JSC Bank of Georgia and Subsidiaries
Unaudited Interim Condensed Consolidated Financial Statements

30 June 2020
Together with Report on review of interim condensed consolidated financial statements

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Report on Review of Interim Condensed Consolidated Financial Statements

To the Shareholders and Supervisory Board of JSC Bank of Georgia

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of JSC Bank of Georgia and its subsidiaries, which comprise the interim condensed consolidated statement of financial position as at 30 June 2020 and the related interim condensed consolidated income statement and interim condensed consolidated statement of comprehensive income for the six-month periods then ended, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six-month period then ended, and selected explanatory notes. Management is responsible for the preparation and presentation of this interim condensed consolidated financial statements in accordance with IAS 34, Interim Financial Reporting. Our responsibility is to express a conclusion on this interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34, Interim Financial Reporting.



Oleg Youshenkov
On behalf of EY LLC

25 August 2020

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Conclusion

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Oleg Youshenkov
On behalf of EY LLC

25 August 2020

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

(Thousands of Georgian Lari)

	Notes	As at 30 June 2020 (unaudited)	As at 31 December 2019
Assets			
Cash and cash equivalents	6	1,636,703	2,159,205
Amounts due from credit institutions	7	1,693,611	1,613,674
Investment securities	8	2,088,123	1,761,023
Loans to customers and finance lease receivables	9	12,428,333	11,766,754
Accounts receivable and other loans		3,204	2,585
Prepayments		42,107	51,117
Inventories		7,285	5,983
Right of use assets		89,541	95,990
Investment properties		215,776	228,666
Property and equipment		357,847	339,726
Goodwill		33,453	33,453
Intangible assets		104,623	95,471
Income tax assets	10	54,595	282
Other assets		130,983	133,010
Assets held for sale		45,212	36,284
Total assets		**18,931,396**	**18,323,223**
Liabilities			
Client deposits and notes	11	11,626,024	10,136,695
Amounts owed to credit institutions	12	3,274,924	3,684,921
Debt securities issued	13	1,584,169	2,140,781
Lease liability		96,651	94,518
Accruals and deferred income		36,077	50,064
Income tax liabilities	10	70,171	37,918
Other liabilities		107,479	100,929
Total liabilities		**16,795,495**	**16,245,826**
Equity	15		
Share capital		27,994	27,994
Additional paid-in capital		190,696	183,875
Treasury shares		(10)	(10)
Other reserves		4,051	(30,874)
Retained earnings		1,913,170	1,896,412
Total equity		**2,135,901**	**2,077,397**
Total liabilities and equity		**18,931,396**	**18,323,223**

Signed and authorised for release on behalf of the Board of Directors:

Archil Gachechiladze — Chief Executive Officer

Sulkhan Gvalia — Chief Financial Officer

25 August 2020

The accompanying selected explanatory notes on pages 6 to 37 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

(Thousands of Georgian Lari)

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Signed and authorised for release on behalf of the Board of Directors:

Archil Gachechiladze Chief Executive Officer

Sulkhan Gvalia Chief Financial Officer

25 August 2020

The accompanying selected explanatory notes on pages 6 to 37 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2020

(Thousands of Georgian Lari)

	Notes	For the six months ended 30 June 2020 (unaudited)	For the six months ended 30 June 2019 (unaudited)*
Interest income calculated using EIR method		739,883	654,421
Other interest income		15,928	11,016
Interest income		**755,811**	**665,437**
Interest expense		(384,544)	(281,995)
Deposit insurance fees		(4,874)	(3,827)
Net interest income	16	**366,393**	**379,615**
Fee and commission income		122,484	127,889
Fee and commission expense		(62,641)	(55,140)
Net fee and commission income	17	**59,843**	**72,749**
Net foreign currency gain		53,059	49,238
Net other (expense) income		14,845	(2,855)
Operating income		**494,140**	**498,747**
Salaries and other employee benefits		(105,547)	(112,877)
Administrative expenses		(44,623)	(39,956)
Depreciation, amortisation and impairment		(39,144)	(31,044)
Other operating expenses		(1,953)	(2,070)
Operating expenses		**(191,267)**	**(185,947)**
Profit from associates		414	442
Operating income before cost of risk		**303,287**	**313,242**
Expected credit loss /impairment charge on loans to customers	18	(214,911)	(72,437)
Expected credit loss /impairment charge on finance lease receivables	18	(5,273)	(1,003)
Other expected credit (loss) / recovery	18	(21,851)	(190)
Impairment charge on other assets and provisions		(2,182)	(3,355)
Cost of risk		**(244,217)**	**(76,985)**
Net operating income before non-recurring items		**59,070**	**236,257**
Net non-recurring items	19	(41,323)	(4,306)
Profit before income tax expense		**17,747**	**231,951**
Income tax benefit (expense)	10	4,615	(18,245)
Profit for the period		**22,362**	**213,706**
Basic and diluted earnings per share	15	0.7991	7.6368

Certain amounts do not correspond to the 2019 interim condensed consolidated financial statements as they reflect the changes made in the presentation of financial statements as described in Note 3

The accompanying selected explanatory notes on pages 6 to 37 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

(Thousands of Georgian Lari)

	Notes	For the six months ended 30 June 2020 (unaudited)	For the six months ended 30 June 2019 (unaudited)
Profit for the period		**22,362**	**213,706**
Other comprehensive (loss) income from continuing operations			
Other comprehensive income (loss) from continuing operations to be reclassified to profit or loss in subsequent periods:			
– Net change in fair value on investments in debt instruments measured at FVOCI	8	36,522	12,048
– Realised gain on financial assets measured at FVOCI		(1,323)	(6,415)
–Change in allowance for expected credit losses on investments in debt instruments measured at FVOCI redassified to the consolidated income statement		312	903
– (Loss) gain from currency translation differences		(5,416)	12,986
Net other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods		**30,095**	**19,522**
Other comprehensive income from continuing operations not to be reclassified to profit or loss in subsequent periods:			
– Net loss on investments in equity instruments designated at FVOCI		(774)	185
Net other comprehensive (loss) income not to be reclassified to profit or loss in subsequent periods		**(774)**	**185**
Other comprehensive (loss) income for the period, net of tax		**29,321**	**19,707**
Total comprehensive income for the period		**51,683**	**233,413**

The accompanying selected explanatory notes on pages 6 to 37 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

(Thousands of Georgian Lari)

	Share capital	*Additional paid-in capital*	*Treasury shares*	*Other reserves*	*Retained earnings*	*Total equity*
31 December 2018	**27,994**	**174,011**	**(9)**	**11,048**	**1,517,984**	**1,731,028**
Profit for the six months ended 30 June 2019 (unaudited)	-	-	-	-	213,706	213,706
Other comprehensive income for the six months ended 30 June 2019 (unaudited)	-	-	-	13,311	6,396	19,707
Total comprehensive income for the six months ended 30 June 2019 (unaudited)	**-**	**-**	**-**	**13,311**	**220,102**	**233,413**
Increase in equity arising from share-based payments	-	37,896	10	-	-	37,906
Contributions under share-based payment plan	-	(26,167)	(11)	-	-	(26,178)
Dividends to shareholders of the Bank (Note 15)	-	-	-	-	(139,200)	(139,200)
30 June 2019 (unaudited)	**27,994**	**185,740**	**(10)**	**24,359**	**1,598,886**	**1,836,969**
31 December 2019	**27,994**	**183,875**	**(10)**	**(30,874)**	**1,896,412**	**2,077,397**
Profit for the six months ended 30 June 2020 (unaudited)	-	-	-	-	22,362	22,362
Other comprehensive income for the six months ended 30 June 2020 (unaudited)	-	-	-	34,925	(5,604)	29,321
Total comprehensive income for the six months ended 30 June 2020 (unaudited)	**-**	**-**	**-**	**34,925**	**16,758**	**51,683**
Increase in equity arising from share-based payments	-	27,679	-	-	-	27,679
Contributions under share-based payment plan	-	(20,858)	-	-	-	(20,858)
30 June 2020 (unaudited)	**27,994**	**190,696**	**(10)**	**4,051**	**1,913,170**	**2,135,901**

