MANAGEMENT REPORT AND FINANCIAL STATEMENTS **2020**

HERE

KEEPING UP WITH THE NEW REALITY

NOW

20
20

TBC Bank[1] is the **largest banking group in Georgia,** serving around **92%** of the country's adult population.

CONTENTS

MANAGEMENT REPORT

Overview

At a glance 4

2020 highlights 6

CEO letter 8

Strategy & Performance

Georgia 12

Business model and strategy 16

Key performance indicators 22

Divisional overview 26

Doing business responsibly 58

Material existing and emerging risks 82

Risk management 93

Financial review 110

GOVERNANCE

Corporate governance 124

Supervisory Board biographies 126

The Bank's Management Board biographies 130

FINANCIAL STATEMENTS

Independent auditors' report 134

Consolidated statement of financial position 140

Consolidated statement of profit or loss and other comprehensive income 141

Consolidated statement of changes in equity 142

Consolidated statement of cash flows 143

Separate statement of financial position 144

Separate statement of profit or loss and other comprehensive income 145

Separate statement of changes in equity 146

Separate statement of cash flows 147

Notes to the financial statements 148

ADDITIONAL INFORMATION

Glossary 274

Abbreviations 275

For more information visit our website www.tbcbankgroup.com

1 TBC Bank refers to JSC TBC Bank (the Bank) and its subsidiaries (together Group)

WHO WE ARE ?

We are a leading universal financial group in Georgia with market shares[1] of 39.0% and 37.2% in total loans and deposits respectively. We have a strong presence across all our major business segments – retail banking, micro, small and medium enterprises (MSMEs) and corporate banking. We also offer a wide range of traditional financial services paired with innovative digital solutions, creating a seamless customer experience.

FULL SUITE OF TRADITIONAL FINANCIAL SERVICES

BEST-IN-CLASS DIGITAL CHANNELS

THE LEADING PROVIDER OF PAYMENT SOLUTIONS

HOW WE ARE DIFFERENT ?

CUSTOMER - CENTRIC APPROACH

MARKET LEADING DIGITAL EXPERIENCE

1 Based on data published by the National Bank of Georgia as of 31 December 2020

OUR MISSION
is to make life easier

This approach defines everything we do and how we do it: all our products and offerings are created with this idea in mind and we strive to combine excellence with simplicity.

- Commercial banking;
- Leasing;
- Brokerage and investment banking.

- Award-winning internet and mobile banking applications;
- The innovative and scalable fully digital bank, Space.

- Our payments ecosystem includes both traditional payment channels such as e-commerce, POS and self-service terminals as well as innovative payment methods comprising Apple Pay, QR payments and e-wallet.

ADVANCED DATA ANALYTICAL CAPABILITIES

COLLABORATIVE AND DYNAMIC CORPORATE CULTURE

STRONG AND HIGHLY TRUSTED BRAND

RESILIENT FINANCIAL PERFORMANCE

SOLID CAPITAL AND LIQUIDITY

BEST-IN-CLASS DIGITAL CHANNELS[1]

OUTSTANDING CUSTOMER EXPERIENCE

HIGH EMPLOYEE SATISFACTION LEVELS

STRONG BRAND[5]

1 Including Space transactions
2 Based on a survey of the retail segment conducted by IPM, an independent research company in December 2020
3 Employee Net Promoter Score was measured in October 2020 by an independent consultant for the Bank's employees
4 Employee Happiness Index was assessed internally based on comprehensive survey prepared with the assistance of the world's leading consulting firm and measures whether employees feel happy and satisfied with their job. The index was measured in July 2020 for the Bank's employees
5 Based on survey conducted by the independent research company, ACT in December 2020

₾337.3 mln

- 38.2% YoY

NET PROFIT

12.9%

- 11.4pp YoY

RETURN ON EQUITY

26.4%

- 2.0pp YoY

RETURN ON EQUITY BEFORE EXPECTED CREDIT LOSS ALLOWANCES

1.7%

- 1.6pp YoY

RETURN ON ASSETS

₾15,200.5 mln

+ 20.0% YoY

TOTAL LOANS

₾12,634.3 mln

+ 24.9% YoY

TOTAL DEPOSITS

10.4%

- 1.6pp YoY

CET 1 CAR
MIN. REQUIREMENT 7.4%

17.1%

- 2.0pp YoY

TOTAL CAR
MIN. REQUIREMENT 13.7%

134.2%

+ 24.1pp YoY

LIQUIDITY COVERAGE RATIO
MIN. REQUIREMENT 100%

95%

+ 2pp YoY

RETAIL OFFLOADING RATIO

50%

+ 2pp YoY

INTERNET AND MOBILE BANKING PENETRATION

BEST SERVICE COMPANY IN GEORGIA[2]

68%

ENPS[3]

85%

EMPLOYEE HAPPINESS INDEX[4]

95%

AIDED BRAND AWARENESS AMONG GEORGIAN POPULATION

46%

TOP OF MIND IN BANKING SECTOR

Dear Shareholders,
I am delighted to report that the Group delivered resilient financial performance during the year and achieved remarkable operating results in an extremely challenging external environment.

SUMMARY OF THE YEAR

Looking back at 2020, three words come to my mind: support, agility and digitalization.

From the very early days of pandemic outbreak in March, we promptly mobilized all our efforts to support our employees and customers and stood firmly by their side throughout the year. We were one of the first Georgian companies to implement remote working practices for our back-office employees and equip our front offices with all the necessary protective measures to ensure the full safety for our customers and employees. In addition, senior management conducted regular online meetings with our colleagues in order to address any concerns that employees might have and to provide assurance about our financial stability. We also made the commitment to retain all our staff during 2020 despite the slowdown in business activities. We pride ourselves on having maintained high employee motivation and engagement levels during the year, with our Employee Net Promoter score amounting to 68%[1] and our Engagement Index reaching as high as 91%[2]. In addition, this year we measured the Employee Happiness Index for the whole organization for the first time, which yielded a very satisfying result: 85%[3] of our employees felt happy and satisfied with their jobs.

Equally important was extending support to our customers and demonstrating through our actions what customer centricity actually means to us. First and foremost, we offered eligible customers two major three-month grace periods, conducted loan restructurings where appropriate, continued to provide funding and actively participated in various government support programmes.

Conducting business as usual and serving our customers without any disruption via our distribution network was another priority for us. Our market-leading digital channels proved to be essential, enabling our customers to conduct most of their banking transactions remotely. Moreover, our call center worked with increased capacity during the early days of the pandemic in order to address our customers' concerns in a timely manner. We are delighted that our efforts were acknowledged by our customers and TBC was once again regarded as the best service provider in the country in 2020, based on a customer satisfaction survey conducted by IPM, an independent research company, in December.

MACROECONOMIC OVERVIEW

Following a 5.6% drop in the third quarter, real GDP decreased by 6.5% year-on-year in the last quarter of 2020 due to the reintroduction of a partial lockdown in late November. For the full year 2020, the drop in GDP was 6.1%. Since the beginning of the pandemic, tourism inflows have remained close to zero, although non-tourism inflows have displayed resilience. During the year, exports decreased by 12.0% in US$ terms (or increased by 3.5% without re-exports), while imports dropped by 15.9% over the same period. As a result, the trade balance improved by around one billion US$, or by 18.8%, compared to 2019. In addition, remittance inflows increased by 8.8%[4] in 2020, including a strong 15.7% year-on-year growth in the fourth quarter.

Alongside fiscal stimulus, credit also supported economic activity. During the year, the total banking loan portfolio expanded by 9.1%, excluding the exchange rate effect, mainly driven by the retail segment on the back of the state mortgage subsidy programme. The two major three-month long loan repayment grace periods introduced during the year also contributed to the increase in loan balances.

Based on TBC Capital's latest estimates, the economy is expected to recover by 4.2% in 2021. According to the World Bank's latest projections[5], the Georgian economy will grow by 4.0% and 6.0% in 2021 and 2022, respectively.

RESILIENT FINANCIAL PERFORMANCE

In 2020, our operating income amounted to GEL 1,115 million, up by 2.0% year-on-year basis driven by an increase in net interest income. Over the same period, our income generation was supported by effective cost management. During the year, we also recorded a net modification loss of financial instruments in the amount of GEL 41.0 million to reflect the decrease in the present value of cash flows resulting from the loan repayment grace periods granted to borrowers. As a result, our ROE before expected credit loss allowances amounted to 26.4% compared to 28.4% a year ago. For the full year 2020, our net interest margin was 4.7%, while the cost to income ratio for the group amounted to 35.1%, an improvement of 2.6pp year-on-year, and 32.8% for the standalone bank. In 2020, our provision charges increased significantly to cover the potential impact of the COVID-19 pandemic on our borrowers, which resulted in a total cost of risk for the full year of 2.4% compared to 0.7% in 2019. As a result, we recorded a consolidated net profit of GEL 337.3 million for 2020, while our return on equity and return on assets stood at 12.9% and 1.7%, respectively.

Our loan book increased by 8.7% year-on-year in constant currency terms, which translated into a 39.0% market share. Over the same period, our deposits increased by 13.7% on constant currency terms. As a result, our market share in total deposits amounted to 37.2% as of 31 December 2020.

Our liquidity and capital positions remain strong. As of 31 December 2020, our net stable funding (NSFR) and liquidity coverage ratios (LCR) stood at 126.0% and 134.2%, respectively. Our capital ratios improved quarter-on-quarter as a result of net profit generation (no extra COVID-19 related provisions were booked in the fourth quarter, per NBG provisioning rules). Our CET1, Tier 1 and Total Capital ratios stood at 10.4%, 13.0% and 17.1%, respectively, and remained comfortably above the eased minimum regulatory requirements by 3.0%, 3.8% and 3.4%, accordingly.

BUSINESS UPDATE

As digital offerings became a true necessity during the pandemic, we further increased our digital focus and introduced new products and services, including a fully digital onboarding process via our internet and mobile banking platforms, digital lending platforms for retail customers, a mobile app for businesses and a digital platform for factoring. Our offloading ratio in the retail segment[6] remained high at 95% in 2020, while the number of digital users[7] in the fourth quarter reached around 692,000, up by 8.7% year-on-year.

In 2020, we maintained our leading position in the payments business, both in terms of payments acceptance and retail transactions. The total volume of transactions performed by our retail banking customers stood at GEL 76.2 billion, down by 6.3% year-on-year, while our payments acceptance business processed GEL 14.3 billion transactions, up by 8.3% year-on-year, served around 14,750 merchants and kept our market share in e-commerce & POS of 58%[8] by volume of transactions. Our subsidiary, TBC Pay increased its presence in the self-service terminal market to 3,905 terminals and maintained its leading position among peers. During 2020, we focused on further strengthening the seamlessness of our payment services, introducing innovative payment solutions and strengthening our risk management practices. For retail customers we introduced subscription services and digital cards, and we also entered the Tbilisi transportation payment network. For businesses, we further streamlined the onboarding processes and introduced a digital plug-and-play checkout solution for ecommerce payments.

1 Our Employee Net Promoter Score was measured in October 2020 by an independent consultant for the Bank's employees.
2 Our Engagement Index was measured in October 2020 by an independent consultant for the Bank's employees and measures how much employees feel involved in and committed to TBC Bank.
3 Our Employee Happiness Index was assessed internally based on a comprehensive survey prepared with the assistance of the world's leading consulting firm and measures whether employees feel happy and satisfied with their jobs. The index was measured in July 2020 for the Bank's employees.
4 Some of the increase was due to the reduced cash inflows and increased digital transfers as a result of the closed borders. Adjusted for this component, the remittance inflows increased by an estimated 5.0% in 2020
5 World Bank, Global Economic Prospects, January 2021
6 Including Space transactions
7 Retail internet and mobile banking active users, including Space
8 Based on NBG data

OUTLOOK

2020 was a transformational year, significantly changing the way people lead their daily lives and interact with each other. We did our best to embrace the change and turn challenges into new opportunities. Remote working practices have given our employees more flexibility in finding the right work-life balance, online meetings have proved very effective, while further digitalization of our processes and offerings have helped our customers to save more time.

Going forward, we will continue to strengthen our digital and analytical capabilities across all levels of the group in line with our vision of making life easier for our customers as well as other stakeholders.

Vakhtang Butskhrikidze
CEO

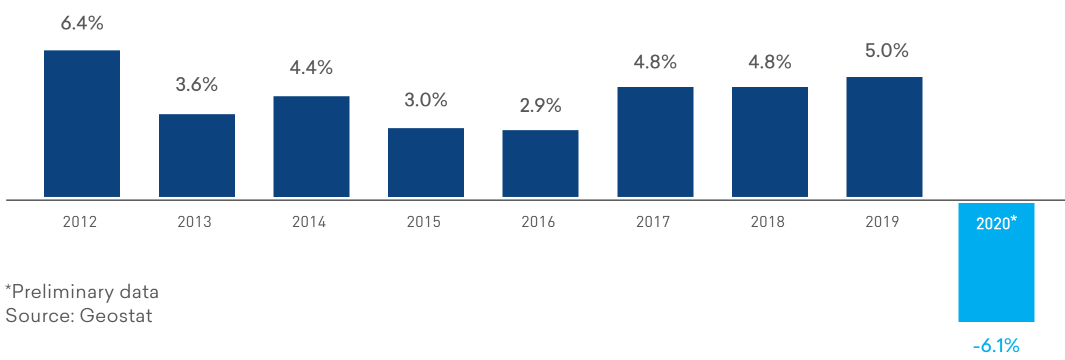
26 April 2021

ECONOMIC OVERVIEW

ECONOMIC GROWTH

Georgia's real GDP decreased by 6.1% in 2020 due to COVID-19 related lockdown measures and restrictions throughout the year. However, real GDP is expected to increase by 4.2% in 2021, followed by a solid 7.4% YoY growth in 2022 according to TBC Capital estimates.

REAL GDP GROWTH



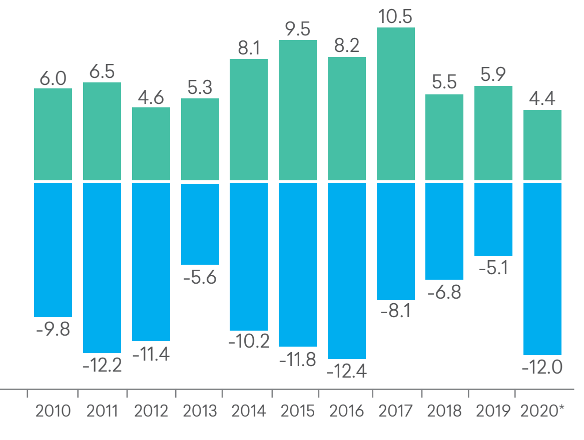
*Preliminary data
Source: Geostat

EXTERNAL SECTOR

While the tourism sector was hit hard with an 84.0%[1] decline in inflows in US$ terms on an annual basis in 2020, other inflows demonstrated much more resilience. In 2020, exports in goods only declined by 12.0% in US$ terms, but, without re-exports, they increased by 3.5%. It is important to highlight that the Georgian economy produces very few, if any, investment goods, the demand for which will be more subdued compared to the demand for essentials. In addition, remittance inflows have shown positive dynamics, with money transfers up by 8.8%[2] YoY. Regarding tourism, Georgia's favorable tourism structure should be considered: the share of business and long-haul trips in tourism inflows is relatively small; the majority of visitors arrive by car and Georgia enjoys an abundance of open-air tourism facilities. This, coupled with a roughly 20% growth in tourism inflows before the pandemic, despite the 2019 Russian flight ban, and expected progress in vaccination and medical treatment, is anticipated to support the recovery of tourism industry. In the baseline scenario we assume a recovery of 30.0% in tourism inflows in 2021 compared to the 2019 level, followed by a 90.0% recovery in 2022.

