unobservable inputs	MIN	MAX	Weighted average	Other key information	MIN	MAX	Weighted Average
Investment property	219,005									
Land	10,981	Market approach	Price per square metre	0.001	2.639	0.742	Square metres, land	32	360,001	8,162
Residential properties	146,112	Market approach	Price per square metre	0.062	3.252	0.983	Square metres, building	15	782	186
Non-residential properties	61,912									
	53,738	Market approach	Price	34.582	2,190.655	885.635	Square metres, land	70	40,000	3,306
							Square metres, building	30	7,059	1,543
	7,658	Income approach	Rent per square metre	0.004	0.051	0.018	Square metres, building	103	2,021	685
			Occupancy rate	50%	85%	77%				
			Land price per square metre	0.638	1.379	1.051	Square metres, land	209	357	274
	516	Cost approach	Depreciated Replacement cost per square metre	0.763	0.901	0.840	Square metres, building	298	320	310

* Price, rate and cost of unobservable inputs in this table are presented in Georgian Lari ("GEL"), unless otherwise indicated.

28. Fair value measurements (continued)

Financial instruments overview

Set out below is an overview of all financial instruments, other than cash and short-term deposits, held by the Bank as at 31 December 2020, 31 December 2019 and 31 December 2018:

	<i>At 31 December 2020</i>		
	<i>Amortised cost</i>	<i>Fair value through OCI</i>	<i>Fair value through profit or loss</i>
Financial assets			
Amounts due from credit institutions	1,986,555	-	-
Loans to customers and finance lease receivables	13,200,987	-	-
Accounts receivable and other loans	1,186	-	-
Equity instruments	-	3,337	-
Debt instruments	-	2,415,676	-
Interest rate contracts	-	-	1,549
Foreign currency derivative financial instruments	-	-	8,721
Total	15,188,728	2,419,013	10,270
Financial liabilities			
Client deposits and notes	13,496,478	-	-
Amounts owed to credit institutions	2,830,706	-	-
Debt securities issued	1,450,598	-	-
Lease liability	89,812	-	-
Trade and other payables (in other liabilities)	41,762	-	-
Interest rate contracts	-	-	1,102
Foreign currency derivative financial instruments	-	-	230,786
Total	17,909,356	-	231,888

	<i>At 31 December 2019</i>			<i>At 31 December 2018</i>		
	<i>Amortised cost</i>	<i>Fair value through OCI</i>	<i>Fair value through profit or loss</i>	<i>Loans and receivables</i>	<i>Available-for-sale</i>	<i>Fair value through profit or loss</i>
Financial assets						
Amounts due from credit institutions	1,600,387	-	-	1,282,764	-	-
Loans to customers and finance lease receivables	11,063,789	-	-	8,722,944	-	-
Accounts receivable and other loans	1,031	-	-	18,780	-	-
Equity instruments	-	2,711	-	-	395	-
Debt instruments	-	1,676,739	-	-	1,864,423	-
Interest rate contracts	-	-	2,566	-	-	12,636
Foreign currency derivative financial instruments	-	-	29,354	-	-	18,448
Total	12,665,207	1,679,450	31,920	10,024,488	1,864,818	31,084
Financial liabilities						
Client deposits and notes	9,537,203	-	-	7,811,761	-	-
Amounts owed to credit institutions	3,479,369	-	-	2,559,277	-	-
Debt securities issued	1,998,803	-	-	1,635,929	-	-
Lease liability	88,535	-	-	-	-	-
Trade and other payables (in other liabilities)	38,804	-	-	19,410	-	-
Interest rate contracts	-	-	1,914	-	-	6,360
Foreign currency derivative financial instruments	-	-	8,834	-	-	5,209
Total	15,142,714	-	10,748	12,026,377	-	11,569

28. Fair value measurements (continued)

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

Set out below is a comparison by class of the carrying amounts and fair values of the Bank'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.