The accompanying selected explanatory notes on pages 6 to 37 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

(Thousands of Georgian Lari)

	Notes	For the six months ended 30 June 2020 (unaudited)	For the six months ended 30 June 2019 (unaudited)
Cash flows used in operating activities			
Interest received		566,707	644,054
Interest paid		(372,540)	(282,859)
Fees and commissions received		137,489	106,064
Fees and commissions paid		(62,641)	(55,140)
Net cash inflow from real estate		10,136	-
Net realised gains from foreign currencies		52,149	44,277
Recoveries of loans to customers previously written off	9	14,592	1,727
Other income received (expense paid)		(4,605)	6,200
Salaries and other employee benefits paid		(77,868)	(79,213)
General and administrative and operating expenses paid		(59,391)	(22,134)
Cash flows from operating activities before changes in operating assets and liabilities		**204,028**	**362,976**
Net (increase) decrease in operating assets			
Amounts due from credit institutions		30,356	(274,269)
Loans to customers and finance lease receivables		(199,441)	(775,581)
Prepayments and other assets		3,039	17,768
Net increase (decrease) in operating liabilities			
Amounts due to credit institutions		(511,210)	(132,043)
Debt securities issued		(652,793)	347,193
Client deposits and notes		989,809	270,402
Lease liability		-	(1,041)
Other liabilities		(34,722)	(9,461)
Net cash flows used in operating activities before income tax		**(170,934)**	**(194,056)**
Income tax paid		(17,445)	(2,440)
Net cash flows used in operating activities		**(188,379)**	**(196,496)**
Cash flows from (used in) investing activities			
Net sales (purchases) of investment securities		(286,342)	76,436
Proceeds from sale of investment properties and assets held for sale		19,904	19,814
Proceeds from sale of property and equipment and intangible assets		179	3,155
Purchase of property and equipment and intangible assets		(62,248)	(41,982)
Dividends received		632	211
Net cash flows from (used in) investing activities		**(327,875)**	**57,634**
Cash flows used in financing activities			
Cash payments for the principal portion of the lease liability		(2,429)	-
Dividends paid		(28)	(138,746)
Contributions under share-based payment plan		(20,858)	(26,178)
Net cash used in financing activities		**(23,315)**	**(164,924)**
Effect of exchange rates changes on cash and cash equivalents		17,009	29,873
Effect of expected credit losses on cash and cash equivalents		58	63
Net decrease in cash and cash equivalents		**(522,502)**	**(273,850)**
Cash and cash equivalents, beginning of the period	6	**2,159,205**	**1,220,524**
Cash and cash equivalents, end of the period	6	**1,636,703**	**946,674**

The accompanying selected explanatory notes on pages 6 to 37 are an integral part of these interim condensed consolidated 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 license issued by the National Bank of Georgia ("NBG"; the Central Bank of Georgia) on 15 December 1994.

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and internationally and exchanges currencies. Its main office is in Tbilisi, Georgia. At 30 June 2020 the Bank had 229 operating outlets in all major cities of Georgia (31 December 2019: 272). The Bank's registered legal address is 29a Gagarini Street, Tbilisi 0160, Georgia. The Bank's identification number is 204378869.

The Bank and its subsidiaries make up a group of companies (the "Group") 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. BOGG's registered legal address is 84 Brook Street, London, W1K 5EH, England.

As at 30 June 2020 and 31 December 2019, JSC BGEO was the principal shareholder of the Bank:

	As at	
Shareholder	*30 June 2020 (unaudited)*	*31 December 2019*
JSC BGEO Group	79.78%	79.78%
Bank of Georgia Group PLC	19.78%	19.78%
Others*	0.44%	0.44%
Total	**100.00%**	**100.00%**

**** Shares listed on Georgian Stock Exchange.***

2. Basis of Preparation

General

These interim condensed consolidated financial statements of JSC Bank of Georgia represent continuation of consolidated financial statements of JSC Bank of Georgia prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting".

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

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

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

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at and for the year ended 31 December 2019, signed and authorized for release on 4 March 2020.

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

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

2. Basis of Preparation (continued)

General (continued)

Going concern

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

3. Summary of Significant Accounting Policies

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

Amendments effective from 1 January 2020

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

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

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

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

Amendments to IAS 1 and IAS 8: Definition of Material

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

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

Reclassification

As at 31 December 2019 the Group revisited the presentation of the effects of certain cross-currency swap agreements to hedge net interest rate risk on Euro-denominated lending. Considering that during 2019 such contracts reached significant volume, the Group revisited the presentation of the effects of these agreements in its income statement. As a result, the Group concluded that certain reclassification is required to better reflect the risk management objective of the Group.

The following reclassifications were made the interim condensed consolidated income statement for the period ended 30 June 2019. The Group believes that such presentation provides better information to the users of the Group's financial statements regarding the Group's risk management strategy:

Consolidated income statement for the period ended 30 June 2019	***As previously reported***	***Reclassification***	***As reclassified***
Interest expense	(298,768)	16,773	(281,995)
Interest element of cross-currency swaps	-	*16,773*	*16,773*
Net foreign currency gain	66,011	(16,773)	49,238

4. Significant Accounting Judgements and Estimates

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

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

Allowance for impairment of financial assets

Significant Increase in Credit Risk (SICR)

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

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

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

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

Measurement of expected credit losses

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

Forward-looking information

Forward-looking variable assumptions

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

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

Georgia

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

4. Significant Accounting Judgements and Estimates (continued)

Belarus

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

All other parameters held constant, increase in GDP growth, appreciation of local currency and decrease of inflation would result in decrease in ECL, with opposite changes resulting in ECL increase. GDP growth input has the most significant impact on ECL, followed by foreign exchange rate and inflation. Retail portfolio ECL is less affected by foreign exchange rate inputs due to larger share of GEL-denominated exposures. However, retail portfolio ECL is affected by inflation, which does not have a significant impact on corporate ECL.

The table below shows the sensitivity of the recognised ECL amounts to the forward looking assumptions used in the model. For these purposes, 100% weight is assigned to each macroeconomic scenario separately and respective ECL is recalculated.

Forward-looking information (continued)

Sensitivity of ECL to forward looking assumptions

	As at 30 June 2020				
	Reported ECL	*Reported ECL coverage*	*ECL coverage by scenarios*		
Key drivers			*Upside*	*Basecase*	*Downside*
Commercial loans	157,297	3.71%	3.37%	3.40%	4.67%
Residential mortgage loans	44,324	1.35%	1.01%	1.02%	2.34%
Micro and SME loans	99,954	3.45%	2.53%	2.58%	6.11%
Consumer loans	121,936	5.62%	5.08%	5.12%	7.18%
Gold – pawn loans	409	0.43%	0.43%	0.43%	0.44%

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the interim condensed consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values (Note 22). No specific adjustment due to COVID-19 was applied.