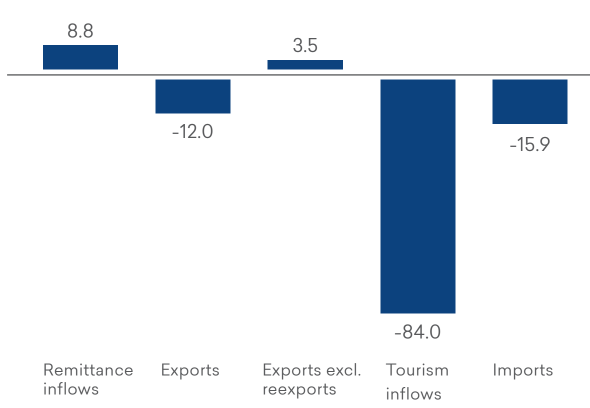
As domestic demand deteriorated further due to the re-introduction of the partial lockdown, the decline in imports of goods dipped to 17.2% YoY in the fourth quarter, compared to an 11.3% decrease in the third quarter. For 2020 as a whole, imports dropped by 15.9% compared to 2019. The decline was partially offset by more resilient food and beverages (-4.6% YoY) and industrial supplies (-6.7% YoY). On the other hand, all other broad categories suffered from sharp declines: consumer goods (-16.3% YoY), capital goods (-22.1% YoY), transport equipment (-25.0%), and fuels (-27.5% YoY). As exports were stronger than imports, the balance of trade in goods improved by US$ 1.075 billion, or by 18.8% YoY in 2020. However, the CA balance still likely worsened for the full year, as the above-mentioned effects will be outweighed by the deteriorating balance of trade in services due to the close-to-zero tourism inflows.

CA DEFICIT AND NET FDI (% OF GDP)



*Trailing four quarters as of Q3 2020
Source: NBG, Geostat

YoY GROWTH OF INFLOWS AND IMPORTS (%)

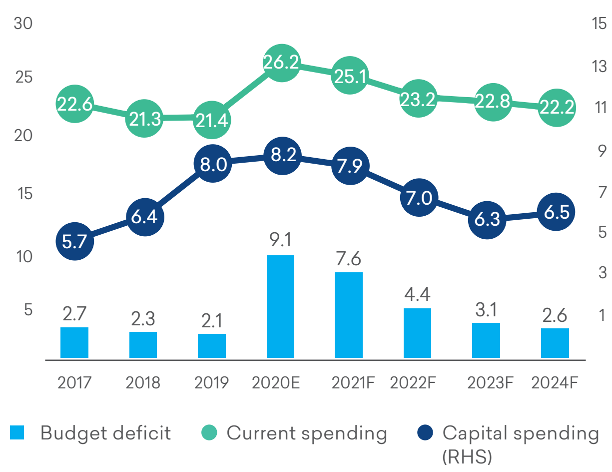


Source: NBG, Geostat

FISCAL STIMULUS

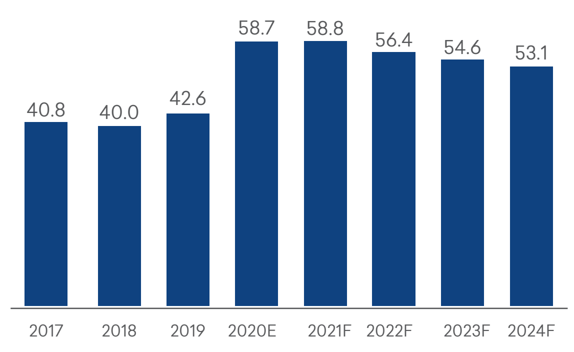
In 2020, the economy was strongly supported by the fiscal stimulus. Fiscal spending, which was mainly financed by government external borrowings, stood at around 9.1% of GDP in 2020. Going forward, the stimulus will remain sizable in 2021 and will start to decrease in the coming years as fiscal consolidation takes place.

FISCAL SPENDING (% OF GDP)



Source: MoF

GROSS GOVERNMENT DEBT (% OF GDP)



Source: IMF, WEO October 2020

1 From the beginning of the pandemic, the decline in tourism inflows amounted to 95.0% YoY.
2 Some of the increase was due to reduced cash inflows and increased digital transfers as a result of the closed borders. Adjusted for this component, the inflows stood at around 5.0% YoY.

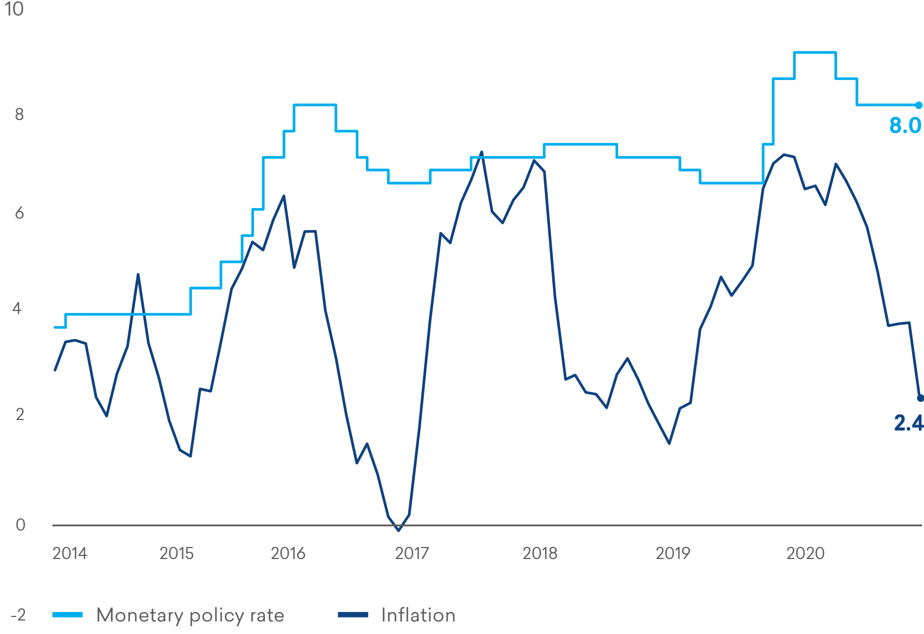
CREDIT GROWTH

Bank credit growth weakened to 9.1% YoY in FX adjusted terms by the end of 2020, compared to a 16.1% YoY growth by the end of 2019. In terms of segments, corporate lending slowed to 6.9% YoY, compared to a solid 28.0% YoY in 2019. Similarly, MSME loan book growth slowed to 10.5% YoY from 18.6% YoY growth back in 2019. On the other hand, retail lending displayed a stong performance throughout the year, with 9.9% YoY growth by the end of 2020, following a 6.1% YoY increase in 2019. Retail lending was supported by strong mortgage demand on the back of the government mortgage subsidy programme. As for the non-mortgage segment, growth strengthened on the back of the low base effect in 2019, due to the National Bank of Georgia's responsible lending regulations. At the same time, the grace periods on loan repayments also contributed to higher credit balances in 2020.

INFLATION, MONETARY POLICY AND THE EXCHANGE RATE

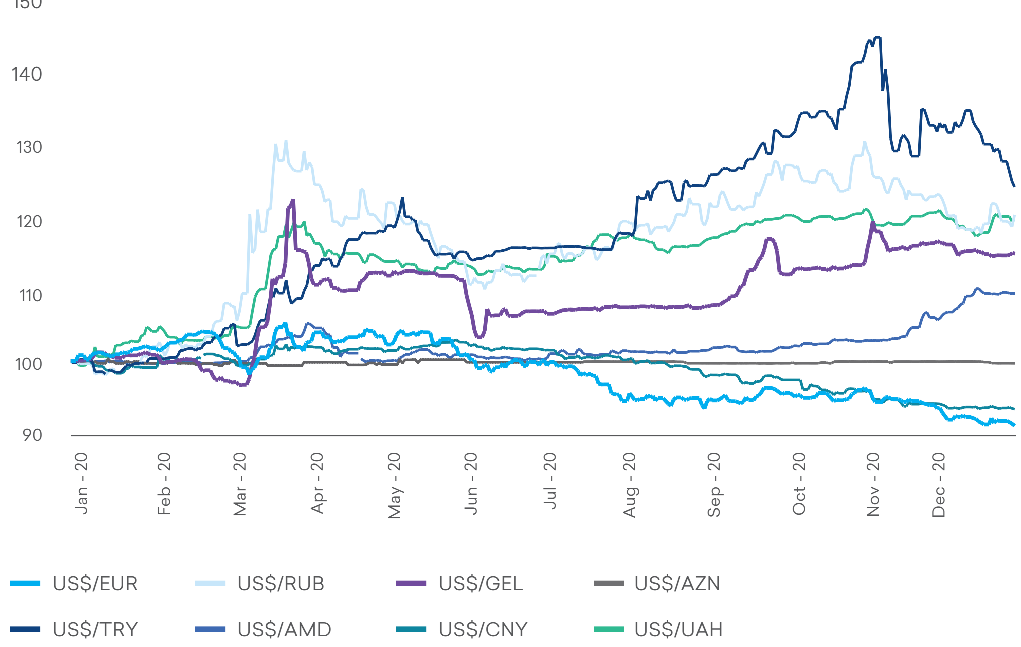
Although the GEL exchange rate depreciation remained an additional challenge in 2020, the response of the central bank has been appropriate, compensating for the external shock through active interventions on the FX market, selling a total of US$ 873.2 million. On the other hand, the National Bank of Georgia remained prudent, easing the monetary policy rate gradually from 9.0% before the pandemic to 8.0% as of the end of December 2020. By the end of 2020, the US$/GEL exchange rate stabilized at 3.28. The monthly dynamics of prices indicate some moderation of inflation by the end of 2020, as prices only went up by 2.4%, however, this was mostly explained by the government subsidy programme for household utilities. Given the delays in the exchange rate pass-through to inflation, increased utility bills, and higher production costs, the inflation rate is first expected to rise in 2021, before gradually retreating to its target level, which is only likely in 2022.

CPI IFLATION (YOY, %) AND MPR (%)



Source: NBG, Geostat

SELECTED CURRENCIES AGAINST US$*



*Index, 1-Jan-20 = 100; increase means depreciation against the US$
Source: NBG

GOING FORWARD

According to the World Bank's latest Global Economic Prospects[1], the Georgian economy is expected to recover by 4.0% and 6.0% in 2021 and in 2022, respectively. The projection is broadly in line with TBC Capital's baseline scenario, with a 4.2% increase in 2021 and a higher 7.4% rebound the following year.

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

1 World Bank, Global Economic Prospects, January 2021

HOW WE CREATE VALUE- OUR BUSINESS MODEL

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

We harness our distinctive competitive advantages...

- Best-in-class digital capabilities built over the years by continuous investment in cutting-edge solutions;
- Advanced data analytical capabilities embedded into the development of our value proposition;
- Superior customer experience across our omni-channel distribution network;
- Strong brand awareness and superb reputation for credibility, excellence, innovation and community service;
- Strong corporate culture centered on collaboration and commitment;
- Excellent corporate governance and sophisticated risk management system.

...to make our customers lives easier...

Retail segment

- Serving 92% of Georgia's adult population;
- The largest private bank in Georgia.

MSME segment

- First choice bank for MSMEs in Georgia providing both financial and extensive non-financial services.

Corporate and Investment Banking (CIB) segment

- A leading CIB player in the country, supporting all major sectors of the economy.

...by creating customer centric, digital financial solutions, integrated with other products and services used by our clients on a daily basis...

- The leading bank in Georgia, holding 39.0% and 37.2% market shares[1] in total loans and total deposits respectively;
- The most advanced omni-channel platform with a strong focus on digital;
- #1 position on the market in the number and volume of POS and e-commerce transactions[1];
- The innovative and scalable fully digital bank, Space.

...which translates into resilient financial and operating results...

- Resilient profitability;
- Sustainable business growth;
- Sound asset quality;
- Strong liquidity level and prudent capital position;
- High digitalization levels across all business segments;
- Superior customer satisfaction levels;
- Highly motivated and engaged team.

...and enables us to create value for all our stakeholders.

- Generate robust and long-term sustainable returns for our shareholders;
- Be a reliable partner for our debt investors;
- Provide well-suited solutions and a superior customer experience to our customers;
- Offer challenging and rewarding careers for our colleagues;
- Support business development and foster job creation;
- Support for the community through a wide range of CSR activities and preserve the environment;

1 Based on NBG data

OUR STRATEGY

In light of the COVID-19 pandemic, we reviewed our strategic priorities in March, 2020 given the increased pressure on capital and people, as well as emerging opportunities. It was agreed that, in line with **our vision of making people's lives easier**, our main focus for the year would be supporting our customers by leveraging our market-leading digital capabilities, advanced data analytics and providing superior customer experience. In parallel, we have been safeguarding our colleagues by providing them with a safe working environment and, where possible, enabling them to work remotely. We have also continued to roll out our agile transformation project across the company, since it helps to develop such skills as autonomy, responsibility and flexibility, which proved to be crucial during the crisis.

In terms of financial measures, we have prioritized prudent management of our capital and liquidity positions, proactive management of our asset quality, as well as cost optimization. We have also concentrated our efforts on maintaining sound revenue streams despite the economic slowdown by giving careful consideration to our customers' needs and offering them the most relevant products and services at suitable prices.

OUR 4 KEY STRATEGIC PRIORITIES

1 Creating a market leading digital experience

We continue to harness our best-in-class digital capabilities to create end-to-end digital experiences for our customers. This year, we enriched our internet banking applications for retail and business customers with a number of new, useful features and added several upgrades to our retail mobile app. In addition, we rolled out a number of new digital lending platforms for our retail customers, which are very user-friendly and help people to get a loan in a simple and fast way. Another important development was the introduction of a brand new mobile banking app for businesses. This app features a similar interface to our award-winning retail mobile banking application and is also equipped with specifically created upgrades to meet the needs of business owners. On the corporate side, we launched a digital platform for factoring, which significantly simplifies the process for all parties involved. Furthermore, we continue to enhance our digital experience by introducing new digital payment solutions and more closely integrating our digital channels with our core banking products and services.

In parallel, in order to support our digitalization efforts, we have continued to strengthen our in-house IT competences and architecture by investing in the newest technology, developing IT talent and updating our legacy systems with modern technologies, as well as increasing the automatization of internal processes.

PROGRESS IN 2020

95% + 2pp YoY

RETAIL OFFLOADING RATIO[1]

+8.7% YoY C. 692,000

RETAIL DIGITAL USERS[2]

2 Utilizing our advanced data analytical capabilities

We aim to strengthen our leading position in the country through enhancing our advanced analytical capabilities. This will help us to build more appealing, personalized, timely and effective value propositions in different touch points. This, in turn, will lead to improved margins and an increased wallet share across all segments.

For this purpose, we continue to follow our 3-year analytical roadmap, which has been developed in 2018, with the support of the world's leading consultant and is comprised of 23 data analytical projects across the bank and targets to generate an extra GEL 100 million annual net profit by 2023. In 2020, we successfully rolled out several projects in retail, corporate, MSME and risks departments, which were mainly aimed at improving our customer centricity.

In parallel, we continue to build a competence center that will unify all business data and analytical capabilities and will enable us to create a competitive advantage. Within our data analytics academy "Avalanche", we have conducted various trainings for our dedicated team of 50 employees in order to keep abreast of new technological developments in this field. Moreover, in June 2020, we conducted TIDA (Tbilisi International Data Analytics Conference), the first business data and analytics conference in the Caucasus, to attract new talent and learn from the world's industry-leading experts. The event attracted over 400 attendees from over 100 companies and 25 industries. In addition, to raise awareness about the importance of data analytics across the company and get a better understanding of business needs, our data analytics specialists regularly meet with representatives of different departments and present their work. This year, we also developed Big Data multi-tenancy technology capabilities to enable advanced analytics within TBC Bank.

PROGRESS IN 2020

9 projects
COMPLETED IN 2020

GEL 20 mln
EXTRA REVENUE GENERATED

1 Including Space transactions
2 Retail internet and mobile banking active users, including Space active users

3 Delivering superior customer experience

We aspire to become even more customer-centric and provide the best customer experience in the country. This is becoming more and more challenging since customer demands and expectations are increasing. We have therefore come up with truly innovative products and services that are relevant, personalized, simple and adequately priced. In doing so, we listen carefully to our customers' feedback through various surveys and focus groups, as well as utilize our advanced digital and analytical capabilities to create the most up-to-date and suitable offers. In parallel, we are polishing our digital channel experience through upgrading our branch design, introducing modern co-working space for our affluent customers and enhancing our digital banking with new features. We are also streamlining our internal processes to decrease "time to market" and "time to yes" for our products. Given the critical importance of fostering a customer-centric culture, we have updated our incentive system for frontline staff and carried out different internal promotional events and celebrations for important customer-centricity projects. Furthermore, we conduct on regular basis a "voice of the internal customer" survey, which allows each employee to assess the quality of service of other departments, which ultimately has an impact on external customer service.