	<i>Carrying value 2020</i>	<i>Fair value 2020</i>	<i>Unrecognised gain (loss) 2020</i>
Financial assets			
Amounts due from credit institutions	1,986,555	1,986,555	-
Loans to customers and finance lease receivables	13,200,987	12,911,712	(289,275)
Financial liabilities			
Client deposits and notes	13,496,478	13,483,208	13,270
Amounts owed to credit institutions	2,830,706	2,830,706	-
Debt securities issued	1,450,598	1,511,116	(60,518)
Lease liability	89,812	97,189	(7,377)
Total unrecognised change in unrealised fair value			(343,900)

	<i>Carrying value 2019</i>	<i>Fair value 2019</i>	<i>Unrecognised gain (loss) 2019</i>	<i>Carrying value 2018</i>	<i>Fair value 2018</i>	<i>Unrecognised gain (loss) 2018</i>
Financial assets						
Amounts due from credit institutions	1,600,387	1,600,387	-	1,282,764	1,282,764	-
Loans to customers and finance lease receivables	11,063,789	11,165,686	101,897	8,722,944	8,678,666	(44,278)
Financial liabilities						
Client deposits and notes	9,537,203	9,532,366	4,837	7,811,761	7,807,863	3,898
Amounts owed to credit institutions	3,479,369	3,479,369	-	2,559,277	2,559,277	-
Debt securities issued	1,998,803	2,056,375	(57,572)	1,635,929	1,659,237	(23,308)
Lease liability	88,535	89,406	(871)	-	-	-
Total unrecognised change in unrealised fair value			48,291			(63,688)

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 separate 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.

29. Maturity analysis of financial assets and liabilities

The table below shows an analysis of financial assets and liabilities according to their contractual maturities, except for current accounts and credit card loans as described below. See Note 27 “Risk management” for the Bank’s contractual undiscounted repayment obligations.

	At 31 December 2020							
	On demand	Up to 3 months	Up to 6 months	Up to 1 year	Up to 3 years	Up to 5 years	Over 5 years	Total
Financial assets								
Cash and cash equivalents	1,309,660	518,576	-	-	-	-	-	1,828,236
Amounts due from credit institutions	1,986,555	-	-	-	-	-	-	1,986,555
Investment securities	307,194	2,091,667	5,027	889	8,799	3,079	2,358	2,419,013
Loans to customers and finance lease	-	2,526,630	765,369	1,440,642	3,327,029	1,883,402	3,257,915	13,200,987
Total	3,603,409	5,136,873	770,396	1,441,531	3,335,828	1,886,481	3,260,273	19,434,791
Financial liabilities								
Client deposits and notes	2,083,695	3,515,473	1,077,347	5,299,307	918,471	343,453	258,732	13,496,478
Amounts owed to credit institutions	196,892	730,227	157,096	419,373	490,488	496,216	340,414	2,830,706
Debt securities issued	-	43,171	17,258	45,341	1,111,923	45,499	187,406	1,450,598
Lease liability	-	5,611	5,650	10,725	32,204	21,938	13,684	89,812
Total	2,280,587	4,294,482	1,257,351	5,774,746	2,553,086	907,106	800,236	17,867,594
Net	1,322,822	842,391	(486,955)	(4,333,215)	782,742	979,375	2,460,037	1,567,197
Accumulated gap	1,322,822	2,165,213	1,678,258	(2,654,957)	(1,872,215)	(892,840)	1,567,197	
	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	1,383,326	550,320	-	-	-	-	-	1,933,646
Amounts due from credit institutions	1,569,954	30,433	-	-	-	-	-	1,600,387
Investment securities	299,163	1,220,311	4,584	464	46,849	105,190	2,889	1,679,450
Loans to customers and finance lease	-	1,539,973	715,242	1,489,690	3,104,969	1,600,616	2,613,299	11,063,789
Total	3,252,443	3,341,037	719,826	1,490,154	3,151,818	1,705,806	2,616,188	16,277,272
Financial liabilities								
Client deposits and notes	2,014,598	1,610,177	770,127	4,293,858	716,718	84,975	46,750	9,537,203
Amounts owed to credit institutions	264,122	1,698,024	97,838	267,486	423,000	383,386	345,513	3,479,369
Debt securities issued	-	43,778	627,132	42,801	244,973	876,535	163,584	1,998,803
Lease liability	-	5,350	5,175	9,588	31,502	20,096	16,824	88,535
Total	2,278,720	3,357,329	1,500,272	4,613,733	1,416,193	1,364,992	572,671	15,103,910
Net	973,723	(16,292)	(780,446)	(3,123,579)	1,735,625	340,814	2,043,517	1,173,362
Accumulated gap	973,723	957,431	176,985	(2,946,594)	(1,210,969)	(870,155)	1,173,362	
	At 31 December 2018							
	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	941,876	167,512	-	-	-	-	-	1,109,388
Amounts due from credit institutions	1,239,365	43,399	-	-	-	-	-	1,282,764
Investment securities	751,039	923,354	921	31,514	105,577	35,115	17,298	1,864,818
Loans to customers and finance lease	-	1,308,857	582,496	1,338,471	2,324,234	1,266,830	1,902,056	8,722,944
Total	2,932,280	2,443,122	583,417	1,369,985	2,429,811	1,301,945	1,919,354	12,979,914
Financial liabilities								
Client deposits and notes	1,500,440	1,407,397	643,427	3,555,472	613,952	52,520	38,553	7,811,761
Amounts owed to credit institutions	118,923	1,227,965	62,069	129,616	453,928	405,273	161,503	2,559,277
Debt securities issued	-	26,569	159,165	171,540	525,053	753,602	-	1,635,929
Total	1,619,363	2,661,931	864,661	3,856,628	1,592,933	1,211,395	200,056	12,006,967
Net	1,312,917	(218,809)	(281,244)	(2,486,643)	836,878	90,550	1,719,298	972,947
Accumulated gap	1,312,917	1,094,108	812,864	(1,673,779)	(836,901)	(746,351)	972,947	