Measurement of fair value of investment properties

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

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

5. Segment information

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

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

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

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

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

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

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

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

5. Segment Information (continued)

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

	Retail banking	*Corporate investment banking*	*BNB*	*Eliminations*	*Group Total*
Net interest income	219,522	128,239	18,626	6	366,393
Net fee and commission income	40,326	16,327	3,190	-	59,843
Net foreign currency gain	28,591	20,188	4,280	-	53,059
Net other (expense) income	5,518	8,819	683	(175)	14,845
Operating income	**293,957**	**173,573**	**26,779**	**(169)**	**494,140**
Operating expenses	(139,522)	(35,110)	(16,804)	169	(191,267)
Profit from associates	414	-	-	-	414
Operating income before cost of risk	**154,849**	**138,463**	**9,975**	**-**	**303,287**
Cost of risk	(147,864)	(91,003)	(5,350)	-	(244,217)
Net operating income before non-recurring items	**6,985**	**47,460**	**4,625**	**-**	**59,070**
Net non-recurring expense/loss	(39,922)	(1,367)	(34)	-	(41,323)
Profit before income tax	**(32,937)**	**46,093**	**4,591**	**-**	**17,747**
Income tax expense	7,807	(2,150)	(1,042)	-	4,615
Profit for the period	**(25,130)**	**43,943**	**3,549**	**-**	**22,362**
Assets and liabilities					
Total assets	11,842,232	6,112,394	984,454	(7,684)	18,931,396
Total liabilities	10,664,581	5,275,644	862,954	(7,684)	16,795,495
Other segment information					
Property and equipment	38,486	4,447	222	-	43,155
Intangible assets	15,949	1,492	971	2	18,414
Capital expenditure	**54,435**	**5,939**	**1,193**	**2**	**61,569**
Depreciation & amortisation	(32,214)	(4,807)	(2,123)	-	(39,144)

5. Segment Information (continued)

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

	Retail banking	*Corporate investment banking*	*BNB*	*Other*	*Eliminations*	*Group Total*
Net interest income	269,586	96,501	12,945	571	12	379,615
Net fee and commission income	56,049	13,089	3,611	-	-	72,749
Net foreign currency gain (loss)	20,590	19,945	8,485	218	-	49,238
Net other income (expense)	(3,120)	124	315	-	(174)	(2,855)
Operating income	**343,105**	**129,659**	**25,356**	**789**	**(162)**	**498,747**
Operating expenses	(129,434)	(41,219)	(15,397)	(59)	162	(185,947)
Profit from associates	442	-	-	-	-	442
Operating income before cost of risk	**214,113**	**88,440**	**9,959**	**730**	**-**	**313,242**
Cost of risk	(65,846)	(8,162)	(2,977)	-	-	(76,985)
Net operating income before non-recurring items	**148,267**	**80,278**	**6,982**	**730**	**-**	**236,257**
Net non-recurring expense/loss	(3,093)	(1,150)	(63)	-	-	(4,306)
Profit (loss) before income tax expense	**145,174**	**79,128**	**6,919**	**730**	**-**	**231,951**
Income tax expense	(11,219)	(6,076)	(950)	-	-	(18,245)
Profit (loss) for the period	**133,955**	**73,052**	**5,969**	**730**	**-**	**213,706**
Assets and liabilities						
Total assets	11,254,762	6,136,536	943,070	1,280	(12,425)	18,323,223
Total liabilities	10,115,832	5,308,522	833,874	23	(12,425)	16,245,826
Other segment information						
Property and equipment	26,493	4,028	693	14	280	31,508
Intangible assets	13,077	1,224	861	-	-	15,162
Capital expenditure	**39,570**	**5,252**	**1,554**	**14**	**280**	**46,670**
Depreciation & amortisation	(25,929)	(3,547)	(1,568)	-	-	(31,044)

6. Cash and Cash Equivalents

	As at	
	30 June 2020 (unaudited)	*31 December 2019*
Cash on hand	636,908	674,130
Current accounts with central banks, exduding obligatory reserves	396,140	405,560
Current accounts with credit institutions	321,988	458,529
Time deposits with credit institutions with maturities of up to 90 days	281,742	621,120
Cash and cash equivalents	**1,636,778**	**2,159,339**
Less – Allowance for expected credit loss	(75)	(134)
Cash and cash equivalents	**1,636,703**	**2,159,205**

As at 30 June 2020, GEL 429,623 (31 December 2019: GEL 841,866) was placed on current and time deposit accounts with internationally recognised OECD banks and central banks that are the counterparties of the Group in performing international settlements. The Group earned up to 0.12% interest per annum on these deposits (31 December 2019: up to 2.20%). Management does not expect any losses from non-performance by the counterparties holding cash and cash equivalents, and there are no material differences between their book and fair values.

7. Amounts Due from Credit Institutions

	As at	
	30 June 2020 (unaudited)	*31 December 2019*
Obligatory reserves with central banks	1,687,912	1,577,911
Inter-bank loan receivables	-	30,414
Deposits pledged as security for open commitments	6,109	5,691
Time deposits with maturities of more than 90 days	-	5
Amounts due from credit institutions	**1,694,021**	**1,614,021**
Less – Allowance for expected credit loss	(410)	(347)
Amounts due from credit institutions	**1,693,611**	**1,613,674**

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

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

8. Investment Securities

	As at	
	30 June 2020 (unaudited)	*31 December 2019*
Investment securities measured at FVOCI - debt instruments	2,085,652	1,758,235
Investment securities designated as at FVOCI - equity investments	2,471	2,788
Investment securities	**2,088,123**	**1,761,023**

8. Investment Securities (continued)

	As at	
	30 June 2020 (unaudited)	*31 December 2019*
Georgian ministry of Finance treasury bonds*	956,431	647,886
Georgian ministry of Finance treasury bills**	67,980	120,519
Foreign ministry of Finance treasury bonds	118,934	66,961
Certificates of deposit of central banks	-	8,912
Other debt instruments***	942,307	913,957
Investment securities measured at FVOCI - debt instruments	**2,085,652**	**1,758,235**

	As at	
	30 June 2020 (unaudited)	*31 December 2019*
Corporate shares – quoted	1,698	2,316
Corporate shares – unquoted	773	472
Investment securities designated as at FVOCI - equity	**2,471**	**2,788**

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

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

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

9. Loans to customers and finance lease receivables

	As at	
	30 June 2020 (unaudited)	*31 December 2019*
Commercial loans	4,236,689	3,929,443
Residential mortgage loans	3,289,186	3,066,683
Micro and SME loans	2,893,403	2,660,220
Consumer loans	2,171,450	2,085,108
Gold – pawn loans	94,978	85,540
Loans to customers at amortised cost, gross	**12,685,706**	**11,826,994**
Less – Allowance for expected credit loss	(423,920)	(217,134)
Loans to customers at amortised cost, net	**12,261,786**	**11,609,860**
Finance lease receivables, gross	**173,427**	**159,191**
Less – Allowance for expected credit loss	(6,880)	(2,297)
Finance lease receivables, net	**166,547**	**156,894**
Total loans to customers and finance lease receivables	**12,428,333**	**11,766,754**