PROGRESS IN 2020

THE BEST SERVICE COMPANY IN GEORGIA[1]

CUSTOMER PERSPECTIVE

80% SCORE IN CUSTOMER-CENTRICITY SURVEY[2]

EMPLOYEE PERSPECTIVE

4 Transforming ways of working

We strive to create a corporate culture that enables the transformation and agility of the group. The ability to quickly and efficiently reconfigure strategy, structure and processes in order to adjust to new realities is becoming essential in today's highly dynamic and challenging world. The COVID-19 pandemic proved that established working practices can collapse overnight and that businesses need to find new ways to survive. Naturally, this comes down to corporate culture and the readiness of people to embrace change rather than resist it. We firmly believe that our agile culture played an important role in helping us to quickly transform our working practices during the pandemic with minimal disruption to our daily operations. Therefore, we have continued to expand our agile structure to more departments within the Bank, as well as fine-tune agile working practices in the departments that have already embraced it. By the end of the year, around 86% of headquarter delivery functions[3] have become part of the agile transformation process, as well as some parts of the support functions including finance and risks. Next year, we plan to add more support functions to the agile transformation process.

At the same time, maintaining a high team spirit and caring about our employees' wellbeing remained at the top of our agenda and we carried out various initiatives in this regard, the most important of which was the introduction of remote working practices for back office employees and call center employees, while ensuring the full safety of our front office employees during the pandemic.

PROGRESS IN 2020

+ 30% YoY

IMPROVED ORGANIZATIONAL AGILITY SCORE[4]

+ 1.4 times YoY

IMPROVED TIME-TO-MARKET AND RELEASE FREQUENCY[5]

68% + 27pp

ENPS SCORE[6]

1 Based on a survey of the retail segment conducted by IPM, an independent research company in December 2020
2 based on internal survey among TBC Bank's employees in December 2020
3 HQ delivery functions include product development, IT, segment management, central sales management, marketing, excluding support functions such as HR, Finance, Legal, Risk, Compliance, Accounting, etc.
4 Based on internal survey, which measures the company's ability to respond to the fast changing environment
5 Time-to-market measures the time it takes for the product to be launched from the idea origination date to the release date, while release frequency measures how many times the systems are renewed within the given period of time
6 Employee Net Promoter Score was measured in October 2020 by an independent consultant for the Bank's employees

KEY PERFORMANCE INDICATORS

We closely monitor progress against our strategy and have developed key performance indicators (KPIs) that measure our financial and operational performance. The Board reviewed the relevance of existing KPIs in the light of COVID-19 pandemic and was satisfied that they continued to provide the best indication as to whether our strategy was working and ensured the long-term sustainable growth of the Group.

FINANCIAL KPIS

NET PROFIT (IN MLN GEL)

337.3

Year	Value
2020	**337.3**
2019	545.7
2018	433.3

Net profit was lower in 2020 compared to previous years due to the slowdown in economic activities and higher provision charges related to the COVID-19 pandemic.

RETURN ON EQUITY[1]

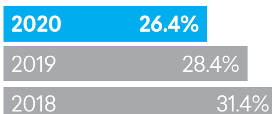
12.9%

Year	Value
2020	**12.9%**
2019	24.3%
2018	22.7%

In 2020, return on equity decreased on a year-on-year basis given lower net profit, largely due to higher provision charges, which more than offset the positive impacts of our strict cost management measures.

RETURN ON EQUITY BEFORE EXPECTED CREDIT LOSS ALLOWANCES[1]

26.4%



Return on equity before expected credit loss allowances remained solid in 2020 on the back of our operating income generation and increased efficiency levels.

NET INTEREST MARGIN

4.7%

Year	Value
2020	**4.7%**
2019	5.5%
2018	6.8%

In 2020, the year-on-year decrease in net interest margin was due to a decrease in loan yields, an increase in GEL deposit costs due to the pandemic, as well as currency depreciation.

COST OF RISK

2.4%

Year	Value
2020	2.4%
2019	0.7%
2018	1.6%

Compared to previous years, the cost of risk was elevated in 2020 due to significant provision charges created to cover the potential impact of the COVID-19 pandemic on our borrowers.

COST TO INCOME

35.1%

Year	Value
2020	35.1%
2019	37.7%
2018	37.1%

In 2020, the improvement in our cost to income ratio reflects the effectiveness of our cost management efforts undertaken during the year.

LOAN BOOK MARKET SHARE[2]

39.0%

Year	Value
2020	39.0%
2019	39.5%
2018	38.8%

In 2020, our loan book increased by 20.1% year-on-year or by 8.7% on constant currency basis, translating into a 39.0% market share. Over the same period, total banking system gross loans increased by 19.8% or by 9.1% on a constant currency basis.

TIER 1 CAR (BASEL III)

13.0%

Year	Value
2020	13.0%
2019	14.6%
2018	12.8%

Decrease of Tier 1 CAR was mainly attributable to the effect of COVID-19 on the net income and the depreciation of GEL. Despite the decrease, Tier 1 CAR remained comfortably above the eased minimum regulatory requirement of 9.2%.

TOTAL CAR (BASEL III)

17.1%

Year	Value
2020	17.1%
2019	19.1%
2018	17.9%

The decrease of Total CAR was due to the effect of COVID-19 on net income and the depreciation of GEL as well as the additional amortization of sub-debt instruments. Despite the decrease, Total 1 CAR remained comfortably above the eased minimum regulatory requirement of 13.7%.

LIQUIDITY COVERAGE RATIO

134.2%

Year	Value
2020	134.2%
2019	110.1%
2018	113.9%

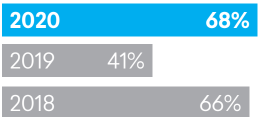
In 2020 we continued to operate with high liquidity buffers, with our liquidity coverage ratio well above the regulatory minimum requirement of 100%.

1 Prior to the change in PPE (property, plant and equipment) accounting policy from the revaluation model to the cost method, in 2019 return on equity and return on equity before expected credit loss allowances stood at 23.8% and 27.8%, respectively
2 Based on data published by the National Bank of Georgia

OPERATING KPIS

ENPS[1]

68%



The employee net promoter score measures employee loyalty and reflects the likelihood of our colleagues recommending their workplace to their friends and family.

In 2020 we managed to significantly improve our ENPS by demonstrating our support and commitment during this challenging year.

CUSTOMER EXPERIENCE

The best service company in Georgia (gap with peer bank)[2]

2.9

In 2020, we maintained our leading position in terms of superior customer experience not only among the Georgian banking sector but also among the major retail industries in Georgia, thanks to the outstanding efforts of each and every team member to make the lives of our customers easier.

RETAIL INTERNET AND MOBILE BANKING PENETRATION RATIO[3]

50%

Year	Value
2020	50%
2019	48%
2018	44%

Our retail internet and mobile banking penetration ratio continued its steady growth throughout 2020, driven by an increase in the number of active digital users, which grew by 8.6% on a year-on-year basis.

RETAIL OFFLOADING RATIO[3]

95%

Year	Value
2020	95%
2019	93%
2018	90%

Our retail offloading ratio continued to grow in 2020, as we further strengthened our digital focus and introduced new digital products and services.

1 Our Employee Net Promoter Score was measured in October 2020 by an independent consultant for the Bank's employees
2 Based on a survey of the retail segment conducted by IPM, an independent research company in December 2020
3 Including Space transactions

RETAIL BANKING

"Our goal is to be the bank of first choice for the Georgian population and to deliver best in-class digital banking solutions that are personalized and easy to use by leveraging our advanced digital capabilities and big data analytics.

Tornike Gogichaishvili

OVERVIEW

TBC Bank is a leader in the retail banking segment in Georgia, serving around 2.6 million clients through our advanced omni-channel platform, which is comprised of branches, a call center and digital channels. Our innovative and digital distribution platforms have become part of the Georgian population's daily lives with around 95%[1] of all our transactions being conducted remotely. We pride ourselves on having the highest customer satisfaction scores in the Georgian banking industry, and we hold the leading position among all major retail companies in the country, according to various external surveys conducted by independent research companies.

In 2020, our retail loan book amounted to GEL 5,954 million, up by 8.6% year-on-year on a constant currency basis, mainly driven by an increase in mortgages, which grew by 11.4% without the FX effect. Over the same period, deposit portfolio increased by 13.8% year-on-year on a constant currency basis, reaching GEL 7,255 million. More information about the financial performance of the retail segment is provided in the financial review section on pages 110 to 123.

OUR OMNI-CHANNEL PLATFORM

155 BRANCHES | **c.1,570** ATMs[2] | **3,905** SELF-SERVICE TERMINALS

25,163 POS TERMINALS | **50%** INTERNET AND MOBILE BANKING PENETRATION[3]

1st VOICE BIOMETRICS RECOGNITION SYSTEM IN THE CALL CENTER |

1st GEORGIAN SPEAKING CHAT-BOT, TI-BOT AVAILABLE THROUGH FACEBOOK MESSENGER

2020 HIGHLIGHTS

39.4%
RETAIL LOAN MARKET SHARE[4]

39.5%
RETAIL DEPOSITS MARKET SHARE[4]

39.2%
RETAIL LOAN SHARE IN TOTAL PORTFOLIO

57.4%
RETAIL DEPOSIT SHARE IN TOTAL PORTFOLIO

c. 2.6 mln
NUMBER OF CUSTOMERS

95%
RETAIL OFFLOADING RATIO[1]

THE BEST SERVICE PROVIDER IN GEORGIA[5]

As the COVID-19 pandemic broke out, we stood firmly by our customers and implemented a number of actions to support them. First of all, we extended financial support to our retail customers and offered them a three-month grace period for loan principal and interest payments, in two major stages. More information about our initiatives is given in our customers section on pages 58-60.

Secondly, we ensured that the bank's products and services were available to everybody without any disruption during the lockdowns in the country. In this regard, our market leading digital channels proved to be as essential as ever, enabling our customers to conduct most of their banking transactions remotely. In order to ensure an uninterrupted, secure service for our customers and incentivize the use of digital channels, beginning in mid-March 2020 we also temporarily waived fees on money transfers and utilities payments executed through our internet and mobile banking platforms for a three-month period, as well as increased the maximum limits for FX transactions with preferential exchange rates. Moreover, our call center worked with increased capacity during the early days of the pandemic in order to address our customers' concerns in a timely manner. In addition, we equipped our branches with all the necessary security and infection prevention measures to ensure full safety for our customers and employees.

1 Including Space transactions
2 TBC Bank ATMs including partner banks
3 Including Space active clients
4 Based on data published by the National Bank of Georgia as of 31 December 2020; in this context retail refers to individual customers
5 Based on a survey of the retail segment conducted by IPM, an independent research company in December 2020

HERE. NOW

SUBSCRIBE TO A PLAN

WWW.TBCCARD.GE

VISA

OUR STRATEGIC DIRECTIONS IN 2020

Customer-centricity

In line with our aspiration to become a truly customer-centric company, we continue to harness our advanced data analytical capabilities in order to provide personalized and seamless customer experience across our omni-channel platform.

This year, we launched and expanded the following two new projects in the retail segment within the scope of our data analytical roadmap (more information about our roadmap can be found in our strategy section on page 18-21):

- **Next product to buy for retail customers** - The goal of the project was to build a model that offers our retail customers the most suitable products for their needs. With similar approaches to Netflix and Amazon, we developed a state-of-art system algorithm, which generates tailored offerings for every customer and is available in all our sales channels, including internet and mobile banking, branches and the call center. The new approach resulted in an increase in sales and a reduction of service time to each customer, leading to increased customer satisfaction;
- **Subscriptions model for mass and affluent customers** - this subscription model offers our customers a set of different products and services for a fixed monthly or annual fee. The new service packages are well suited to cover the daily banking needs of our customers and will also include add-ons for a specific purpose. The subscription model will help us to provide more tailored offerings to our customers, increase their loyalty, reduce the churn rate as well as generate more stable and long-term fee and commission income. Since the launch, we have already attracted over 31,000 users.

In 2020, we continued to run our wide-scale loyalty programme, Ertguli, which is a part of our mass retail customer-centric approach. Ertguli is a credit card with a pre-approved instalment limit, which allows our customers to gather loyalty points while shopping and take advantage of special offers and discounts at more than 275 partner companies including restaurants, shops, hotels and many more. We continuously increase our network of partner companies by adding industry leading players, both for online and offline shopping, and also run various loyalty campaigns. On the one hand, it helps us to strengthen relationships with our clients and increase their engagement with us, while on the other hand, it increases the usage of our credit cards. As a result, our Ertguli card holders reached 1.5 million by the end of 2020, while the number of POS transactions stood at 93 million in 2020, up by 21.4% year-on-year.

Our advanced digital capabilities

Having established ourselves as an undisputable leader for the Georgia in provision of the best-in-class digital channels, we continue to build upon our strong expertise and introduce even more convenient and flexible digital solutions for our customers.

As our internet and mobile banking remains the preferred channel of communication for our customers, accounting for 56% of all transactions, we continue to enrich it with new features. This year, we introduced several new offerings, including:

- A fully digital onboarding process, which enables Georgian residents to go through a personal identification process and become TBC customers just in 90 seconds;
- A virtual digital card, which is an alternative to the traditional plastic card;
- Certain simplifications for money transfers and utility payments; and
- Usage of the mobile banking application without an internet balance.

Furthermore, we are developing alternative online lending platforms, which offer a much simpler and faster way to get a loan, which have become very relevant in the current pandemic. In addition to our existing online lending platform "TBC credit" (www.tbccredit.ge), which offers consumer loans since 2017, this year, we added two more innovative platforms:

- A mortgage platform, www.tbcmortgage.ge, which gives our customers the opportunity to get mortgage loans online, without any hassle. The average time to market of such loans is only two days. The platform also features useful information such as attractive offers from real estate developers;
- An installment platform, www.tbcganvadeba.ge, which allows our customers to buy various things at our partner companies and get an installment loan without leaving home.

In parallel, we continue to develop our digital banking platform, Space, which is particularly appealing to our youth segment as it offers simple, friendly and gamified user experience, that is completely different from traditional banking. It also offers attractive loyalty programmes tailored to the young generation, including refunds in major food chains and food delivery services, as well as cash-backs for eco-friendly electric scooters.

In 2020, we achieved significant growth in the volume and number of transactions year-on-year, which grew by 138% and 157%, respectively, and amounted to GEL 367 million and 6.5 million, respectively. This growth was mainly driven by an increase in the number of active users, as well as by increased customer engagement. Over the same period, our loan book increased by 22% and stood at GEL 34 million. The growth was limited due to the COVID-19 pandemic. By the end of the year, Space had around 246 thousand registered customers, up by 36% year-on-year, out of whom 27% were previously inactive customers and 14% were newly attracted customers. The age of our Space customers ranges from 25-34. In addition, in May 2020, Space launched its web channel, which makes Space's services more accessible to the wider population. By the end of the year, the web platform has attracted around 63 thousand customers.

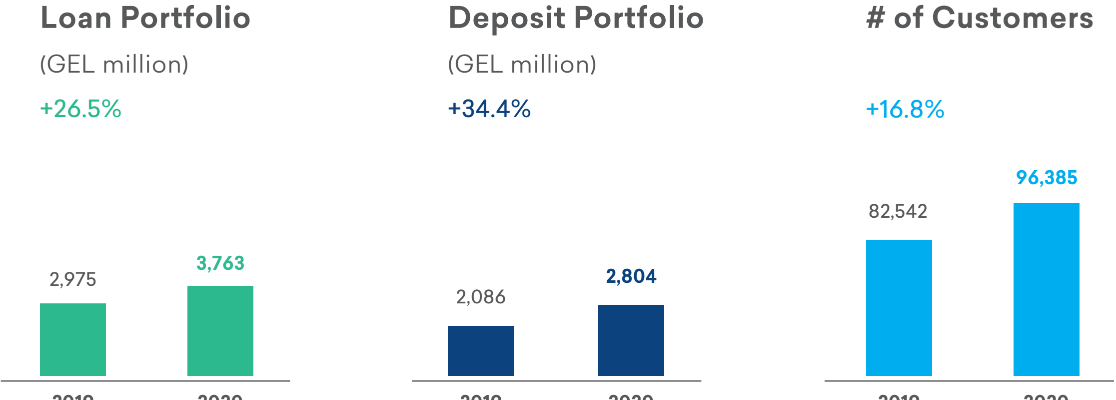
OUR NEW PRIVATE BANKING SERVICE MODEL - TBC CONCEPT

We were the first bank to introduce private banking services in Georgia more than 14 years ago and to establish high standards of service. We strive to be the first choice for private banking customers and are committed to gaining a deep understanding of clients' needs and goals in order to provide them with a complete, personalized range of solutions and to build a lifelong partnership. For this purpose, we constantly fine-tune our value proposition and this year, we rebranded TBC Status as TBC Concept and developed a new format of customer relations. The new model is called a "subscription model", which will allow TBC Private Banking to become more flexible and better tailored to the specific needs of our customers. With this concept, we give people the opportunity to receive a personalized set of products and services instead of a standard package.