The Bank’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 Bank’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 Bank 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. Considering credit cards have no contractual maturities, the above allocation per category is done based on the statistical coverage rates observed.

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

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

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

As at 31 December 2020, client deposits and notes amounted to GEL 13,496,478 (2019: GEL 9,537,203, 2018: GEL 7,811,761) and represented 74% (2019: 62%, 2018: 64%) of the Bank's total liabilities. These funds continue to provide a majority of the Bank's funding and represent a diversified and stable source of funds. As at 31 December 2020, amounts owed to credit institutions amounted to GEL 2,830,706 (2019: GEL 3,479,369, 2018: GEL 2,559,277) and represented 15% (2019: 23%, 2018: 21%) of total liabilities. As at 31 December 2020, debt securities issued amounted to GEL 1,450,598 (2019: GEL 1,998,803, 2018: GEL 1,635,929) and represented 8% (2019: 13%, 2018: 13%) of total liabilities.

In the Board's opinion, liquidity is sufficient to meet the Bank'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:

	<i>At 31 December 2020</i>		
	<i>Less than 1 year</i>	<i>More than 1 year</i>	<i>Total</i>
Cash and cash equivalents	1,828,236	-	1,828,236
Amounts due from credit institutions	1,986,555	-	1,986,555
Investment securities	2,404,777	14,236	2,419,013
Loans to customers and finance lease	4,732,641	8,468,346	13,200,987
Accounts receivable and other loans	1,186	-	1,186
Prepayments	22,323	15,128	37,451
Inventories	5,795	-	5,795
Right-of-use assets	-	77,763	77,763
Investment properties	-	219,005	219,005
Property and equipment	-	330,269	330,269
Goodwill	-	33,453	33,453
Intangible assets	-	104,282	104,282
Investments in subsidiaries	-	151,311	151,311
Income tax assets	21,325	-	21,325
Other assets	241,329	31,239	272,568
Assets held for sale	60,859	-	60,859
Total assets	11,305,026	9,445,032	20,750,058
Client deposits and notes	11,975,822	1,520,656	13,496,478
Amounts owed to credit institutions	1,503,588	1,327,118	2,830,706
Debt securities issued	105,770	1,344,828	1,450,598
Lease liability	21,986	67,826	89,812
Accruals and deferred income	23,351	22,967	46,318
Income tax liabilities	-	59,663	59,663
Other liabilities	275,264	26,023	301,287
Total liabilities	13,905,781	4,369,081	18,274,862
Net	(2,600,755)	5,075,951	2,475,196