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

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

Expected credit loss

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

Commercial loans at amortised cost, gross:	*As at 30 June 2020 (unaudited)*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2020	**3,410,544**	**349,494**	**161,744**	**7,661**	**3,929,443**
New financial asset originated or purchased	1,280,257	29,387	-	-	1,309,644
Transfer to Stage 1	239,313	(239,313)	-	-	-
Transfer to Stage 2	(292,276)	296,107	(3,831)	-	-
Transfer to Stage 3	(727)	(36,618)	37,345	-	-
Assets derecognized due to pass-through arrangement	(21,592)	(6,620)	-	-	(28,212)
Assets repaid	(1,120,350)	(95,010)	(8,502)	(676)	(1,224,538)
Resegmentation	17,856	-	-	-	17,856
Impact of modifications	(744)	30	(6)	(7)	(727)
Write-offs	-	-	(6,483)	-	(6,483)
Recoveries of amounts previously written off	-	-	3,045	291	3,336
Unwind of discount	-	-	5,961	(259)	5,702
Currency translation differences	(18,510)	(655)	(1,316)	-	(20,481)
Foreign exchange movement	203,319	15,675	7,215	421	226,630
Net other changes	17,258	155	6,684	422	24,519
Balance at 30 June 2020 (unaudited)	**3,714,348**	**312,632**	**201,856**	**7,853**	**4,236,689**
Individually assessed	-	-	193,949	-	193,949
Collectively assessed	3,714,348	312,632	7,907	7,853	4,042,740
Balance at 30 June 2020 (unaudited)	**3,714,348**	**312,632**	**201,856**	**7,853**	**4,236,689**

Commercial loans at amortised cost, ECL:	*As at 30 June 2020 (unaudited)*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2020	**8,902**	**3,414**	**77,995**	**301**	**90,612**
New financial asset originated or purchased	1,959	919	-	-	2,878
Transfer to Stage 1	2,892	(2,892)	-	-	-
Transfer to Stage 2	(353)	1,028	(675)	-	-
Transfer to Stage 3	(9)	(7,547)	7,556	-	-
Impact on ECL of exposures transferred between stages during the period	(212)	(544)	12,288	-	11,532
Assets derecognized due to pass-through arrangement	(5)	(48)	-	-	(53)
Assets repaid	(5,495)	(989)	(4,201)	(443)	(11,128)
Resegmentation	72	-	-	-	72
Impact of modifications	1	8	(6)	-	3
Write-offs	-	-	(6,483)	-	(6,483)
Recoveries of amounts previously written off	-	-	3,045	291	3,336
Unwind of discount	-	-	5,961	(259)	5,702
Currency translation differences	(267)	(52)	(318)	-	(637)
Foreign exchange movement	(686)	(180)	2,514	(25)	1,623
Net other measurement of ECL	15,723	22,167	21,149	801	59,840
Balance at 30 June 2020 (unaudited)	**22,522**	**15,284**	**118,825**	**666**	**157,297**
Individually assessed	-	-	115,616	-	115,616
Collectively assessed	22,522	15,284	3,209	666	41,681
Balance at 30 June 2020 (unaudited)	**22,522**	**15,284**	**118,825**	**666**	**157,297**

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

Expected credit loss (continued)

Consumer loans at amortised cost, gross:	*As at 30 June 2020 (unaudited)*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2020	**1,856,795**	**110,158**	**108,414**	**9,741**	**2,085,108**
New financial asset originated or purchased	636,546	2,427	740	1,539	641,252
Transfer to Stage 1	77,934	(70,217)	(7,717)	-	-
Transfer to Stage 2	(183,949)	196,774	(12,825)	-	-
Transfer to Stage 3	(25,517)	(19,810)	45,327	-	-
Assets repaid	(558,235)	(32,097)	(28,991)	(1,414)	(620,737)
Resegmentation	(230)	-	93	-	(137)
Impact of modifications	(13,560)	(1,912)	(2,074)	(146)	(17,692)
Write-offs	-	-	(11,666)	(4)	(11,670)
Recoveries of amounts previously written off	-	-	8,367	11	8,378
Unwind of discount	-	-	2,053	25	2,078
Currency translation differences	(9,627)	(25)	(50)	-	(9,702)
Foreign exchange movement	12,741	1,288	1,174	196	15,399
Net other changes	63,291	10,177	5,394	311	79,173
Balance at 30 June 2020 (unaudited)	**1,856,189**	**196,763**	**108,239**	**10,259**	**2,171,450**
Individually assessed	-	-	1,232	-	1,232
Collectively assessed	1,856,189	196,763	107,007	10,259	2,170,218
Balance at 30 June 2020 (unaudited)	**1,856,189**	**196,763**	**108,239**	**10,259**	**2,171,450**

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

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

Expected credit loss (continued)

Micro and SME loans at amortised cost, gross:	*As at 30 June 2020 (unaudited)*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2020	**2,426,866**	**113,130**	**118,475**	**1,749**	**2,660,220**
New financial asset originated or purchased	763,397	3,775	-	303	767,475
Transfer to Stage 1	76,933	(74,821)	(2,112)	-	-
Transfer to Stage 2	(455,075)	462,052	(6,977)	-	-
Transfer to Stage 3	(8,784)	(36,135)	44,919	-	-
Assets repaid	(621,945)	(31,496)	(16,890)	(172)	(670,503)
Resegmentation	(17,844)	-	-	-	(17,844)
Impact of modifications	(6,684)	(909)	(1,229)	(4)	(8,826)
Write-offs	-	-	(9,219)	(919)	(10,138)
Recoveries of amounts previously written off	-	-	2,612	68	2,680
Unwind of discount	-	-	883	22	905
Currency translation differences	(7,717)	(985)	(518)	-	(9,220)
Foreign exchange movement	102,171	5,560	4,009	108	111,848
Net other changes	48,675	11,385	6,204	542	66,806
Balance at 30 June 2020 (unaudited)	**2,299,993**	**451,556**	**140,157**	**1,697**	**2,893,403**
Individually assessed	-	-	20,158	-	20,158
Collectively assessed	2,299,993	451,556	119,999	1,697	2,873,245
Balance at 30 June 2020 (unaudited)	**2,299,993**	**451,556**	**140,157**	**1,697**	**2,893,403**

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

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

Expected credit loss (continued)

Residential mortgage loans at amortised cost, gross:	*As at 30 June 2020 (unaudited)*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2020	**2,764,959**	**160,038**	**109,413**	**32,273**	**3,066,683**
New financial asset originated or purchased	348,647	335	60	4,835	353,877
Transfer to Stage 1	103,303	(99,161)	(4,142)	-	-
Transfer to Stage 2	(275,155)	293,588	(18,433)	-	-
Transfer to Stage 3	(19,989)	(18,360)	38,349	-	-
Assets repaid	(272,680)	(17,097)	(15,699)	(3,033)	(308,509)
Resegmentation	218	-	-	-	218
Impact of modifications	(12,886)	(1,297)	(1,297)	(810)	(16,290)
Write-offs	-	-	(1,720)	(114)	(1,834)
Recoveries of amounts previously written off	-	-	122	58	180
Unwind of discount	-	-	216	84	300
Currency translation differences	(1,732)	(1)	(2)	-	(1,735)
Foreign exchange movement	112,846	4,215	5,372	1,482	123,915
Net other changes	57,263	10,178	3,640	1,300	72,381
Balance at 30 June 2020 (unaudited)	**2,804,794**	**332,438**	**115,879**	**36,075**	**3,289,186**
Individually assessed	-	-	139	-	139
Collectively assessed	2,804,794	332,438	115,740	36,075	3,289,047
Balance at 30 June 2020 (unaudited)	**2,804,794**	**332,438**	**115,879**	**36,075**	**3,289,186**