Currently, our private banking offerings comprise a premium banking service package and an innovative digital banking service model. The main differentiator between these two options is the service of our private banker, which is available only to the holders of the former package and is best suited to customers who prefer traditional banking. Our clients have the opportunity to get a personal consultation from their banker in specially designed physical spaces located in 24 branches in Georgia. The latter option is designed for digital customers who prefer to self-manage their daily banking operations and get financial advice online, while having access to all private banking customer benefits. With an increasing trend towards digitalization, it is not surprising that our digital model, which was launched in February 2019, has proved to be highly popular among the Georgian population and continues to attract new clients. In 2020, the number of digital clients has grown substantially, reaching 44,770, up by 26.9% year-on-year.

In 2020, we created an entirely different, multi-functional space for our private banking customers. This space features exhibition and presentation halls, a library, cafe, co-working spaces, self-service and personal banking zones, which will enable our guests to receive banking services and financial consultations with maximum comfort, as well as provide areas for recreation. As part of our lifestyle offerings, this new Concept Space will host various events, exhibitions and meetings with different industry professionals – people whose experience might be an inspiration for our guests and encourage their professional development.

In recognition of our distinguished efforts, we have been named the country's Best Private Bank by Global Finance for two years in a row in 2021 and 2020. This prestigious award acknowledges our leading position in delivering exceptional private banking services and the highest standards of client satisfaction.



OUR HIGH-NET-WORTH INDIVIDUALS (HNWI)

We continue to serve around 2,700 resident and non-resident HNW individuals and offer them our tailor-made banking products and services, as well as advise them in relation to various investment opportunities. Our HNW individuals benefit from special terms on traditional banking and insurance products as well as exclusive lifestyle offerings for major elite events happening in the country. We also have a representative office in Israel, TBC Invest, which acts as an intermediary with clients from Israel, offering information regarding TBC Bank's products.

While our HNW customers value their relationships with our private bankers and prefer to receive most of their services in person, during the COVID-19 pandemic, we managed to serve them remotely without causing them any discomfort. Our private bankers were available 24/7 online to serve their needs promptly and effectively. In case a client still preferred to come to the VIP lounge, he/she was provided with a full safety tool kit.

In addition, we continue to offer our HNW individuals brokerage and investment banking solutions in order to diversify their investments, through our wholly owned subsidiary TBC Capital. TBC Capital is well positioned on the market to provide a full suite of investment options to meet the diverse investment goals for experienced and novice investors. In 2020, our HNW individuals acquired GEL 74.8 million bonds and GEL 15 million stocks via TBC Capital, both on primary and secondary markets.

TBC Concept Flagship Space

features an exhibition and presentation halls, library, cafe, co-working spaces, self-service and personal banking zones, which span over 4 floors and 2,400 sq. m.

თვითმომსახურება
Self-service

CORPORATE INVESTMENT BANKING

"Our goal is to be a number one strategic and trusted advisor for our partners. We distinguish ourselves with tailored corporate, investment banking and advisory solutions, by levering on our highly professional teams of sectoral corporate bankers, leading digital and data analytical capabilities.

George Tkhelidze

OVERVIEW

TBC bank is a leading corporate and investment banking (CIB) institution in Georgia holding the number one market position in terms of loans as well as guarantees and letters of credit. We have a strong presence in all major corporate products and are distinguished with high customer support and satisfaction as well as long lasting client relationships. In addition, we offer sophisticated investment banking, research and brokerage services via our subsidiary TBC Capital, which has established itself as a trustworthy partner for our clients.

We also pride ourselves on having a full suite of trade finance products and advisory services in order to support our clients in their trade operations both locally and abroad. Throughout the years, we have built successful partnerships with leading international financial institutions. Our superior performance was recognized by a number of prestigious awards from the leading industry magazines including:

THE BEST TRADE FINANCE PROVIDER IN GEORGIA IN 2020 AND 2021
by Global Finance

THE MARKET LEADER AND THE BEST SERVICE PROVIDER IN GEORGIA
according to Trade Finance Survey conducted by Euromoney in 2020 and 2021

LEADING PARTNER BANK IN GEORGIA
ADB TSCFP Awards 2020

2020 HIGHLIGHTS

38.6%
CORPORATE LOAN MARKET SHARE[1]

34.5%
CORPORATE DEPOSITS MARKET SHARE[1]

37.4%
CORPORATE LOAN SHARE IN TOTAL PORTFOLIO

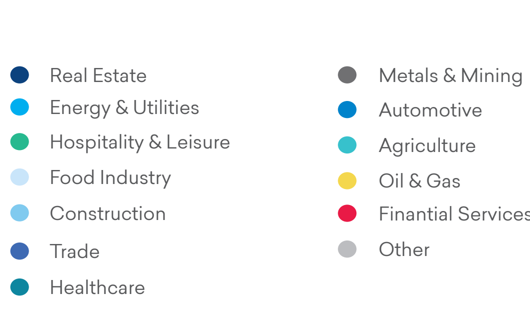
31.7%
CORPORATE DEPOSIT SHARE IN TOTAL PORTFOLIO

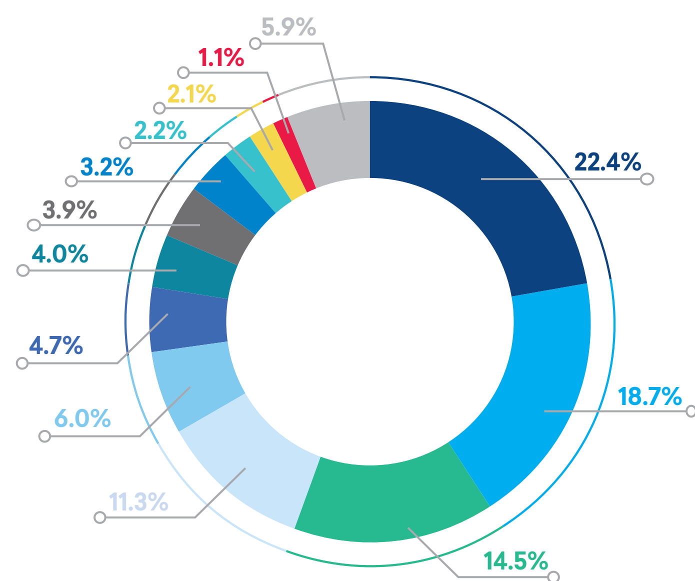
52.4%
CORPORATE GUARANTEE AND LETTER OF CREDITS MARKET SHARE[1]

3,665
NUMBER OF CUSTOMERS

During the unprecedented global pandemic and subsequent lockdowns, our focus was to deliver enhanced customer support by providing tailored solutions to manage their operations. At the same time, we helped our customers to swiftly shift to remote and digital channels in order to ensure uninterrupted execution of their daily transactions and core operations. Furthermore, the well-being of our employees is one of our key priorities, therefore we proactively implemented flexible remote working practices during these challenging times and provided them with necessary technological tools to enable effective remote working.

DIVERSIFIED PORTFOLIO WITH STRONG PRESENCE IN ALL MAJOR SECTORS OF GEORGIAN ECONOMY





1 Based on data published by the National Bank of Georgia as of 31 December 2020; in this context corporate refers to legal entities

CORPORATE BANKING

FINANCIAL AND OPERATIONAL PERFORMANCE

In 2020, our focus was mainly on supporting our clients and ensuring strong asset quality amid the COVID-19 outbreak. In addition, we attracted several new large corporate borrowers operating in the healthcare industry and manufacturers of medical disposable masks, disinfection solutions as well as medical gowns and uniforms. As a result, our loan book amounted to GEL 5,691 million, up by 7.9% year-on-year on a constant currency basis, with the CAGR growth rate at constant currency amounting to 28.2% for the 2016-2019 years, while the deposit portfolio stood at GEL 4,001 million, up by 16.0% year-on-year without the FX effect. Over the same period, corporate guarantees and letter of credit portfolio amounted to GEL 2,109 million, up by 11.2% year-on-year, without the FX effect.

Despite the pandemic, the number of payroll accounts remained broadly flat and amounted to 163,191 in 2020, while over the same period, the payroll fund grew by 4.2% year-on-year, amounting to GEL 315.2 million. We maintained our strong position in terms of payment transactions, which increased by 19.6% and totaled 112.9 million, whereas volume of transactions amounted to GEL 5,034 million, up by 24.0% year-on-year. On the backdrop of the virus and the reduced economic activities, the volume of FX transactions in 2020 amounted to GEL 10,449 million, down by 7.2% year-on-year, while the number of FX transactions decreased by 5.1%, amounting to 114,561.

More information about the financial performance of the corporate segment is provided in the financial review section on pages 110-123.

OUR STRATEGIC DIRECTIONS IN 2020

Achieving commercial excellence

This year, we launched a wide-scale Commercial Excellence Transformation project within our corporate banking, which is a strategic response to the key challenges in daily work of CIB bankers and aims to further strengthen our leading market position across all major products, enhance our customer relationship and achieve outstanding profitability, as well as increase the happiness of the CIB employees. The project is part of our 3 year data analytical roadmap (more information about our roadmap can be found in our strategy section on pages 18-21).

Within the scope of the project, we introduced a new analytics based commercial process for client account planning and developed an IT tool for our corporate bankers, which serves as a single source of truth for them and reduces the time spent on less efficient tasks. This tool provides a structured, overarching view on each client, based on industry benchmarks, publicly available and internal data. In addition, it incorporates a machine learning model and enables our employees to calculate the clients' potential value per product. This facilitates the opportunity identification, planning and targeting of our clients. Transparency and instant availability of the information brings our commercial capabilities to a whole new level, enabling us to come up with the most optimal data-driven solutions to maximize our clients' business value.

Within the scope of the project, we also revised the customer service model and standardized selling processes from lead identification to after-sales support with clear responsibilities for all sales and product roles in order to serve our clients more efficiently and improve their satisfaction levels. At the same time, having a clearly defined set of responsibilities helps to increase employee satisfaction and engagement levels as well as allow us to develop tailored training programmes and set specific careers goals.

Delivering for our customers

Standing by our customers and supporting their growth is the cornerstone of our business. During the pandemic outbreak we mobilized our resources efficiently and established a special dedicated unit for vulnerable customers to take care of all their needs and assist them in managing their business. We provided our customers with strong support, which included provision of necessary funding for the most affected sectors such as HORECA and real estate, proactively offering loan holidays to the customers in need, performing daily banking operations without any disruption, as well as informing them in timely manner about the macroeconomic and sectoral developments. We also signed a long-term partnership memorandum with Business Technologies University (BTU) and Caucasus University (CU), which envisages providing financial support for their current and future projects, as well as includes various educational projects. In addition, we

actively participated in government support programmes aimed at assisting sectors that has been most affected by pandemic. We contributed to implementation of the government's mortgage subsidy programme, which proved to be very effective and allowed real estate developers to continue their operations. Overall, starting from July 2020 we have issued total of GEL 235 million mortgages under this programme, which is 38% of our total mortgage issuance. More information about the government support programmes is given in our customers section on pages 58-60.

Furthermore, to make our customers' lives easier, we launched a digital platform for factoring, which allows easy and secure access for both buyers and sellers to full information related to their factoring transactions, which in turn leads to faster execution of the deals. The platform is available not only for our clients, but for any company operating on the market for a certain fee.

HERE. NOW

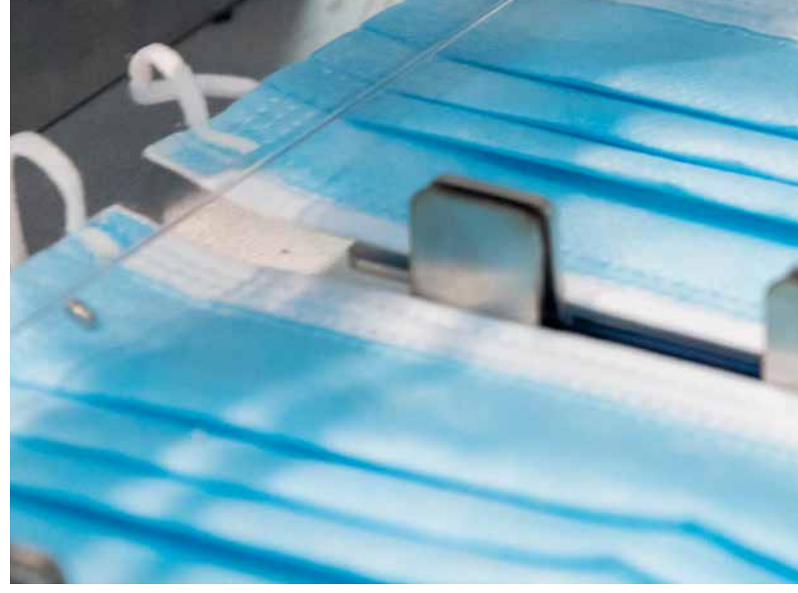
SUPPORTING LOCAL ENTERPRISES DURING THE PANDEMIC

Nova

The company Nova has been present on the Georgian market since 2006, manufacturing and importing construction and building materials for B2B clients. We became Nova's partner in 2017 and have stood by their side since then. In summer 2020, with our support, Nova opened two new mega-centers for construction and repair materials in Tbilisi and Batumi. It offers customers materials from internationally recognized brands, as well as locally produced goods.

HERE. NOW

SUPPORTING COVID-19 RESPONSE ACTIVITIES



Eco Bohemia

Eco Bohemia is a producer of high-quality antiseptics and disinfectants in the South Caucasus region. Following the COVID-19 outbreak, it expanded its production and opened a new factory in Georgia with support from TBC Bank. The antiseptic solutions are eco-friendly products that use the highest quality French essential oils. Currently company's production capacity amounts to 400 tons per month and plans to expand it further to supply foreign markets. The company has an ISO certificate and actively cooperates with Lugar Laboratory and other accredited centers.

Doctor Goods

In response to increased demand for medical clothes in the health care industry, Doctor Goods entered the market in May 2020 and started producing medical gowns and surgical overalls. Currently, its monthly production capacity amounts to 450 thousand medical clothes. Together with Startup Georgia and the Partnership Fund, we supported the company in launching its operations.

Mediapharma / New technologies Impex

With a support of TBC Bank, two new enterprises, Medipharma and the New Technologies Impex, were set up in spring 2020 to manufacture high quality medical disposal face masks for local and international markets. These products are not only vital for preventing the virus from spreading, but also develop high-quality national production. Production capacity of Medipharma and the New Technologies Impex reached around 5.4 million facial masks per month.

INVESTMENT BANKING

THE BEST INVESTMENT BANK IN GEORGIA IN 2021
by Global Finance

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

In 2020, TBC Capital maintained its leadership position in terms of total bonds issued on the Georgian Market. While the demand was quite limited due to pandemic, we conducted several transactions including: acted as the sole lead arranger for bonds of TBC Leasing in the amount of GEL 58.4 million, as well as for two private placements with a total amount of US$ 25.0 million. Most notably, TBC Capital, together with a number of leading international investment banks, acted as a co-manager for the green bond of Georgian Global Utilities in the amount of US$ 250 million. It is a Georgia's first green bond issuance, which was listed on Irish Stock Exchange. As a result, the bonds issued publicly and listed by TBC Capital during this year amounted to GEL 834 million, holding 93.0% of total bonds issued and listed on Georgian Stock Exchange in 2020. In addition, we support the activation of the secondary bond market for our high net worth clients, which allow them more flexibility in managing their funds.