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

	At 31 December 2019			At 31 December 2018		
	Less than 1 year	More than 1 year	Total	Less than 1 year	More than 1 year	Total
Cash and cash equivalents	1,933,646	-	1,933,646	1,109,388	-	1,109,388
Amounts due from credit institutions	1,600,387	-	1,600,387	1,282,764	-	1,282,764
Investment securities	1,524,522	154,928	1,679,450	1,706,828	157,990	1,864,818
Loans to customers and finance lease	3,744,905	7,318,884	11,063,789	3,229,824	5,493,120	8,722,944
Accounts receivable and other loans	1,031	-	1,031	18,780	-	18,780
Prepayments	20,873	13,976	34,849	25,783	17,102	42,885
Inventories	5,719	-	5,719	8,377	-	8,377
Right-of-use assets	-	90,039	90,039	-	-	-
Investment properties	-	204,885	204,885	-	132,327	132,327
Property and equipment	-	322,576	322,576	-	294,647	294,647
Goodwill	-	33,453	33,453	-	33,453	33,453
Intangible assets	-	90,224	90,224	-	72,802	72,802
Investments in subsidiaries	-	151,311	151,311	-	158,981	158,981
Income tax assets	-	-	-	19,159	-	19,159
Other assets	89,673	12,949	102,622	79,136	14,806	93,942
Assets held for sale	36,285	-	36,285	42,408	-	42,408
Total assets	8,957,041	8,393,225	17,350,266	7,522,447	6,375,228	13,897,675
Client deposits and notes	8,688,760	848,443	9,537,203	7,106,736	705,025	7,811,761
Amounts owed to credit institutions	2,327,470	1,151,899	3,479,369	1,538,573	1,020,704	2,559,277
Debt securities issued	713,711	1,285,092	1,998,803	357,274	1,278,655	1,635,929
Lease liability	20,113	68,422	88,535	-	-	-
Accruals and deferred income	33,833	10,237	44,070	38,712	1,326	40,038
Income tax liabilities	603	35,005	35,608	-	23,459	23,459
Other liabilities	97,957	-	97,957	59,721	-	59,721
Total liabilities	11,882,447	3,399,098	15,281,545	9,101,016	3,029,169	12,130,185
Net	(2,925,406)	4,994,127	2,068,721	(1,578,569)	3,346,059	1,767,490

30. 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 Bank has re-designed its policies and processes for identifying, assessing, and monitoring the related party transactions. The Bank’s risk compliance risk management framework, at all levels, is subject to regular review by the Bank’s Internal Audit department and external assurance service providers.

30. Related party disclosures (continued)

The volumes of related party transactions, outstanding balances at the year-end, and related expenses and income for the year are as follows:

	At 31 December 2020				
	The parent	Entities under common control	Subsidiaries	Associates	Key management personnel*
Cash and cash equivalents at 31 December	-	54,871	99	-	-
Interest income on amounts due from credit institutions	-	-	6	-	-
Loans outstanding at 1 January, gross	-	-	13,832	-	6,721
Loans issued during the year	-	-	7,729	-	7,798
Loan repayments during the year	-	-	(19,190)	-	(5,322)
Other movements**	-	-	859	-	1,452
Loans outstanding at 31 December, gross	-	-	3,230	-	10,649
Less: allowance for impairment at 31 December	-	-	(89)	-	(8)
Loans outstanding at 31 December, net	-	-	3,141	-	10,641
Interest income on loans	-	-	1,541	-	424
Expected credit loss	-	-	(66)	-	(69)
Deposits at 1 January	39,504	50,673	9,241	3	30,476
Deposits received during the year	252	20,391	24,628	163	23,211
Deposits repaid during the year	(25,431)	(2,565)	(573)	-	(19,565)
Other movements**	(7,227)	855	(145)	-	(1,502)
Deposits at 31 December	7,098	69,354	33,151	166	32,620
Interest expense on deposits	(1,777)	(809)	(1,973)	-	(1,249)
Borrowings at 1 January	-	-	232	-	-
Borrowings received during the year	-	-	-	-	-
Borrowings repaid during the year	-	-	-	-	-
Other movements**	-	-	611	-	-
Borrowings at 31 December	-	-	843	-	-
Interest expense on borrowings	-	-	-	-	-
Debt securities at 1 January	37,237	-	-	-	-
Debt securities received during the period	708	-	-	-	-
Debt securities repaid during the period	(37,298)	-	-	-	-
Other movements**	61	-	-	-	-
Debt securities at 31 December	708	-	-	-	-
Interest expense on debt securities issued	(1,619)	-	-	-	-
Commitments and guarantees issued	-	-	-	-	176