Residential mortgage loans at amortised cost, ECL:	*As at 30 June 2020 (unaudited)*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2020	**461**	**160**	**6,588**	**1,808**	**9,017**
New financial asset originated or purchased	483	-	2	10	495
Transfer to Stage 1	632	(573)	(59)	-	-
Transfer to Stage 2	(828)	1,874	(1,046)	-	-
Transfer to Stage 3	(25)	(395)	420	-	-
Impact on ECL of exposures transferred between stages during the period	(158)	(848)	708	-	(298)
Assets repaid	(842)	(140)	(1,874)	(489)	(3,345)
Resegmentation	-	-	-	-	-
Impact of modifications	(44)	(43)	(179)	(48)	(314)
Write-offs	-	-	(1,720)	(114)	(1,834)
Recoveries of amounts previously written off	-	-	122	58	180
Unwind of discount	-	-	216	84	300
Currency translation differences	(16)	-	-	-	(16)
Foreign exchange movement	(258)	(51)	(324)	(101)	(734)
Net other measurement of ECL	6,525	8,267	20,772	5,309	40,873
Balance at 30 June 2020 (unaudited)	**5,930**	**8,251**	**23,626**	**6,517**	**44,324**
Individually assessed	-	-	-	-	-
Collectively assessed	5,930	8,251	23,626	6,517	44,324
Balance at 30 June 2020 (unaudited)	**5,930**	**8,251**	**23,626**	**6,517**	**44,324**

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

Expected credit loss (continued)

Gold – pawn loans at amortised cost, gross:	*As at 30 June 2020 (unaudited)*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2020	**80,795**	**1,114**	**3,631**	**-**	**85,540**
New financial asset originated or purchased	49,721	-	-	-	49,721
Transfer to Stage 1	1,103	(533)	(570)	-	-
Transfer to Stage 2	(4,417)	4,805	(388)	-	-
Transfer to Stage 3	(2,061)	(307)	2,368	-	-
Assets repaid	(39,963)	(702)	(1,644)	-	(42,309)
Resegmentation	-	-	(93)	-	(93)
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(58)	-	(58)
Recoveries of amounts previously written off	-	-	18	-	18
Unwind of discount	-	-	(3)	-	(3)
Currency translation differences	-	-	-	-	-
Foreign exchange movement	92	(3)	(172)	-	(83)
Net other changes	1,678	171	396	-	2,245
Balance at 30 June 2020 (unaudited)	**86,948**	**4,545**	**3,485**	**-**	**94,978**
Individually assessed	-	-	-	-	-
Collectively assessed	86,948	4,545	3,485	-	94,978
Balance at 30 June 2020 (unaudited)	**86,948**	**4,545**	**3,485**	**-**	**94,978**

Gold – pawn loans at amortised cost, ECL:	*As at 30 June 2020 (unaudited)*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2020	**8**	**1**	**244**	**-**	**253**
New financial asset originated or purchased	-	-	-	-	-
Transfer to Stage 1	20	(3)	(17)	-	-
Transfer to Stage 2	(8)	25	(17)	-	-
Transfer to Stage 3	-	-	-	-	-
Impact on ECL of exposures transferred between stages during the period	(17)	(1)	-	-	(18)
Assets repaid	(9)	2	(57)	-	(64)
Resegmentation	-	-	-	-	-
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(58)	-	(58)
Recoveries of amounts previously written off	-	-	18	-	18
Unwind of discount	-	-	(3)	-	(3)
Currency translation differences	-	-	-	-	-
Foreign exchange movement	(1)	-	-	-	(1)
Net other measurement of ECL	52	(8)	238	-	282
Balance at 30 June 2020 (unaudited)	**45**	**16**	**348**	**-**	**409**
Individually assessed	-	-	-	-	-
Collectively assessed	45	16	348	-	409
Balance at 30 June 2020 (unaudited)	**45**	**16**	**348**	**-**	**409**

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

Concentration of loans to customers

As at 30 June 2020, the concentration of loans granted by the Group to the ten largest third party borrowers comprised GEL 1,014,642 accounting for 8% of the gross loan portfolio of the Group (2019: GEL 1,023,217 and 9% respectively). An allowance of GEL 1,711 (2019: GEL 1,634) was established against these loans.

As at 30 June 2020, the concentration of loans granted by the Group to the ten largest third party group of borrowers comprised GEL 1,666,498 accounting for 13% of the gross loan portfolio of the Group (2019: GEL 1,602,923 and 14% respectively). An allowance of GEL 73,768 (2019: GEL 60,953) was established against these loans.

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

	As at	
	30 June 2020 (unaudited)	*31 December 2019*
Individuals	6,944,093	6,507,095
Trade	1,338,146	1,263,638
Manufacturing	1,119,452	1,138,775
Real estate	826,460	717,063
Construction	627,905	572,159
Hospitality	521,354	399,148
Transport & communication	271,201	248,210
Service	201,934	224,063
Mining and quarrying	131,576	117,801
Electricity, gas and water supply	61,710	50,318
Financial intermediation	86,547	88,276
Other	555,328	500,448
Loans to customers, gross	**12,685,706**	**11,826,994**
Less – Allowance for expected credit loss	(423,920)	(217,134)
Loans to customers, net	**12,261,786**	**11,609,860**

Loans have been issued to the following types of customers:

	As at	
	30 June 2020 (unaudited)	*31 December 2019*
Individuals	6,944,093	6,507,095
Private companies	5,725,934	5,305,297
State-owned entities	15,679	14,602
Loans to customers, gross	**12,685,706**	**11,826,994**
Less – Allowance for expected credit loss	(423,920)	(217,134)
Loans to customers, net	**12,261,786**	**11,609,860**

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

Finance lease receivables

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

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

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

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

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

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

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

Finance lease receivables (continued)

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

Finance lease receivables, gross:	*As at 30 June 2020 (unaudited)*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2020	**130,232**	**12,498**	**16,461**	**-**	**159,191**
New financial asset originated or purchased	43,477	-	-	-	43,477
Transfer to Stage 1	38,983	(36,788)	(2,195)	-	-
Transfer to Stage 2	(90,735)	91,675	(940)	-	-
Transfer to Stage 3	(3,163)	(35,132)	38,295	-	-
Assets repaid	(24,005)	(684)	(2,884)	-	(27,573)
Resegmentation	-	-	-	-	-
Impact of modifications	-	(973)	(199)	-	(1,172)
Write-offs	-	-	(6,006)	-	(6,006)
Recoveries of amounts previously written off	-	-	-	-	-
Unwind of discount	-	-	(4)	-	(4)
Currency translation differences	(1,308)	(70)	(90)	-	(1,468)
Foreign exchange movement	3,805	1,342	1,319	-	6,466
Net other changes	829	(84)	(229)	-	516
Balance at 30 June 2020 (unaudited)	**98,115**	**31,784**	**43,528**	**-**	**173,427**
Individually assessed	-	-	873	-	873
Collectively assessed	98,115	31,784	42,655	-	172,554
Balance at 30 June 2020 (unaudited)	**98,115**	**31,784**	**43,528**	**-**	**173,427**