GGU

US$ 250,000,000
5-YEAR
PUBLIC PLACEMENT
7.75% GREEN NOTES

JULY 2020
CO-MANAGER

TBC LEASING

GEL 58,400,000
3-YEAR
PUBLIC PLACEMENT

MARCH 2020
PLACEMENT AGENT

PRIVATE PLACEMENT FROM BANKING INDUSTRY

US$ 15,000,000
3-YEAR
PRIVATE PLACEMENT

MAY 2020
PLACEMENT AGENT

PRIVATE PLACEMENT FROM BANKING INDUSTRY

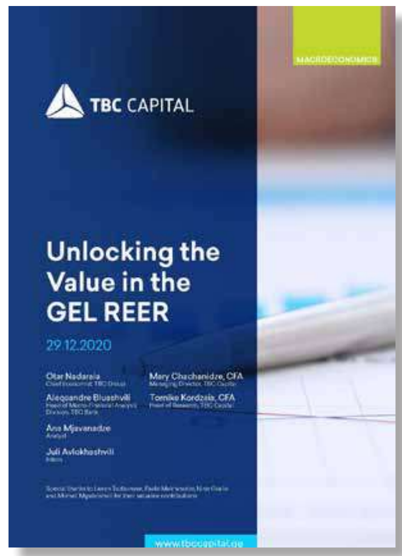
US$ 10,000,000
3-YEAR
PRIVATE PLACEMENT

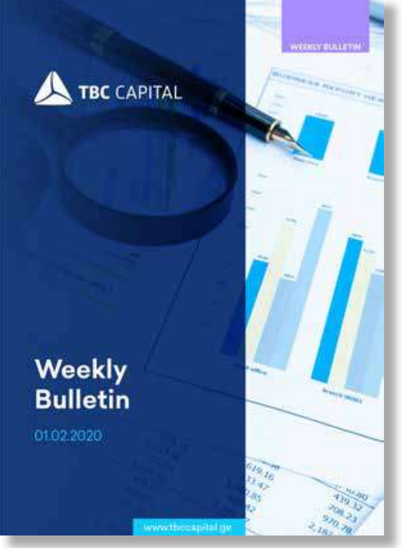
MARCH 2020
PLACEMENT AGENT

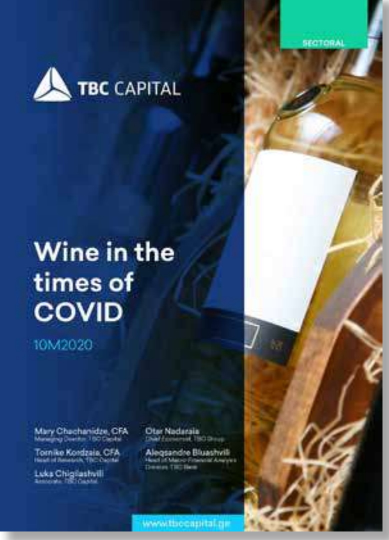
Furthermore, TBC Capital's research division represents a real-time access to comprehensive data and analytical insights for large corporate borrowers and investors. Its coverage comprises of regular macro, sectoral and fixed income updates as well as in-depth analytical reports on significant developments and events. This year, the impact of COVID-19 on the Georgian economy and business environment was thoroughly covered in regularly scheduled online events and publications. Other reports were dedicated to fixed income securities in Georgia, various economic sectors and macroeconomic developments. Overall, in 2020 TBC Capital published more than 140 publications, keeping the interested audience always updated about the important macro-sectoral developments and projections of key parameters. The full list of reports is available at www.tbccapital.ge.

The coverage of our reports has increased significantly since last year both locally as well as among international investors and analysts. Additionally, our macro updates are broadcasted on a weekly basis via business media online channel. Also, starting from March, TBC conducts sectoral and macro updates for corporate clients on a monthly basis. Around 300 corporate clients attend these events. Furthermore, throughout the year we organized several large-scale online conferences for our customers covering challenges and trends in tourism sectors from the macro as well as from the sectoral perspective.

In line with our goal to deliver the best-in-class investment banking solutions on the market, we plan to diversify our value proposition by introducing new products and services for retail and institutional clients, as well as position ourselves as a trustworthy source of information locally and internationally by covering the Georgian economy through in-depth sector research and regular updates.







For the full the list of our publications please refer to our website: www.tbccapital.ge

MSME

"Our goal is to be a reliable partner and supporter for business community on every stage of development, by providing the most simple and convenient banking services and integrated solutions for managing and developing their business.

Nikoloz Kurdiani

OVERVIEW

TBC Bank is the leading partner bank for micro, small and medium enterprises (MSME) with 59% of all newly registered legal entities in Georgia[1] choosing TBC Bank. Over the years, we have differentiated ourselves by serving our clients through best-in-class distribution channels, offering innovative and affordable products and extensive non-financial services to further support their business development.

During the COVID-19 pandemic, our leading digital channels proved to be very useful, allowing us to serve our clients remotely without any disruptions. As a result, our offloading ratio[2] increased even further and reached 96% in 2020 compared to 93% in 2019. We further reinforced our digital channels by launching a brand new MSME mobile banking app, as well as fine-tuning our internet banking. As a result, the number of respective digital MSME users[3] reached 34,500 in 2020.

In 2020, our growth was significantly affected by the pandemic and our major focus was to support the financial stability of our clients. As a result, our MSME loan book increased by 9.9% year-on-year on a constant currency basis and stood at GEL 3,556 million. Over the same period, deposit book increased by 7.5% on a constant currency basis, reaching GEL 1,378 million. More information about the financial performance of the MSME segment is provided in the financial review section on pages 110-123.

In terms of customer support, in order to alleviate the negative impacts of the COVID-19 on MSMEs, we introduced three-month grace periods in two major stages, as well as partnered with the government to support the most vulnerable businesses. Detailed information on these initiatives are given in our customers section on pages 58-60.

2020 HIGHLIGHTS

59%
OF NEWLY REGISTERED LEGAL ENTITIES CHOSE TBC BANK[1]

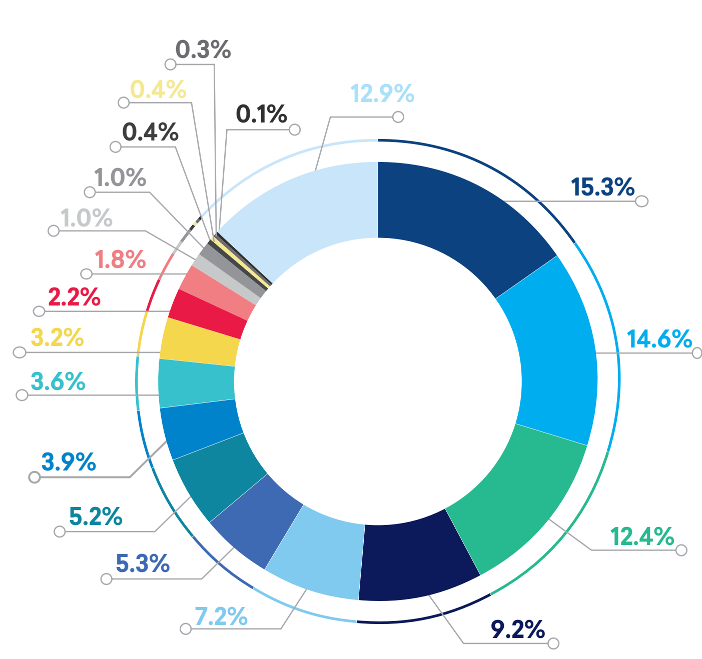
160,311
CUSTOMERS

23.4%
MSME SHARE IN TOTAL LOAN BOOK

10.9%
MSME SHARE IN TOTAL DEPOSIT PORTFOLIO

96%
OFFLOADING RATIO OF MSME[2]

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



1 Data is for FY 2020, source: www.napr.gov.ge, the National Agency of Public Registry
2 Excluding cash transactions
3 Business internet and mobile banking active users, including TBC Business App

OUR STRATEGIC DIRECTIONS IN 2020

Fine-tuning our digital channels

In the post-COVID-19 reality, when the need for remote and digital solutions soared, we managed to bring banking services even closer to our business customers by introducing a brand new mobile banking app for businesses. The app, launched both for iOS and Android, offers the same features and capabilities as our internet banking, while being more flexible, as it gives our clients the ability to use our services on the go. Our business app has a similar interface to our award-winning retail mobile banking application, which makes it familiar and easy to use, while it also features specifically created upgrades to meet the needs of business owners. In addition, the app allows a fast and easy, fully digital on-boarding for newly registered businesses. Right after registering a new business, the business owner can download the app, register as a TBC client, set up an account and begin operations without visiting a branch. By the end of 2020, over 30,000 users have already downloaded the app since its launch in July and the user base is steadily increasing month to month. Future development of the app will be based upon the customer feedback gained through frequent interviews and surveys to further polish our exceptional user experience.

As our internet bank for businesses remains the most popular channel of communication with our customers, we continue to enrich it with new capabilities and this year, we introduced the following features:

- Data analytical capabilities, such as breakdown of sales by weekday and time of the day, effect of discounts on sales and customer loyalty analysis. These tools will help clients to conduct business profitability analysis and develop a forward-looking strategy.
- An integrated invoice management feature, created by Invoice.ge – an online invoicing platform –which allows users to manage their invoices easily for an additional small fee.

We are proud to say that our internet bank for businesses was recognized as the Best Corporate/Institutional Digital Bank in Georgia as well as in Central and Eastern Europe in 2020 and the Most Innovative Corporate/Institutional Digital Bank in Central and Eastern Europe for 2020 by Global Finance Magazine. In addition, we were named the Best Online Banking for Business in Georgia by SME Banking Club.

Creating customer value

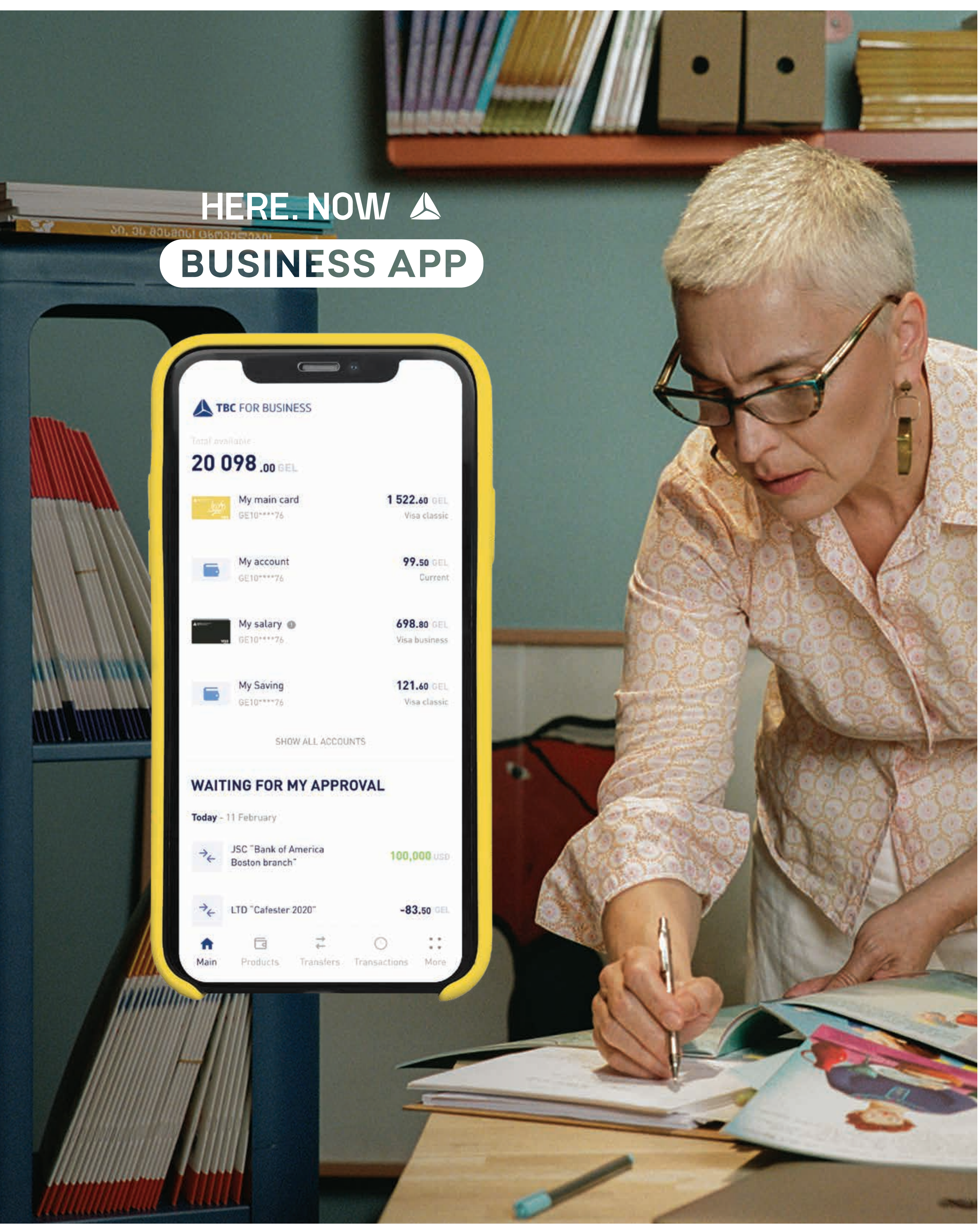
As a customer-centric company, we are actively following market trends and paying attention to the slightest changes in our customers' behavior. As a result, we are always able to offer our customers the right products and services. This year, our primary focus revolved around the pandemic. Our goal was to continue providing services without any disruptions and, at the same time, helping our clients adapt to the new reality.

Our first step in this regard was increasing the number of services offered digitally, which enabled our customers to conduct most of their operations remotely, while a visit to the branch has become a rare necessity or a client's preference. Meanwhile, in our busiest branches, we introduced business guides - people who provide thorough information regarding our existing and new products as well as help to select the most suitable solution for each individual client based on his/her specific needs.

In parallel, we continued to optimize our internal processes to increase customer satisfaction across both digital and traditional touchpoints:

- We have introduced a total quality management approach in the MSME department. The approach includes receiving regular feedback from our clients as well as continuous analysis of our internal processes. As a result, we are able to effectively address any issues our clients may experience and provide them with a superior service;

- We also further fine-tuned our automotive loan approval platform, which was launched last year and allows us to approve loans based on advanced scoring model. This platform processes loan applications automatically and calculates the credit limits for each customer in a matter of minutes as well as simplifies and speeds up "time to yes" and "time to money". In 2020, loans up to GEL 100,000 could be approved fully automatically using this platform and moving forward, our goal is to increase the limit to GEL 250,000.



HERE. NOW
BUSINESS APP
TBC FOR BUSINESS
20 098.00 GEL
My main card
GE10****76
1 522.60 GEL
Visa classic
My account
GE10****76
99.50 GEL
Current
My salary
GE10****76
698.80 GEL
Visa business
My Saving
GE10****76
121.60 GEL
Visa classic
SHOW ALL ACCOUNTS
WAITING FOR MY APPROVAL
Today - 11 February
JSC "Bank of America Boston branch"
100,000 USD
LTD "Cafester 2020"
-83.50 GEL
Main
Products
Transfers
Transactions
More

SUPPORTING GEORGIAN BUSINESS COMMUNITY

We remain firmly committed to supporting business development in Georgia. In this regard, we offer our MSME customers a unique full-scale business support programme consisting of educational resources, a business blog, business support tools, an annual business award and a start-up programme. All these services are united on a single platform www.tbcbusiness.ge.

This year, as a result of spread of COVID-19, digitalization became a top priority for most businesses in Georgia. We actively supported our clients on their digitalization journey by offering them various programmes and partnerships. The projects undertaken in this direction include:

- Creation of 200 online shops free of charge in partnership with Visa; and
- Design of the digital marketing strategy for 100 MSMEs free of charge in partnership with Georgian creative agency Windfor's, and with the support of EFSE.

In order to bring together and develop the Georgian business community, in November 2020 we launched Business Club, a subscription based platform that offers its members a bundle of various financial services and non-financial benefits as well as creates a common space for socializing. Business Club was created based on B-COM, a subscription based service which we introduced in 2019. In addition to the services previously offered by B-COM, Business Club members can now enjoy various perks to help them further develop their businesses. For instance, club members are able to participate in free individual and Q&A meetings with experts in various fields, as well as receive some of the best offers from our partner companies. Moreover, Business Club is a platform for entrepreneurs and business owners to socialize and participate in various discussions and trainings to refine their professional skills and widen their business connections. Our clients can become Business Club members by subscribing to one of the three available membership plans for a small monthly fee. By the end of 2020, we already had around 860 Business Club members.

We are keen on educating business owners on various topics that will help them lead their businesses more effectively. This year, we have offered them a series of online training sessions led by experienced coaches covering a wide range of subjects. These trainings attracted more than 1,500 attendees during the lockdown period. In addition, we have enriched our educational resources with a series of short, recorded online lectures for entrepreneurs about managing their businesses and the general principles of financial accounting and profitability. Interested persons may sign up to attend the trainings or access the resources using our business support platform www.tbcbusiness.ge free of charge.