	At 31 December 2019					At 31 December 2018				
	The parent	Entities under common control	Subsidiaries	Associates	Key management personnel*	The parent	Entities under common control	Subsidiaries	Associates	Key management personnel*
Cash and cash equivalents at 31 December	-	36,397	18	-	-	-	36,505	72	-	-
Interest income on amounts due from credit institutions	-	-	-	-	-	-	-	2	-	-
Loans outstanding at 1 January, gross	-	-	17,224	-	1,654	-	101,956	14,800	-	2,361
Loans issued during the year	-	380	9,891	-	6,347	-	26,030	14,866	-	2,768
Loan repayments during the year	-	(380)	(13,816)	-	(3,500)	-	(34,359)	(12,713)	-	(2,474)
Other movements**	-	-	533	-	2,220	-	(93,627)	271	-	(1,001)
Loans outstanding at 31 December, gross	-	-	13,832	-	6,721	-	-	17,224	-	1,654
Less: allowance for impairment at 31 December	-	-	(23)	-	(12)	-	-	(152)	-	-
Loans outstanding at 31 December, net	-	-	13,809	-	6,709	-	-	17,072	-	1,654
Interest income on loans	-	3	1,928	-	304	-	2,900	1,386	-	62
Expected credit loss	-	-	129	-	(30)	-	-	105	-	-
Deposits at 1 January	46,012	31,628	4,175	327	14,472	42,720	396,678	1,942	33	25,718
Deposits received during the year	16,533	29,666	6,110	-	21,222	3,299	2,701	3,266	361	9,363
Deposits repaid during the year	(22,816)	(9,952)	(917)	(103)	(14,402)	-	(24,649)	(1,308)	-	(774)
Other movements**	(225)	(669)	(127)	(221)	9,184	(7)	(343,102)	275	(67)	(19,835)
Deposits at 31 December	39,504	50,673	9,241	3	30,476	46,012	31,628	4,175	327	14,472
Interest expense on deposits	(1,761)	(849)	(1,057)	-	(1,117)	(989)	(564)	(809)	-	(410)
Borrowings at 1 January	-	-	309	-	-	386,508	-	5,039	-	-
Borrowings received during the year	-	-	-	-	-	-	-	26	-	-
Borrowings repaid during the year	-	-	-	-	-	-	-	(4,742)	-	-
Other movements**	-	-	(77)	-	-	(386,508)	-	(14)	-	-
Borrowings at 31 December	-	-	232	-	-	-	-	309	-	-
Interest expense on borrowings	-	-	-	-	-	(2,141)	-	(2)	-	-
Debt securities at 1 January	-	-	-	-	-	-	27,329	-	-	-
Debt securities received during the period	34,424	-	-	-	-	-	-	-	-	-
Debt securities repaid during the period	-	-	-	-	-	-	-	-	-	-
Other movements**	2,813	-	-	-	-	-	(27,329)	-	-	-
Debt securities at 31 December	37,237	-	-	-	-	-	-	-	-	-
Interest expense on debt securities issued	(1,150)	-	-	-	-	-	-	-	-	-
Commitments and guarantees issued	-	-	-	-	-	-	-	1,805	-	-

* Key management personnel includes members of BOG's Supervisory Board, BOG's Management Board and key executives of the Bank.