Finance lease receivables, ECL:	*As at 30 June 2020 (unaudited)*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2020	**759**	**95**	**1,443**	**-**	**2,297**
New financial asset originated or purchased	137	-	-	-	137
Transfer to Stage 1	144	(140)	(4)	-	-
Transfer to Stage 2	(255)	256	(1)	-	-
Transfer to Stage 3	(168)	(2,555)	2,723	-	-
Impact on ECL of exposures transferred between stages during the period	232	2,492	2,806	-	5,530
Assets repaid	(270)	(13)	(96)	-	(379)
Resegmentation	-	-	-	-	-
Impact of modifications	-	(1)	(18)	-	(19)
Write-offs	-	-	(618)	-	(618)
Recoveries of amounts previously written off	-	-	-	-	-
Unwind of discount	-	-	(4)	-	(4)
Currency translation differences	(47)	(6)	(15)	-	(68)
Foreign exchange movement	-	1	(83)	-	(82)
Net other measurement of ECL	14	41	31	-	86
Balance at 30 June 2020 (unaudited)	**546**	**170**	**6,164**	**-**	**6,880**
Individually assessed	-	-	42	-	42
Collectively assessed	546	170	6,122	-	6,838
Balance at 30 June 2020 (unaudited)	**546**	**170**	**6,164**	**-**	**6,880**

10. Taxation

The corporate income tax credit (expense) comprises:

	For the six months ended	
	30 June 2020 (unaudited)	*30 June 2019*
Current income tax credit (expense)	38,310	(16,200)
Deferred income tax expense	(33,695)	(2,045)
Income tax (expense) credit	**4,615**	**(18,245)**

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

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

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

11. Client deposits and notes

The client deposits and notes include the following:

	As at	
	30 June 2020 (unaudited)	*31 December 2019*
Time deposits	6,629,662	5,055,089
Current accounts	4,996,362	5,081,606
Client deposits and notes	**11,626,024**	**10,136,695**
Held as security against letters of credit and guarantees (Note14)	**121,345**	**90,346**

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

Client deposits and notes include accounts with the following types of customers:

	As at	
	30 June 2020 (unaudited)	*31 December 2019*
Individuals	6,843,929	6,449,190
Private enterprises	3,640,361	3,325,496
State and state-owned entities	1,141,734	362,009
Client deposits and notes	**11,626,024**	**10,136,695**

11. Client deposits and notes (continued)

The breakdown of client deposits and notes by industry sector is as follows:

	As at	
	30 June 2020 (unaudited)	*31 December 2019*
Individuals	6,843,929	6,449,190
Government services	1,130,787	320,470
Financial intermediation	732,941	576,361
Trade	601,424	533,548
Transport & communication	582,363	419,570
Construction	479,609	632,389
Service	286,253	293,887
Manufacturing	271,579	269,627
Real estate	110,807	125,679
Electricity, gas and water supply	76,749	93,757
Hospitality	33,131	62,084
Other	476,452	360,133
Client deposits and notes	**11,626,024**	**10,136,695**

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

12. Amounts Owed to Credit Institutions

	As at	
	30 June 2020 (unaudited)	*31 December 2019*
Borrowings from international credit institutions	1,344,562	1,211,518
Short-term loans from the National Bank of Georgia	847,213	1,551,953
Time deposits and inter-bank loans	271,746	195,982
Correspondent accounts	150,874	263,975
	2,614,395	**3,223,428**
Non-convertible subordinated debt	660,529	461,493
Amounts due to credit institutions	**3,274,924**	**3,684,921**

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

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

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

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

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

13. Debt Securities Issued

	As at	
	30 June 2020 (unaudited)	*31 December 2019*
Eurobonds and notes issued	1,047,175	1,442,298
Additional Tier 1 capital notes issued	301,061	282,407
Certificates of deposit	158,467	343,536
Local bonds	77,466	72,540
Debt securities issued	**1,584,169**	**2,140,781**

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

14. Commitments and Contingencies

Legal

Sai-invest

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

Rustavi Azoti

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

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

14. Commitments and Contingencies (continued)

Financial commitments and contingencies

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

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

15. Equity

Share capital

As at 30 June 2020 and 31 December 2019 , authorized common capital comprised 43,308,125 shares (2019: 43,308,125 shares). Each share has a nominal value of one (1) Georgian Lari. Shares issued and outstanding as at 30 June 2020 and 30 June 2019 are described below:

	Number of shares Ordinary	*Amount of shares Ordinary*
31 December 2018	**27,993,660**	**27,994**
30 June 2019 (unaudited)	**27,993,660**	**27,994**
31 December 2019	**27,993,660**	**27,994**
30 June 2020 (unaudited)	**27,993,660**	**27,994**

Treasury shares

The number of treasury shares held by the Group as at 30 June 2020 comprised 10,173 (31 December 2019: 10,173), with nominal amount of GEL 10 (31 December 2019: GEL 10).

Dividends

Shareholders are entitled to dividends in Georgian Lari.

No dividend was distributed in 2020.

On 14 May 2019, the annual general meeting of shareholders' of JSC Bank of Georgia declared an interim dividend for 2017 of Georgian Lari 4.97 per share. Payment of the total GEL 139,200 final dividends was received by shareholders on 17 June 2019.

15. Equity (continued)

Earnings per share

	For the six months ended	
	30 June 2020 (unaudited)	*30 June 2019 (unaudited)*
Basic and diluted earnings per share		
Profit for the period attributable to ordinary shareholders of the Bank	22,362	213,706
Weighted average number of ordinary shares outstanding during the period	27,983,827	27,983,827
Earnings per share	0.7991	7.6368

Nature and purpose of Other Reserves

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

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

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

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

16. Net Interest Income

	For the six months ended	
	30 June 2020 (unaudited)	*30 June 2019 (unaudited)*
Interest income calculated using EIR method	**739,883**	**654,421**
From loans to customers	652,529	584,023
From investment securities	78,286	66,363
From amounts due from credit institutions	14,045	10,644
Net loss on modification of financial assets	(4,977)	(6,609)
Other interest income	**15,928**	**11,016**
From finance lease receivable	15,888	11,016
Interest Income	**755,811**	**665,437**
On client deposits and notes	(193,177)	(137,047)
On amounts owed to credit institutions	(133,769)	(85,900)
On debt securities issued	(84,059)	(73,407)
Interest element of cross-currency swaps	29,267	16,773
On lease liability	(2,806)	(2,414)
Interest Expense	**(384,544)**	**(281,995)**
Deposit insurance fees	(4,874)	(3,827)
Net Interest Income	**366,393**	**379,615**

17. Net Fee and Commission Income

	For the six months ended	
	30 June 2020 (unaudited)	*30 June 2019 (unaudited)*
Settlements operations	94,332	102,075
Guarantees and letters of credit	14,410	11,220
Cash operations	6,592	7,712
Currency conversion operations	4,846	4,115
Brokerage service fees	13	-
Other	2,291	2,767
Fee and commission income	**122,484**	**127,889**
Settlements operations	(55,487)	(48,163)
Cash operations	(3,917)	(3,811)
Guarantees and letters of credit	(250)	(683)
Insurance brokerage service fees	(561)	(129)
Currency conversion operations	(979)	(417)
Other	(1,447)	(1,937)
Fee and commission expense	**(62,641)**	**(55,140)**
Net fee and commission income	**59,843**	**72,749**

18. Average Number of Employees

Average number of employees for the period:	*30 June 2020 (unaudited)*	*31 December 2019*
Permanent employment:		
Top management	14	13
Middle management	52	52
Other employees	6,407	6,420
	6,473	**6,485**
Temporary employment:		
Top management	-	-
Middle management	-	-
Other employees	18	26
	18	**26**
Total	**6,491**	**6,511**