To encourage entrepreneurship in Georgia, since 2016 we have been organizing an Annual Business Awards ceremony in partnership with EFSE. Since its introduction, the contest has attracted up to 2,400 participants and became the major business of the year, allowing companies to share their success stories with the whole country and win various attractive prizes. This year, we have enhanced our nomination list to reflect the effects of the COVID-19 pandemic, by adding a new category "Adapting to the new reality". As a result, the participants could enter the following 5 categories:

- Product/service of the year;
- Adapting to the new reality;
- Exceptional corporate social responsibility;
- Innovation of the year; and
- Startup of the year.

The event attracted 26 million people through the press and social media and a survey conducted by the independent research agency, ACT, showed that top-of mind awareness of the project reached 74% in 2020.

ADDITIONAL SUPPORT FOR STARTUPS AND RURAL ENTERPRISES

This year we continued paying special attention to our long-time priority clients – startups and rural enterprises - by offering them favourable conditions to develop their businesses.

We remain committed to supporting early-stage businesses as well as fostering entrepreneurship in Georgia. In this regard, since 2017 we have run "Startaperi", an innovative programme that offers financial and non-financial support for startups. We offer entrepreneurs general purpose loans, as well as special loans for restaurants, hotels and agro businesses. In addition, this year we introduced a "Startup enterprise" loan, which offers favourable terms for loans used to set up local production. Other financial offers include leasing, business cards, free internet banking and Digipass registration. As for non-financial services, the programme offers various educational programmes, events and individual consultations. "Startaperi" also provides clients with unmatched opportunities to develop their businesses. One such opportunity was "Startaperi APP challenge", which brought together 40 teams with brand new ideas. The project, which is supported by FMO and was held for the second year in a row, helped three winning teams to bring their ideas to life. Since its launch, the "Startaperi" programme has attracted around 47,000 companies, while the total outstanding portfolio comprised of 600 loans in the total amount of GEL 185 million as of 31 December 2020.

We also aim to support Georgia's rural communities by providing local businesses with affordable finance. In 2020, within the scope of the projects initiated in close partnership with Georgian government schemes – "Produce in Georgia" and "Preferential Agro Credit" – we have helped around 12,000 borrowers to start or develop local businesses. Within these programmes, borrowers can apply for a subsidy from the government to lower their interest expense. In 2020, we have disbursed 1,800 such loans in the amount of GEL 191 million. In total, rural lending amounted to 42% of the total MSME loan book, the largest sectors being hospitality & leisure, agriculture and trade with respective shares of 15%, 15% and 12%.

TBC Business Club brings together Georgian business community by creating a common space for socializing combined with various useful financial services as well as non-financial benefits.

PAYMENTS BUSINESS

"In line with our mission to make life easier for our customers, we aspire to provide frictionless payment solutions for all considerable payment needs of businesses and individuals.

Our payments business in Georgia is represented by three companies: TBC Bank - the largest financial institution in the country, TBC Pay - the leading provider of payments gateway services and UFC - the largest processing center in the country.

+11.6% YoY
330 mln
NUMBER OF TRANSACTIONS IN 2020[1]

+6.2% YoY
GEL 116 bln
VOLUME OF TRANSACTIONS IN 2020[1]

We are a leading payments provider in Georgia having the largest market share in e-commerce and POS transactions. In addition, we are pioneers in introducing the most innovative products on the market such as stickers, ATM QR withdrawal, contactless cash withdrawal and payment bracelets.

We operate a modern payment infrastructure, which is 100% contactless and consists of our own wide network of ATMs, POS terminals and self-service terminals, as well as a network of eight friendly banks sharing their payment channels with us. Our payments systems are equipped with strong customer authentication and security standards ensuring a safe payment environment.

Our payments business consists of the following key areas: card issuing, card acquiring, cash payments and transactional products.

1 Including TBC Bank's payment business, TBC Pay and UFC

TBC PAYMENTS MAP

RETAIL SEGMENT

- **Visa/Mastercard/local/digital cards & wallet payments;**
- **Traditional payments** - IBAN transfers, mobile top-ups, utility, budget, fines payments, loan repayments, international quick money transfers, etc.;
- **Automatic payments** – direct debit & standing orders;
- **Innovative payments** - transfers to mobile number or ID number, card to card transfers, QR payments; and
- **Cash payments** - Via TBC Pay self-service terminals.

BUSINESS SEGMENT

- **E-commerce & POS acquiring;**
- **Traditional payments** – IBAN transfers, mobile top-ups, utility, budget, fines payments;
- **Automatic payments** – direct debit & standing orders;
- **Cash collection terminals;** and
- **Business payments aggregation service.**

ISSUING BUSINESS

1.6 mln
CARDS ISSUED

92%
OF OUR CARD PAYMENTS ARE CONTACTLESS

When it comes to card payments, we offer our clients a diverse range of products from traditional cards to stickers, bracelets and digital cards. Clients can also attach their cards to smartphones or smartwatches and use other payment options such as Apple Pay, TBC wallet or Garmin Pay. In December, we offered our customers the significant benefit of paying for public transportation with our cards. Our clients no longer need to carry a dedicated transportation card and instead can make payments with any TBC card. Furthermore, in order to help our customers choose the most suitable card for them, this year, we launched a new project to study customer behavior and proactively offer to replace existing cards with higher-class cards that come with special benefits. Since the launch in September, 27,000 cards have already been replaced within the scope of this project.

ACQUIRING BUSINESS

58%
E-COM & POS MARKET SHARE BY VOLUME OF TRANSACTIONS[1]

51%
E-COM & POS MARKET SHARE BY NUMBER OF TRANSACTIONS[1]

Our acquiring business includes POS and E-commerce services. In 2020, we held #1 position on the market by the number and volume of POS and e-commerce transactions, with respective market shares standing at 51% and 58%.

We offer our customers various types of POS terminals, from standalone to integrated and two-in-one POS + Teller Machines, and constantly enrich their capabilities with new convenient functions. This year we added several new features, including leaving a tip on POS payments and transfers to distributors via special cards for business owners. Other innovative features include QR payments and dynamic currency conversion capabilities.

As for e-commerce, we offer businesses secure, convenient and user-friendly solutions to support their operations in the digital space. This year we created a new e-commerce platform, TBC Checkout. One of the benefits of TBC Checkout is that it allows customers to choose between multiple payment methods. A customer can pay directly with a card or use other innovative payment options like mobile banking QR payments, Apple Pay or payments by internet banking user. Additionally, TBC Checkout has an easy to use merchant dashboard to help businesses control and manage transactions seamlessly.

Businesses can access detailed information about all our POS and E-commerce solutions, as well as order them online at our new online platform www.tbcpayments.ge.

TRANSACTIONAL PRODUCTS AND CASH PAYMENTS

24/7
INSTANT TRANSFERS BETWEEN CLIENT ACCOUNTS INSIDE TBC

50%
OF ATM CASH WITHDRAWALS ARE CONTACTLESS

We offer our business and retail clients a wide range of transactional products comprised of IBAN transfers, transfers to mobile number, card to card transfers, mobile top-ups, utility payments, budget payments, direct debit and standing orders. We also pride ourselves on having the best utility payments platform showing clients outstanding amounts in real time and having instant payment capability. This year we introduced several innovations including instant transfers with only a personal ID number, as well as using mobile banking app offline.

Cash payments represent the important part of our payments business, given that Georgia remains largely cash based society. We operate a wide network of c. 1,570 ATMs[2] and 3,905 self-service terminals all over the country. In 2020, 21% of the total number of our payment transactions were conducted through ATMs and self-service terminals.

OUR PAYMENTS SUBSIDIARIES

Our payments ecosystem further expands through our subsidiaries, which offer our clients even more diversified services:

2020 HIGHLIGHTS

3,905
NUMBER OF ACTIVE SELF-SERVICE TERMINALS

+24.8% YoY GEL 4,034 mln
PAYMENT TRANSACTIONS VOLUME DURING 2020[3]

TBC Pay is one of the leading payment companies in Georgia, which connects consumers and merchants to conduct digital payment transactions in a simple and seamless way.

The company was founded in 2008 by TBC Bank and is a wholly owned subsidiary of the Bank. TBC Pay serves more than a million users and processes hundreds of payments per minute.

TBC Pay operates a wide network of self-service terminals all over the country, which allows individuals to perform payments for various daily services instantly in an interactive mode on a 24-hour basis. Payments can be made with cash or by TBC's debit or credit card. TBC Pay also operates a web-platform (www.tbcpay.ge), which allows customers to conduct their payment operations online by using credit/debit cards from

1 Source: NBG
2 Including partner banks
3 Including transactions conducted in self-service terminals, internet and mobile banking applications and cash management transactions

Georgian or international banks. In addition, in 2019, we launched TBC Pay mobile app, which was well accepted by our customers and by the end of 2020 we reached more than 100,000 downloads and achieved 4.9 and 4.8 star ratings respectively on Apple store and Google play.

The company also offers cash management services to companies with a large volume of cash operations. We have specifically designed Cash Boxes for such transactions, through which customers undergo highly secured authentication process. Afterwards, they are able to easily deposit money into their accounts as well as provide respective transaction descriptions. Without leaving the store, money will be instantly transferred to their bank account.

During 2020, the volume of transactions in self-service terminals increased by 23% year-on-year to reach GEL 2,719 million, while the number of transactions in self-service terminals decreased by 8% year-on-year to 41.2 million. The decrease in the number of transactions is related to the fact that more and more customers are switching to internet and mobile banking applications for their utility payments. As of the year-end, TBC Pay has 3,905 self-service terminals in operation compared to 3,671 a year ago. Over the same period, the number of transactions in our web platform and mobile app increased by 61% year-on-year to 1.8 million, while the volume of these transactions went up by 63% year-on-year to reach GEL 80 million. In terms of our cash management business, we observed an increase in the number and volume of transactions per terminal. The volume of cash management transactions amounted to GEL 1,244 million in 2020, up by 26% year on-year, while the number of such terminals increased by 18% from 454 to 534.

As a result, in 2020, our net revenue reached GEL 36.7 million, up by 5% year-on-year, while our EBITDA amounted to GEL 21.1 million, up by 15% year-on-year.

On the operational side, we launched the agile transformation project and completely redesigned our IT and product teams' structures in order to streamline the internal processes and become more flexible and prompt in responding to market needs.

GOING FORWARD

Our aspiration is to become the leading fintech company in Georgia by introducing the most innovative payment offerings, enhancing our existing digital channels as well as strengthening our IT infrastructure with the latest technological solutions. In addition, we plan to expand our customer base among underpenetrated SME and micro businesses, as well as become the largest payment aggregator in Georgia, offering payment services to banks and other financial institutes on the market.

United Financial Corporation (UFC) is the first and largest card processing center in Georgia, as well as in the region[1]. As the leading payment system operator, UFC has a network of 1,200 ATMs, 28,000 POS terminals and handles more than 500 million transactions and authorizations per year. TBC Bank owns 99.5% of the company.

UFC processes and manages card transactions across all payment terminals, conducts card personalization and supports merchants in card related services. Currently UFC serves 10 banks and 14 finance organizations on the market. UFC offers its clients innovative solutions and technologically advanced products and services, which are implemented according to latest security standards and recommendations of internationally recognized payment systems.

1 Region – Azerbaijan, Armenia, Georgia

MAJOR SUBSIDIARY

2020 HIGHLIGHTS

72%
MARKET SHARE[1]

GEL 280 mln
LEASING PORTFOLIO

2,846
NUMBER OF CUSTOMERS

TBC Leasing is the leading leasing company in Georgia and a wholly owned subsidiary of TBC Bank, which was established in 2003. TBC Leasing serves both individuals and legal entities and provides comprehensive leasing solutions and advisory services, including financial leasing, operating leasing, sales and lease-backs tailored to customers' needs. Legal entities account for around 88% of the leasing portfolio with services, construction, health care and production being the largest sectors. We actively cooperate with the largest vendors in Georgia to facilitate sales and financing of new vehicles and equipment used in transportation, construction and manufacturing. Our retail portfolio is comprised of new and used cars, with respective shares of 42% and 58% in total. Retail customers receive service at the company's service centers, while it uses TBC bank's channels to sell leasing products to MSME and corporate customers.

In response to the COVID-19 pandemic, in March 2020 we offered a three-month grace period to all our customers. In June and December 2020, we further extended the grace periods for another three months to our vulnerable customers only. In addition, we started actively offering digital services to our customers and this will remain one of our primary focuses for the next year, enabling our customers to access leasing services remotely.

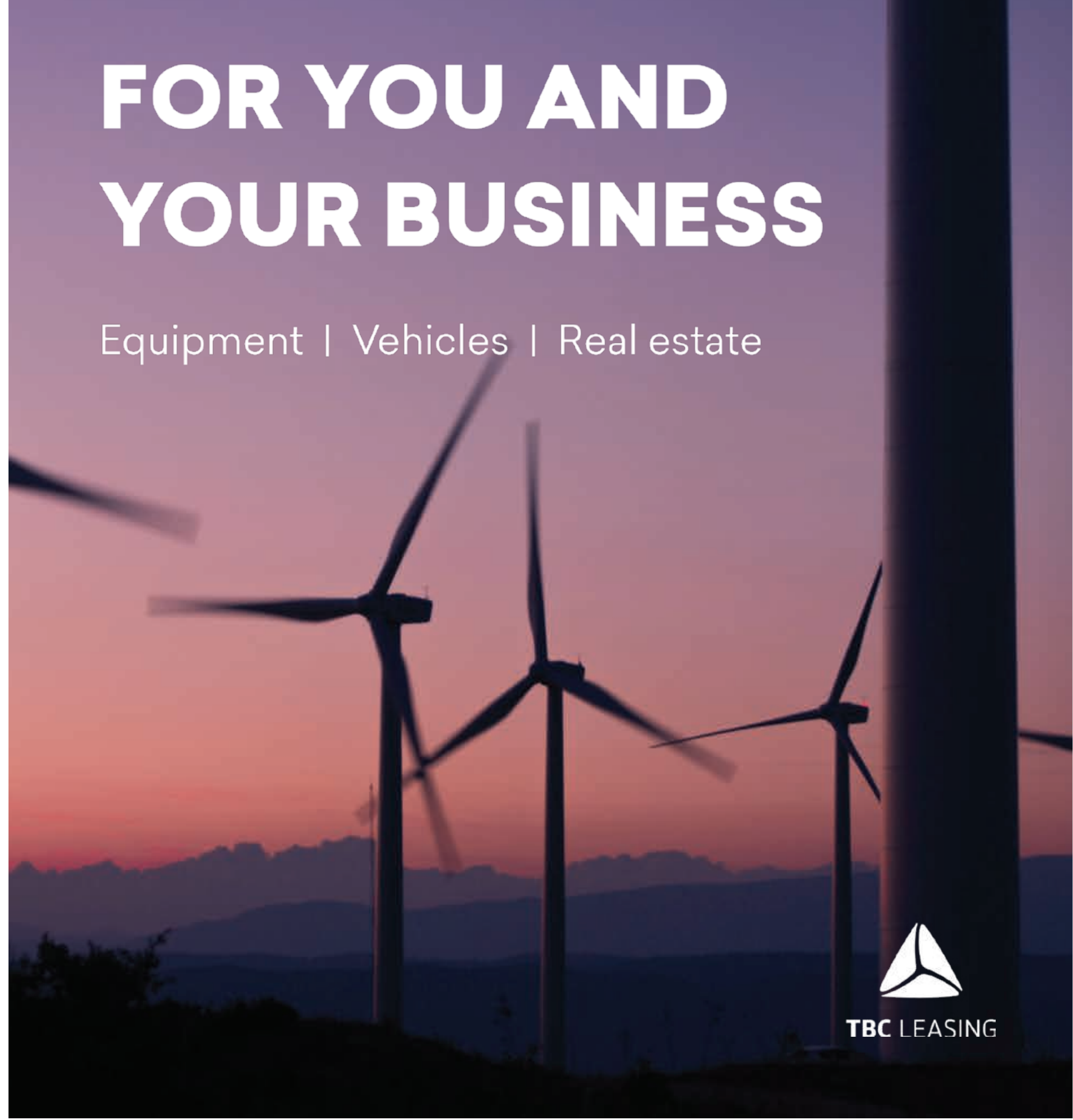
In 2020, leasing portfolio growth was moderate due to the pandemic and amounted to GEL 280 million. We maintained strong positions in the construction, agriculture, medicine and telecommunication sectors. Our main focus for the year was to ensure sound asset quality and help our clients withstand the COVID-19 related challenges.