** In 2019, other movements for the key management personnel accounts mainly relate to the net effect of the change of the key management members. In 2018, other movements mainly relate to the Demerger.

30. Related party disclosures (continued)

Compensation of key management comprised the following:

	2020	2019	2018
Salaries and other benefits	9,197	13,041	4,504
Share-based payments compensation *	27,188	39,553	56,711
Social security costs	-	-	69
Total key management compensation	36,385	52,594	61,284

* In 2019 and 2018, share-based compensation included GEL 3,985 and 28,347, respectively, for key management personnel reflected in the non-recurring items.

Key management personnel do not receive cash-settled compensation, except for fixed salaries. The major part of the total compensation is share-based (Note 26). The number of key management personnel at 31 December 2020 was 20 (31 December 2019: 22, 31 December 2018: 16).

31. Capital adequacy

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

During the year ended 31 December 2020, the Bank complied in full with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value. The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank 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%.
- Pillar 2 requirements:
 - Currency induced credit risk buffer (CICR) requirement reduced by two-thirds.
 - The phase-in of additional credit portfolio concentration risk buffer (HHI) and net GRAPE buffer requirements on Common Equity Tier 1 (CET1) and Tier 1 capital, planned at the end of March 2020, has been postponed indefinitely; however, the phase-in of additional HHI and GRAPE buffer requirements were postponed till end of March 2021 as subsequently instructed by the NBG.
 - The possibility of fully or partially releasing the remaining requirements of Pillar 2 buffers (HHI, CICR, net GRAPE), if necessary, remains open.
- During the period the banks are allowed to partially or fully use the Pillar 2 and conservation buffers, the banks are restricted to make capital distribution in any form.

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

31. Capital adequacy (continued)

NBG (Basel III) capital adequacy ratio (continued)

As at 31 December 2020, 31 December 2019 and 31 December 2018, the Bank's capital adequacy ratio on this basis was as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Tier 1 capital	1,989,190	1,887,571	1,379,953
Tier 2 capital	830,145	616,113	502,355
Total capital	<u>2,819,335</u>	<u>2,503,684</u>	<u>1,882,308</u>
Risk-weighted assets	<u>16,040,094</u>	<u>13,868,169</u>	<u>11,338,660</u>
Tier 1 capital ratio	12.4%	13.6%	12.2%
Total capital ratio	<u>17.6%</u>	<u>18.1%</u>	<u>16.6%</u>
Min. requirement for Tier 1 capital ratio	9.2%	12.2%	11.4%
Min. requirement for Total capital ratio	<u>13.8%</u>	<u>17.1%</u>	<u>15.9%</u>

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio based on the separate statement of financial position and computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December 2020, 31 December 2019 and 31 December 2018, was as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Tier 1 capital	2,414,358	2,056,986	1,697,992
Less: Deductions - Goodwill	(33,453)	(33,453)	(33,453)
Tier 2 capital	1,309,028	947,794	629,746
Less: Deductions from capital	(10)	(10)	(10)
Total capital	<u>3,689,923</u>	<u>2,971,317</u>	<u>2,294,275</u>
Risk-weighted assets	<u>17,029,786</u>	<u>14,428,008</u>	<u>11,541,618</u>
Total capital ratio	21.7%	20.6%	19.9%
Tier 1 capital ratio	14.0%	14.0%	14.4%
Minimum capital adequacy ratio	<u>8.0%</u>	<u>8.0%</u>	<u>8.0%</u>

32. Events after the reporting period

In January 2021, the Bank drew down EUR 60 million under the loan agreements signed with the European Investment Bank ("EIB") with a maturity of seven years.

In March 2021, the Bank drew down USD 20 million under subordinated syndicated loan agreement arranged by FMO - Dutch entrepreneurial development bank in collaboration with other participating lenders signed in December 2019 and amended in December 2020.