19. Expected Credit Loss

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

	As at 30 June 2020 (unaudited)							
	Stage 1		Stage 2		Stage 3		POCI	*Total*
	Individual	*Collective*	*Individual*	*Collective*	*Individual*	*Collective*		
Cash and cash equivalents	-	58	-	-	-	-	-	58
Amounts due from credit institutions	-	(66)	-	-	-	-	-	(66)
Investment securities measured at FVOCI - debt instruments	-	(1,112)	-	-	-	-	-	(1,112)
Loans to customers at amortised cost	-	(47,600)	-	(67,957)	(40,396)	(52,889)	(6,069)	(214,911)
Finance lease receivables	-	166	-	(81)	28	(5,386)	-	(5,273)
Other financial assets	-	(12,660)	-	-	-	-	-	(12,660)
Financial guarantees	-	(6,041)	-	(544)	845	(10)	-	(5,750)
Letter of credit to customers	-	(1,490)	-	(215)	12	-	-	(1,693)
Other financial commitments	-	(658)	-	(18)	48	-	-	(628)
for the period ended 30 June 2020	**-**	**(69,403)**	**-**	**(68,815)**	**(39,463)**	**(58,285)**	**(6,069)**	**(242,035)**

20. Net Non-recurring Items

	For the six months ended	
	30 June 2020 (unaudited)	*30 June 2019 (unaudited)*
Modification loss of financial assets*	(39,730)	-
Corporate social responsibility expense**	(1,454)	-
Termination benefits	-	(3,985)
Other	(139)	(321)
Net non-recurring expense/loss	**(41,323)**	**(4,306)**

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

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

21. Risk Management

Emerging Risks

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

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

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

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a regular basis. This incorporates an assessment of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Group primarily on a standalone Bank basis, based on certain liquidity coverage ratios established by the NBG. The banks are required to maintain a liquidity coverage ratio, which is defined as the ratio of high-quality liquid assets to net cash outflow over the next 30 days. The order requires that, absent a stress-period, the value of the ratio be no lower than 100%. The liquidity coverage ratio as at 30 June 2020 was 135.4% (31 December 2019: 136.7%).
The Bank maintained excess liquidity in 2020 primarily for risk mitigation purposes on the back of the current COVID-19 crisis; and the repayment of local currency Eurobonds due at the beginning of June 2020.

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

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

22. Fair Value Measurements

Fair value hierarchy

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

30 June 2020 (unaudited)	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets measured at fair value				
Total investment properties	-	-	215,776	215,776
Land	-	-	*52,270*	*52,270*
Residential properties	-	-	*72,288*	*72,288*
Non-residential properties	-	-	*91,218*	*91,218*
Investment securities	1,698	2,085,726	699	2,088,123
Other assets – derivative financial assets	-	13,579	-	13,579
Assets for which fair values are disclosed				
Amounts due from credit institutions	-	1,693,611	-	1,693,611
Loans to customers and finance lease receivables	-	-	12,510,970	12,510,970
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	-	41,844	-	41,844
Liabilities for which fair values are disclosed				
Client deposits and notes	-	11,642,629	-	11,642,629
Amounts owed to credit institutions	-	2,285,060	989,864	3,274,924
Debt securities issued	-	1,317,864	235,220	1,553,084
Lease liability	-	5,299	91,352	96,651

31 December 2019	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets measured at fair value				
Total investment properties	-	-	228,666	228,666
Land	-	-	*56,908*	*56,908*
Residential properties	-	-	*75,328*	*75,328*
Non-residential properties	-	-	*96,430*	*96,430*
Investment securities	2,316	1,758,312	395	1,761,023
Other assets – derivative financial assets	-	34,559	-	34,559
Assets for which fair values are disclosed				
Amounts due from credit institutions	-	1,613,674	-	1,613,674
Loans to customers and finance lease receivables	-	-	11,917,877	11,917,877
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	-	10,836	-	10,836
Liabilities for which fair values are disclosed				
Client deposits and notes	-	10,137,502	-	10,137,502
Amounts owed to credit institutions	-	3,385,114	299,807	3,684,921
Debt securities issued	-	1,782,278	416,787	2,199,065
Lease liability	-	-	95,389	95,389

22. Fair Value Measurement (continued)

Fair value hierarchy (continued)

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

Derivative financial instruments

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

Trading securities and investment securities

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

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

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

	Carrying value 30 June 2020	*Fair value 30 June 2020*	*Unrecognised gain (loss) 30 June 2020*	*Carrying value 2019*	*Fair value 2019*	*Unrecognised gain (loss) 2019*
Financial assets						
Amounts due from credit institutions	1,693,611	1,693,611	-	1,613,674	1,613,674	-
Loans to customers and finance lease receivables	12,428,333	12,510,970	82,637	11,766,754	11,917,877	151,123
Financial liabilities						
Client deposits and notes	11,626,024	11,642,629	(16,605)	10,136,695	10,137,502	(807)
Amounts owed to credit institutions	3,274,924	3,274,924	-	3,684,921	3,684,921	-
Debt securities issued	1,584,169	1,553,084	31,085	2,140,781	2,199,065	(58,284)
Lease liability	96,651	96,651	-	94,518	95,389	(871)
Total unrecognised change in unrealised fair value			**97,117**			**91,161**

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

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

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

23. Maturity Analysis of Financial Assets and Liabilities

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

	30 June 2020 (unaudited)							
	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	1,354,982	281,721	-	-	-	-	-	1,636,703
Amounts due from credit institutions	1,680,006	-	-	-	-	-	13,605	1,693,611
Investment securities	808,793	903,879	875	63,773	41,920	216,291	52,592	2,088,123
Loans to customers and finance lease	-	2,210,023	842,340	1,476,588	3,311,936	1,756,976	2,830,470	12,428,333
Total	**3,843,781**	**3,395,623**	**843,215**	**1,540,361**	**3,353,856**	**1,973,267**	**2,896,667**	**17,846,770**
Financial liabilities								
Client deposits and notes	1,770,888	2,641,923	1,138,253	4,702,326	838,689	482,774	51,171	11,626,024
Amounts owed to credit institutions	150,874	1,231,956	145,452	291,764	488,054	631,902	334,922	3,274,924
Debt securities issued	-	97,115	25,483	83,513	284,680	919,079	174,299	1,584,169
Lease liability	-	9,618	5,557	10,978	33,072	21,890	15,536	96,651
Total	**1,921,762**	**3,980,612**	**1,314,745**	**5,088,581**	**1,644,495**	**2,055,645**	**575,928**	**16,581,768**
Net	**1,922,019**	**(584,989)**	**(471,530)**	**(3,548,220)**	**1,709,361**	**(82,378)**	**2,320,739**	**1,265,002**
Accumulated gap	**1,922,019**	**1,337,030**	**865,500**	**(2,682,720)**	**(973,359)**	**(1,055,737)**	**1,265,002**	

	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	1,538,123	621,082	-	-	-	-	-	2,159,205
Amounts due from credit institutions	1,570,495	30,670	-	-	-	-	12,509	1,613,674
Investment securities	299,241	1,235,464	4,840	4,054	64,495	105,190	47,739	1,761,023
Loans to customers and finance lease	-	1,670,752	803,830	1,578,589	3,324,687	1,700,478	2,688,418	11,766,754
Total	**3,407,859**	**3,557,968**	**808,670**	**1,582,643**	**3,389,182**	**1,805,668**	**2,748,666**	**17,300,656**
Financial liabilities								
Client deposits and notes	2,130,711	1,765,582	864,681	4,406,612	836,542	85,343	47,224	10,136,695
Amounts owed to credit institutions	263,975	1,731,425	122,857	355,504	472,232	388,883	350,045	3,684,921
Debt securities issued	-	72,093	638,293	87,636	300,008	879,167	163,584	2,140,781
Lease liability	-	5,879	5,687	10,471	33,555	21,438	17,488	94,518
Total	**2,394,686**	**3,574,979**	**1,631,518**	**4,860,223**	**1,642,337**	**1,374,831**	**578,341**	**16,056,915**
Net	**1,013,173**	**(17,011)**	**(822,848)**	**(3,277,580)**	**1,746,845**	**430,837**	**2,170,325**	**1,243,741**
Accumulated gap	**1,013,173**	**996,162**	**173,314**	**(3,104,266)**	**(1,357,421)**	**(926,584)**	**1,243,741**	

The Group's capability to discharge its liabilities relies on its ability to realise equivalent assets within the same period of time. In the Georgian marketplace, where most of the Group's business is concentrated, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. To reflect the historical stability of current accounts, the Group calculates the minimal daily balance of current accounts over the past two years and includes the amount in the less than 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.