TBC Leasing is also engaged in the financing of green, renewable and energy efficient assets. In 2020, the company has participated in financing of the construction of a solar panel production facility in western Georgia by AE Solar, which is one of the leading manufacturers in the renewable energy industry globally. In addition, in September, we obtained a credit facility in the amount of GEL 16.4 million from Green For Growth Fund (GGF), which will give our SME customers access to green financing in local currency.

In January 2020, TBC Leasing received a "BB-"credit rating from the Fitch credit rating agency and it marked the highest credit rating among Georgia's non-banking institutions. Long term credit rating of "BB-" was affirmed again by Fitch Ratings in January 2021. This significantly increases the company's creditworthiness and will enable it to increase its bond-holder base as well as decrease the cost of funding. During 2020, the company successfully listed its public GEL bonds on Georgian stock Exchange in the amount of GEL 58.4 million, which was the highest single public placement among Georgian companies.

GOING FORWARD

Our goal is to further strengthen our leading position on the market, especially among MSME segment, by diversifying our product offerings with more tailored solutions as well as increasing our presence in TBC Bank's digital channels. In addition, we aspire to raise public awareness about benefits of leasing solutions in the highly underpenetrated Georgian market, whereas leasing to GDP ratio stands at 0.8%[1].



1 Based on internal estimates

OUR CUSTOMERS

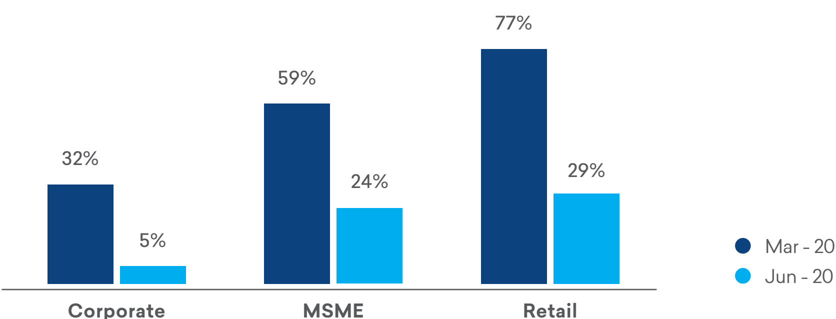
“As customers lie at the heart of everything we do, we are committed to providing reliable support to our clients to ensure their financial wellbeing and safety in a post COVID-19 reality.

POST COVID-19 FINANCIAL SUPPORT

The consequences of COVID-19 pandemic led to economic losses for our clients, as well as a change in their lifestyles, needs and demands. As the most systematically important bank in Georgia, we strongly believe that it is our responsibility to help them navigate through these uncertain times, provide effective financial relief and encourage them to move forward.

Our first step in this regard was the introduction of a three-month grace period on principal and interest payments for all our individual and MSME customers, as well as for certain corporate customers in March 2020. These procedures were done remotely without customers having to come to the branch. This initiative was conducted in close coordination with the government, the NBG and the banking sector. In May, we made a decision to extend the grace period for a further three months to the most vulnerable retail and micro customers based on specific qualification criteria as well as to certain corporate customers on an individual basis.

GRACE PERIOD TAKE-UP RATES[1]



Our another initiative was to help businesses that were the most affected by the pandemic. For this purpose, we partnered with the government to implement the following programmes:

- We actively participated in the government’s support programme for hotels, which envisaged subsidies for 70-80% of interest on loans issued before 1st March 2020 for 12 months, based on certain criteria. By the end of December, we received subsidies for around 709 loans, with a total outstanding loan amount of GEL 572 million;
- Since December 1st, a 6-month subsidizing programme with similar terms and qualification criteria as the programme for hotels was launched for restaurants. By the end of 2020, we received subsidies for around 218 loans, with a total outstanding loan amount of GEL 127 million;
- From the beginning of July, we started issuing mortgages under government support programme allowing customers to get a 4% interest subsidy or receive a 20% guarantee (in case of a minimum of 10% participation from the borrower side) for purchasing a new apartment from a real estate developer under GEL 200,000 for a duration of five years. The programme ended in December. In total, we have disbursed around 2,272 such loans with a total amount of GEL 235 million.

POST COVID-19 DIGITAL SUPPORT

In addition to the financial implications, the lifestyle of our clients was also drastically affected by the pandemic. Remote and digital channels were no longer just a convenience, as they used to be, but instead became a necessity. Over the years, we have built a strong digital presence, which enabled us to switch to a remote service model swiftly and without any disruptions. Our call center operated 24/7 to ensure a seamless transition and address all of our clients' questions and concerns. Furthermore, we provided additional incentives for our customers to use digital channels, such as waivered commissions on all transactions conducted through internet and mobile banking for three months and increased the limits for FX transactions with preferential exchange rates. As a result, the number of active digital clients[2] increased by 8.7% year-on-year and stood at around 692,000. For those customers, who still preferred to go the branches, we kept our branches open, enforcing all safety regulations and recommendations from the Government and WHO.

In order to further enhance our digital banking value proposition, this year, we introduced several new products and services for both individuals and businesses. On retail side, the most important was the launch of the innovative online lending platforms for mortgages and installments, as well as the introduction of the first fully digital card in Georgia, which is a digital equivalent of a physical debit card. For our business customers, we launched the dedicated business mobile banking app. More information on these products is given in divisional overview section on pages 26-57.

As a result of strict regulations related to the pandemic, the only option for many MSMEs and startups to stay in business was to focus on e-commerce and increase their online presence. To assist them with the digital transition, we have offered our business customers various programmes and offers including setting up online shops for free and offering special favorable terms to place their products on our multiple e-commerce platforms. Detailed information on these projects is given in MSME section on pages 42-49.

CUSTOMER EXPERIENCE AND SATISFACTION

Customers are at the very heart of our business and their satisfaction and well-being has always remained of utmost importance for us. We make sure that our products and services are simple, transparent and easy to understand. We also take time to explain to our customers the significant risks, restrictions and limits related to specific financial products in order to enable them to make informed decisions. When providing advice or consultation, we take into account the individual needs of our customers and strive to come up with the solution that serves their best interests.

We regularly request our clients' feedback and have a department dedicated to addressing customer complaints. Clients have a possibility to address the Bank with a complaint in written form or verbally through call center, branches, internet bank and an official webpage on www.tbcbank.com.ge. Every complaint is thoroughly analyzed and acted upon.

In addition, we regularly measure customer satisfaction levels using various surveys conducted by independent third parties, which consistently demonstrate the highest results in the Georgian banking sector as well as the whole retail industry in Georgia. Furthermore, for a deeper dive, we conduct up to 40 internal assessments of various scope, objectives and frequency. These assessments help us evaluate our customer service from different perspectives and further increase our customer satisfaction.

Furthermore, we are also eager to collect internal feedback and use it to improve processes that might not be visible to the customer, but nevertheless play an important role in customer service. In this regard, we regularly perform a "voice of the internal customer" survey, which enables employees to rate the services provided by various departments based on a scoring model similar to the one that customers use to rate our services. As a result of a subsequent analysis, we are able to further fine-tune all the necessary processes for an impeccable customer experience.

1 Take-up rates are calculated based on the loan amounts
2 Internet and mobile banking active clients, including Space

CUSTOMER PRIVACY AND DATA SECURITY

Securing our customers' personal information remains our undisputed priority. We are dedicated to protecting the personal data of our customers and we are constantly improving our cybersecurity ecosystem to prevent various threats and fraudulent activities. In order to mitigate the risks associated with data protection and ensure the security of our clients, we continuously enhance our in-depth security strategy, which covers multiple preventive and detective controls starting from the data and endpoint computers to edge firewalls.

In addition, we have built a Security Operations Center, which monitors unusual occurrences across the organization's network in order to detect potentially negative incidents and respond to them effectively.

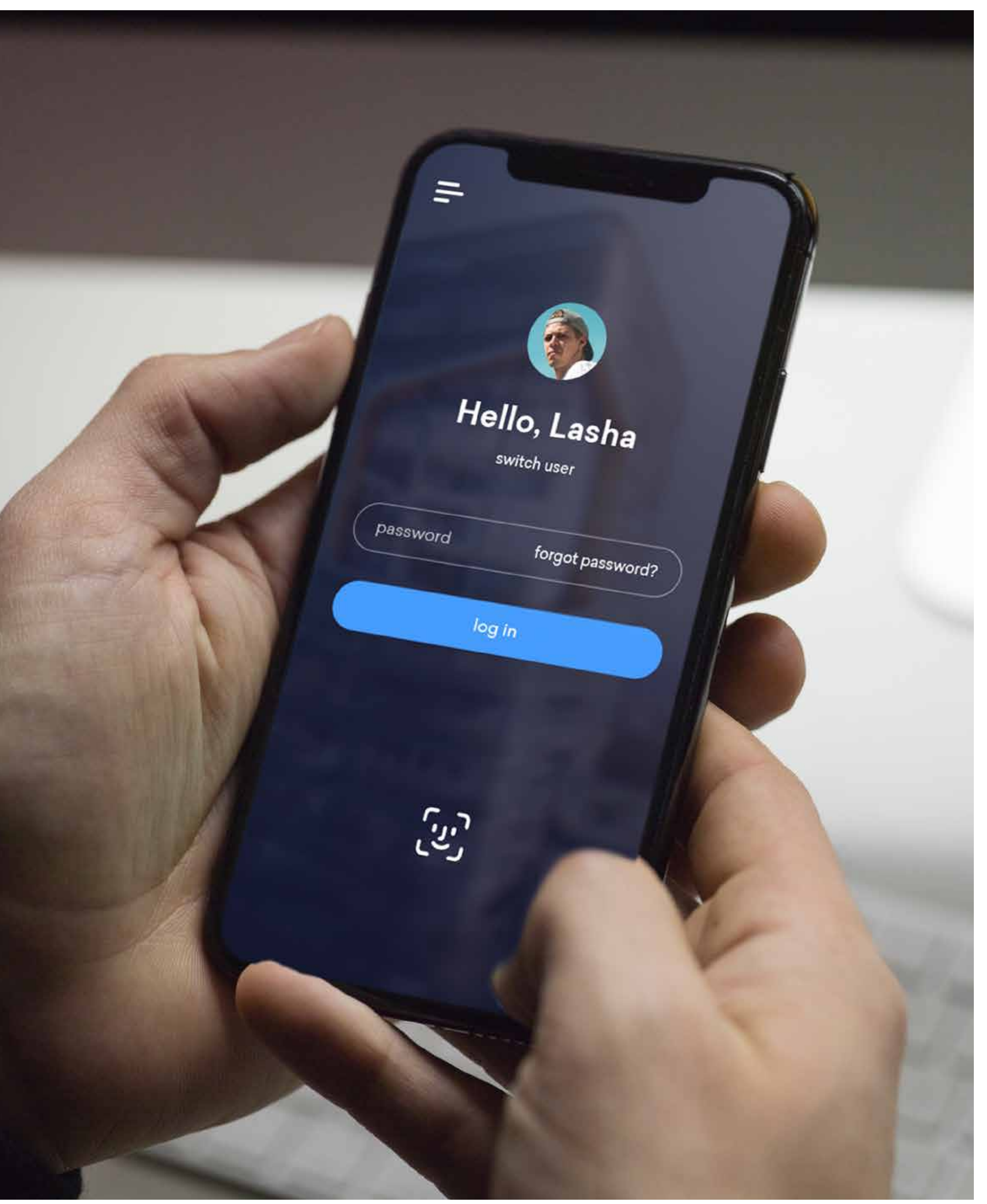
Furthermore, the Information Security Steering Committee governs information concerning cyber security to ensure that relevant risks are within acceptable level and management processes are improved continually.

At least once a year, a full information security and cyber security threat analysis is performed, taking into consideration the relevant regional and sector specific perspectives, with the involvement of an external consultant. This analysis gives us a broad review as well as detailed insights, which help us to further enhance our information and cyber security systems. In addition, we perform cyber-attack readiness exercises on a regular basis. These exercises let us evaluate our strengths and weaknesses in this area and provide a benchmark against international best practices.

We feel that it is our responsibility to develop the safe banking habits of our customers. In this regard, we send frequent notifications to our clients through our digital platforms, warning them about possible threats, frequent phishing schemes, tips on how they should act in such situations and remind them to never provide their personal data to untrustworthy sources.

As our employees play a crucial role in information security, we conduct regular mandatory training sessions for all employees, which comprise remote learning courses regarding security issues, fraud and phishing simulations, as well as email notifications about possible threats. In addition, we carry out onboarding trainings for new employees. These measures ensure that our employees are fully aware of their responsibilities and are well-prepared for various security threats.

We are fully committed to safeguarding the confidentiality and integrity of information regarding our customers, employees, business partners and other third parties. We only process personal data for specific business purposes and do so lawfully, fairly and in a transparent manner. We provide data subjects with all relevant information regarding data processing as well as inform them regarding their rights, which they may exercise by contacting us using the defined communication channels. Our Privacy Policy is in line with applicable laws imposed by local government and also meets certain relevant requirements of EU General Data Protection Regulation (GDPR). The full policy is available on our IR website www.tbcbankgroup.com.


Hello, Lasha
switch user
password
forgot password?
log in

OUR COLLEAGUES

"Engaged and happy colleagues are key to our successful and sustainable development.

68%[1]
ENPS

91%[2]
ENGAGEMENT INDEX

85%[3]
EMPLOYEE HAPPINESS INDEX

CARING COMES FIRST

This year, we were confronted by a lot of challenges due to COVID-19. One such challenge was to ensure the safety and wellbeing of our employees, while continuing to conduct our business without any disruption. Thanks to our strong digital capabilities and technical capacity, we were able to set up the necessary infrastructure for remote working practices in a very short period of time: by the end of March, 95% of our back-office employees were able to work from the safety of their homes. As for our front-office employees, we equipped our branches with all the necessary security and infection prevention measures in accordance with WHO recommendations and introduced shifts to ensure appropriate social distancing.

Equally important was instilling confidence amid high uncertainty and keeping up team spirit, especially during the early stage of the pandemic. Therefore, top management regularly conducted online meetings to keep everyone up-to-date on the company's performance, including solid capital and high liquidity positions, in order to provide assurance about our financial stability as well as address any concerns that employees might have. In addition, we developed a new project, called "Open room", which offers our people online meetings with the best-in-class speakers from different fields on various pertinent subjects, including "the economy and the pandemic", "time management" and many others.

Our efforts turned out to be very successful, resulting in increased employee motivation and efficiency levels, as measured by various internal surveys. In addition, 87% of all back-office respondents indicated their willingness to work remotely, partially or permanently. Therefore, going forward we plan to introduce flexible working practices, allowing our back office employees to work out of the office.

In order to demonstrate our commitment to our employees, despite the COVID-19 related challenges, we decided to retain all our staff this year, while the executive Directors and top management of JSC TBC Bank did not receive any annual bonus and share awards under long-term incentive plan (LTIP) for the 2020 performance period.

OUR PROGRESS ON AGILE TRANSFORMATION

Back in 2018, we started our agile journey in order to build a more dynamic, adaptive and customer-centric culture, which would be able to respond quickly to changes in the market environment. In 2019, we successfully implemented agile transformation in the Retail, MSME and IT departments. These changes helped us to eliminate unnecessary processes and bureaucracies, better integrate IT and business, increase cross company collaboration, achieve operational excellence and reduce time-to-market. Thus, in 2020 we continued to roll out agile transformation across our corporate department, risk departments as well as certain parts of the finance department. Overall, we created 93 cross-functional teams with more than 600 employees working in the agile structure. As the agile structure supports the empowerment of employees and instills an open culture, people in the agile structure were more prepared to work remotely and adapt to the new reality.

In order to increase awareness and share experience about agile working practices and their benefits among banking sector in the CIS region, we conducted an online conference with senior management from different companies from 16 countries. The attendees had the chance to learn from each other and interact with industry-leading experts.

In 2020, we achieved rather impressive results in our agile transformation project. Our organizational agility score[4] improved by 30% in December 2020, compared to the previous year, while time-to-market and release frequency[5] improved by 1.4 times.

Going forward, our goal is to implement an agile structure in other departments in order to unlock new opportunities across the company.