23. Maturity Analysis of Financial Assets and Liabilities (continued)

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

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

As at 30 June 2020 client deposits and notes amounted to GEL 11,626,024 (31 December 2019: GEL 10,136,695) and represented 69% (31 December 2019: 62%) of the Group's total liabilities. These funds continue to provide a majority of the Group's funding and represent a diversified and stable source of funds. As at 30 June 2020 amounts owed to credit institutions amounted to GEL 3,274,924 (31 December 2019: GEL 3,684,921) and represented 19% (31 December 2019:23%) of total liabilities. As at 30 June 2020 debt securities issued amounted to GEL 1,584,169 (31 December 2019: GEL 2,140,781) and represented 9% (31 December 2019: 13%) of total liabilities.

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

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

	30 June 2020 (unaudited)			*31 December 2019*		
	Less than 1 Year	*More than 1 Year*	*Total*	*Less than 1 Year*	*More than 1 Year*	*Total*
Cash and cash equivalents	1,636,703	-	1,636,703	2,159,205	-	2,159,205
Amounts due from credit institutions	1,680,006	13,605	1,693,611	1,601,165	12,509	1,613,674
Investment securities	1,777,320	310,803	2,088,123	1,543,599	217,424	1,761,023
Loans to customers and finance lease	4,528,951	7,899,382	12,428,333	4,053,171	7,713,583	11,766,754
Accounts receivable and other loans	3,204	-	3,204	2,585	-	2,585
Prepayments	39,603	2,504	42,107	37,141	13,976	51,117
Inventories	7,285	-	7,285	5,983	-	5,983
Investment properties	-	215,776	215,776	-	228,666	228,666
Right of use assets	-	89,541	89,541	-	95,990	95,990
Property and equipment	-	357,847	357,847	-	339,726	339,726
Goodwill	-	33,453	33,453	-	33,453	33,453
Intangible assets	-	104,623	104,623	-	95,471	95,471
Income tax assets	54,401	194	54,595	75	207	282
Other assets	118,252	12,731	130,983	120,061	12,949	133,010
Assets held for sale	45,212	-	45,212	36,284	-	36,284
Total assets	**9,890,937**	**9,040,459**	**18,931,396**	**9,559,269**	**8,763,954**	**18,323,223**
Client deposits and notes	10,253,390	1,372,634	11,626,024	9,167,586	969,109	10,136,695
Amounts owed to credit institutions	1,820,046	1,454,878	3,274,924	2,473,761	1,211,160	3,684,921
Debt securities issued	206,111	1,378,058	1,584,169	798,022	1,342,759	2,140,781
Lease liability	26,154	70,497	96,651	22,037	72,481	94,518
Accruals and deffered income	26,781	9,296	36,077	39,827	10,237	50,064
Income tax liabilities	243	69,928	70,171	1,563	36,355	37,918
Other liabilities	107,479	-	107,479	100,929	-	100,929
Total liabilities	**12,440,204**	**4,355,291**	**16,795,495**	**12,603,725**	**3,642,101**	**16,245,826**
Net	**(2,549,267)**	**4,685,168**	**2,135,901**	**(3,044,456)**	**5,121,853**	**2,077,397**

24. Related Party Disclosures

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

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

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

	30 June 2020 (unaudited)			*30 June 2019 (unaudited)*		
	The parent	*Entities under common control*	*Key management personnel**	*The parent*	*Entities under common control*	*Key management personnel**
Loans outstanding at 1 January, gross	**2,461**	**1,893**	**6,718**	**2,168**	**407**	**1,654**
Loans issued during the period	7,683	-	3,585	677	250	2,529
Loan repayments during the period	-	(1,350)	(3,399)	(708)	250	(2,087)
Other movements	221	(543)	481	255	(209)	439
Loans outstanding at 30 June, gross	**10,365**	**-**	**7,385**	**2,392**	**698**	**2,535**
Less: allowance for impairment at 30 June	-	-	(16)	-	-	-
Loans outstanding at 30 June, net	**10,365**	**-**	**7,369**	**2,392**	**698**	**2,535**
Interest income on loans	105	160	169	76	40	93
Expected credit loss	-	-	(23)	-	-	(14)
Deposits at 1 January	**39,504**	**50,673**	**30,475**	**46,012**	**32,437**	**14,472**
Deposits received during the period	1,261	2,323	7,429	18,592	24,825	20,791
Deposits repaid during the period	(9,333)	(4,618)	(8,561)	(19,030)	(8,919)	(2,955)
Other movements	250	(696)	1,862	(4)	(539)	(829)
Deposits at 30 June	**31,682**	**47,682**	**31,205**	**45,570**	**47,804**	**31,479**
Interest expense on deposits	(1,078)	(391)	(654)	(645)	(165)	(447)
Debt securities at 1 January	**35,264**	**589**	**-**	**-**	**472**	**-**
Debt securities received during the period	-	-	-	33,736	-	-
Debt securities repaid during the period	(1,039)	-	-	-	-	-
Other movements	3,633	39	-	1,878	31	-
Debt securities at 30 June	**37,858**	**628**	**-**	**35,614**	**503**	**-**
Interest expense on debt securities issued	(1,095)	(22)	-	(73)	(17)	-

** Key management personnel includes members of BOG's Supervisory Board, BOG's Management Board and Key Executives of the Group.*

Compensation of key management comprised the following:

	For the six months ended	
	30 June 2020 (unaudited)	**30 June 2019 (unaudited)**
Salaries and other benefits	5,583	3,825
Share-based payments compensation *	12,980	26,712
Social security costs	-	11
Total key management compensation	**18,563**	**30,548**

** During the six months ended 30 June 2020, share-based compensation did not include amounts for key management personnel reflected in the non-recurring items (during the six months ended 30 June 2019: GEL 3,985).*

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

25. Capital Adequacy

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

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

The primary objectives of the Group's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise sharholder value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

NBG (Basel III) capital adequacy ratio

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

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

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

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

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

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

25. Capital Adequacy (continued)

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio based on the consolidated 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 30 June 2020 and 31 December 2019, was as follows:

JSC Bank of Georgia, consolidated, per Basel Capital Accord 1988	*As at*	
	30 June 2020 (unaudited)	*31 December 2019*
Tier 1 capital	2,072,339	2,051,119
Less: Deductions - Goodwill	(33,453)	(33,453)
Tier 2 capital	1,143,967	906,275
Less: Deductions from capital	(10)	(10)
Total capital	**3,182,843**	**2,923,931**
Risk-weighted assets	**13,909,319**	**15,110,852**
Total capital ratio	22.9%	19.3%
Tier 1 capital ratio	14.7%	13.4%
Minimum capital adequacy ratio	**8.0%**	**8.0%**