ATTRACTING NEW TALENT

We are committed to attracting, developing and retaining a diverse and inclusive workforce and providing equal opportunities. We strive to attract the best talent with an extensive selection process, which is comprised of several steps and is tailored to the specific needs of each position. Selected candidates are offered attractive employment conditions, which include a fixed salary and a performance based bonus, as well as a good benefits package.

One of our major recruitment priorities is to strengthen our team with more IT specialists in order to support our digital transformation. Given that such skills are in short supply, we established the IT Academy in 2019. The courses offered include front-end and back-end development, Android and IOS mobile development, as well as user experience research and strategy. The academy is run by our experienced staff members, as well as leading professionals from the respective fields. This programme is free of charge for selected students. This initiative has proved to be very successful and we have received more than 4,500 applications since 2019, out of which 335 students were selected for studying and 83 were employed at TBC Bank after successful graduation.

In addition, by the end of 2020, we established the Risk Academy, which offers various courses in risk management to young professionals. The aim is to equip them with banking sector specific knowledge in risk management that is not usually taught in universities and better prepare them for their future careers. All courses are offered free of charge and the best students will be offered employment at TBC Bank.

Since 2011, we have run a wide-scale internship programme for the best students from Georgia's leading universities. This programme has been very successful, helping us to identify new talents who are part of our team today. This year, 98 participants were involved in our internship programme, of whom 28 people became full-time TBC employees in various departments including finance, risks, corporate, marketing, IT and data analytics. Overall, since its establishment, we have recruited 371 students under this programme.

Furthermore, we continue to run TBC Camp, a programme that was established in 2019 and envisages the conduct of a Stock Pitch Competition for fourth year finance students. This competition is integrated in the syllabus of the university's' curriculum and is comprised of intensive online lectures, trainings and preparation of real investment cases in selected companies, which are presented to a panel of judges. The two selected teams are awarded a special prize in the form of TBC shares. This year we have involved 10 more universities, meaning that in total 12 universities are participating in the project. TBC Camp helps to increase awareness of investment banking among young people, as well as helps us to identify bright talents and recruit them into the corporate investment banking department.

1 Employee Net Promoter Score was measured in October 2020 by an independent consultant for the Bank's employees
2 Engagement Index was measured in October 2020 by an independent consultant for the Bank's employee's and measures how much employees feel involved and committed to TBC Bank
3 Employee Happiness Index was assessed internally based on comprehensive survey prepared with the assistance of the world's leading consulting firm and measures whether employees feel happy and satisfied with their job. The index was measured in July 2020 for the Bank's employees
4 Based on internal survey, which measures the company's ability to respond to the fast changing environment
5 Time-to-market measures the time it takes for the product to be launched from the idea origination date to the release date, while release frequency measures how many times the systems are renewed within the given period of time

work from where
you want.

EMPLOYEE ENGAGEMENT AND MOTIVATION

Our colleagues are integral part of our success and our most valuable asset. We are committed to creating a collaborative working environment, in which our team members feel safe, valued and motivated to realize their full potential and deliver a high performance.

In this regard, we are carrying out several initiatives:

- We encourage internal promotions and under equal circumstances give priority to internal candidates. During 2020, around 14% of our employees were promoted to more senior positions;
- Top management regularity conducts meetings with employees to keep them up-to-date on the Group's strategy, performance and recent achievements. The staff has the opportunity to ask questions and share feedback. These meetings became particularly important during the pandemic, as employees needed more assurance about the company's financial position and future prospects. In addition, we conduct an open dialogue with our staff via Facebook group, in which we regularly share the Group's achievements, as well as success stories of individual employees;
- As we aim to promote an innovative mindset throughout the company, last year we launched an unparalleled project in Georgia, called Startup-leave. This initiative gives an opportunity to our employees to start their own startup by taking six months paid leave to develop their business. This project was very well received by our employees and we were nicely surprised by the number and quality of applications submitted. This year, out of many interesting and original business ideas, we selected a project that aspires to create an online platform that connects people interested in education and self-development with teachers and lectures;
- Since 2009, we have run TBC Fund, a special purpose charity fund that aims to cover the medical expenses of our employees and their close relatives in case of severe diseases. Around 83% of our employees donate up to 2% of their salaries on a monthly basis. The fund has allocated GEL 6,200,200 million and helped more than 1,700 people since it was established;
- Since 2013, we have also run a special club for large families, which aims to provide a one-time gift of GEL 10,000 to all TBC Bank employees upon the birth of their fourth and fifth child and GEL 50,000 upon the birth of their sixth child or more. Since the establishment of the club, we have granted more than GEL 1.5 million to 69 employees;
- To accurately measure our employee satisfaction and engagement levels, we annually run a feedback survey in partnership with leading international universities and research firms. The results of the survey are presented to the management board, to be thoroughly discussed, following which relevant actions are planned.

As a result, in 2020 the staff turnover rate in the Bank was as low as 8.3%, compared to 15% in 2019.

LEARNING AND DEVELOPMENT

The learning and development of our employees remains our key priority and we continually refresh our courses and add new learning resources to our in-house educational platform TBC Academy, which was established in 2011. The academy offers workshops and training in various fields such as financial institutions, capital markets, ethics and financial fraud management, as well as soft skills including leadership, customer service, business communication, team building etc. In addition, since 2019, we have run several special purpose educational programmes that are closely aligned to our strategic directions including an agile and data analytics academy, as well as a business school for corporate, finance and risk professionals. This year, due to the pandemic, TBC Academy switched to being online, which helped us to increase coverage, especially for our employees from different regions of Georgia. Overall, the number of participants increased by 108% from 4,300 in 2019 to 8,966 in 2020.

In addition to our in-house TBC Academy, we also help our people to attend external courses and gain international certifications such as CFA, FRM, ACCA, as well as participate in various professional training in leadership, management, sales, customer service, finance and risks. During 2020, more than 800 employees received financial support for their professional development. Moreover, we continue to offer TBC Scholarships to our middle managers to co-finance their studies abroad at the world's leading universities as well as at top Georgian Universities.

PERFORMANCE ASSESSMENT AND REWARD

Our performance appraisal system is closely linked with the overall objectives of the Group and is based on three core principles: clarity, fairness and integrity. We make sure that our colleagues have a clear understanding of their role in the company and are actively engaged in setting their personal goals. Employees are also given appropriate coaching by their supervisors to help them achieve these goals. Regular employee feedback and a constructive dialogue are an important part of our performance appraisal system.

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

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

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

We offer competitive remuneration packages to our employees, which are comprised of fixed salary, performance based bonuses and a benefits package, which includes medical insurance, pension contributions, paid annual and sick leave, as well as six months of fully paid maternity and paternity leave. Additional benefits include monetary gifts in case of marriage and childbirth and compensation in the case of serious illness or death.

We operate a deferred share bonus scheme for our middle managers whereby 15%-25% of the total annual remuneration is paid in the form TBC PLC shares, which are subject to a three year continued employment condition and holding period: 33% and 33% are awarded on the first and second anniversaries respectively, and the remaining 34% on the third anniversary. This scheme encourages a long-term commitment to the company and helps to align middle managers' interests with those of the shareholders.

This year, due to the negative impact of COVID-19 on the Group's performance, we reduced the bonuses for middle management by 50%, while for other back office employees the bonuses were cut by 30%. Also, no bonuses will be distributed to employees working in the agile structure.

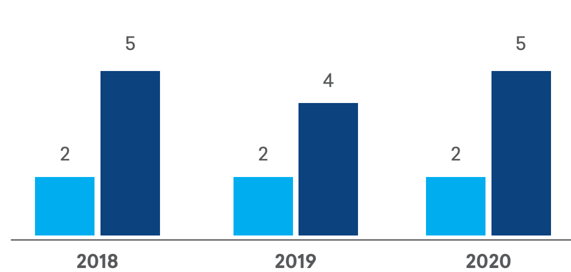
EQUALITY AND DIVERSITY

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

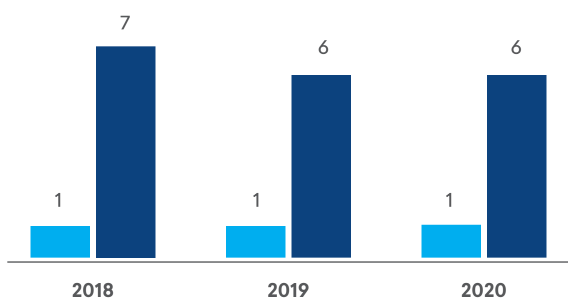
We remain committed to having a gender-balanced workforce through a workplace environment and culture that supports and empowers women. As a result, 67% of employees at TBC Bank are women while the share of women in senior roles is 33%. We plan to further improve the gender balance across managerial positions.

GENDER DIVERSITY STATISTIC

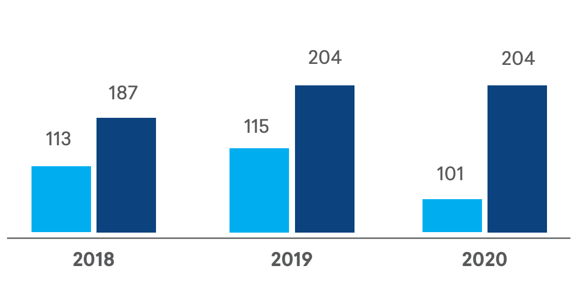
BOARD OF DIRECTORS



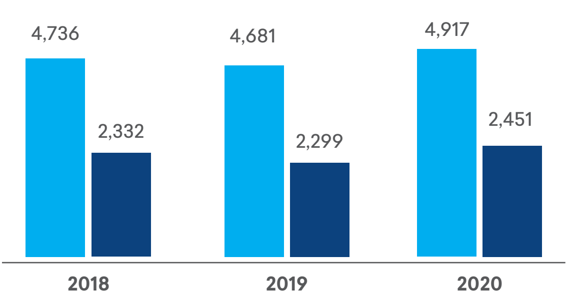
SENIOR MANAGEMENT



MIDDLE MANAGEMENT*



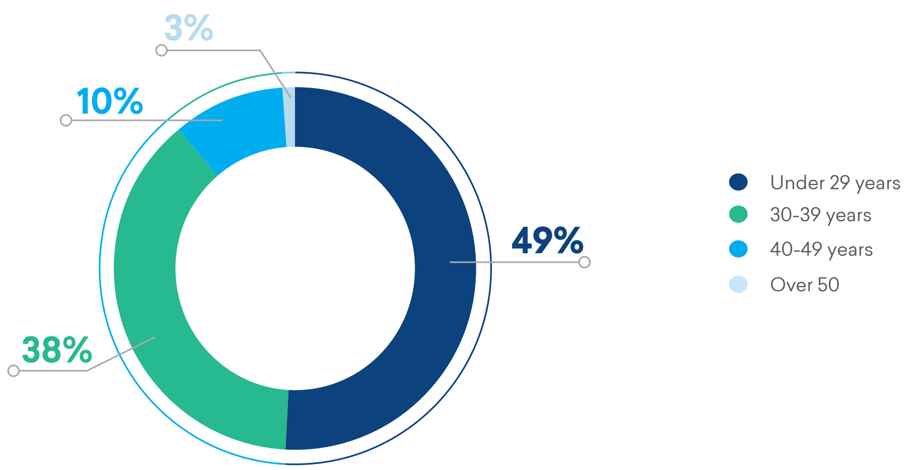
ALL EMPLOYEES



Female Male

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

AGE DIVERSITY STATISTICS OF 2020



Under 29 years
30-39 years
40-49 years
Over 50

* Direct reports to senior management

ETHICAL STANDARDS, RESPONSIBLE CONDUCT AND SAFETY AT WORK

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

We have in place a set of internal policies and procedures and we closely monitor their execution:

- Code of Ethics;
- Code of Conduct;
- Anti-Bribery, Anti-Corruption and Prevention of the Facilitation of Tax Evasion Policy;
- Whistleblowing Policy.

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

The Code of Ethics and Code of Conduct outline the ethical principles and standards of professional conduct expected from all employees of the Group and set appropriate relationship norms with colleagues, customers, partners and others stakeholders. TBC Bank's employees are expected to act with professionalism and integrity at all times and to comply with both the spirit and intent of all applicable laws and regulations. Employees are also required to treat all stakeholders with respect and act fairly and responsibly towards them. In dealing with customers, we ensure that our products and services are tailored to their needs, straightforward and easy to understand. We also make sure that clients do not face unreasonable post-sale barriers to change products, submit a claim or make a complaint. With regards to suppliers and other business partners, the Group engages only in arm's length transactions. In relation to our employees, we are committed to fostering a supportive, safe and respectful working environment, which is free of any form of harassment, discrimination (including race, ancestry, colour, religion, national origin, citizenship, marital status, veteran's status, gender, gender identity, sexual orientation, age or disability) or inappropriate behavior. Environmental and social issues are also on top of our agenda in all our undertakings.

Due to the shift to the remote working practices for back office employees this year, we have updated our Code of Conduct policy and included instructions and recommendations regarding remote working norms in order to ensure proper behavior and adherence to the company's rules and procedures.

Compliance with the Group's Code of Ethics and Code of Conduct is closely monitored by the HR Department and Compliance Department on a regular basis. The Internal Audit Department also conducts periodic audits in order to identify any breach or misconduct in relation to compliance with these policies. No material breaches of the Group's Code of Ethics and Code of Conduct were identified during 2020.

Our Anti-Bribery, Anti-Corruption and Prevention of the Facilitation of Tax Evasion Policy complies with all relevant local and international laws and regulations, and applies to all employees of the Group. The policy provides comprehensive guidance on the types of behaviour that may give rise to violations of anti-bribery and anti-corruption laws and/or Criminal Finance Bill requirements, and reinforces a culture of honesty and openness among employees.

To ensure employees' protection and improve working conditions, we have a Whistleblowing Policy in place, available to all, which aims to identify and respond to potential violations that may jeopardise employees' work effectiveness. The policy encourages every staff member to report on any suspected violations in an open manner, without fear of retaliation. In addition, TBC Bank provides channels for anonymous whistleblowing (including hotline, email or letter) for anyone who believes that a violation of internal standards or legal requirements has taken place but is uncomfortable using the normal reporting lines. Our guidelines seek to ensure that complaints are recorded and that employees are safeguarded from any potential retaliation. This year we received 56 whistleblowing reports, which were reported to the Risk Committee, which in turn reported them to the Board.

The Compliance Department regularly conducts employee training sessions in order to raise awareness and highlight the importance of anti-corruption, anti-bribery and ethical issues. Periodic audits are also conducted by the Internal Audit Department to identify any violations or inappropriate behavior. No such material instances were identified during 2020.

OUR SUPPLIERS

“As one of the biggest purchasers in Georgia, we believe that by implementing responsible procurement practices, we can have a significant impact on the financial stability and development of our suppliers, as well as on the Georgian economy as a whole.

ENSURING FAIRNESS AND TRANSPARENCY AT ALL STAGES OF OUR PROCUREMENT PROCESSES

We have a well-established procurement process, which is governed by the Procurement Policy and Procedures, ensuring fairness and efficiency for both parties.

Our supplier selection process is based on principles of equality, transparency and competitiveness. For this process, we mostly use electronic procurement services available through one of the most well-known third party online platforms in Georgia. This platform has multiple advantages, such as enabling us to reach out to a wide range of suppliers, allowing communication with potential suppliers online, as well as guaranteeing transparency of the bidding process, as participants are able to see the total number of bids and their prices. After receiving the bids, we make a selection based on a transparent and objective selection criteria and treat all the bidders in an equal and fair manner. In case any potential supplier is unsatisfied with the evaluation process or outcome of the tender, they may file a complaint according to the rules stated in the tender documentation. Every complaint is thoroughly analyzed and addressed.

As for the payment process, we try to offer our suppliers flexibility, taking into account their financial situation. We understand that different suppliers prefer various payment methods and seek to cooperate with them to settle for the best option for both sides.

In line with our mission of making life easier, we strive to become the reliable and supportive partner to our suppliers by understanding their needs, as well as their satisfaction levels. To obtain these insights and receive feedback regarding our procurement processes, we regularly organize various types of meetings with them.

RESPONSIBLE PURCHASING PRACTICES

We understand that as one of the largest purchasers in the country, our procurement choices have a significant social, economic and environmental impact. Hence, when making purchasing decisions, we manage the environmental and social risks with high level of responsibility. In order to decrease these risks, we require all our contractors to sign TBC personal data protection, anti-corruption, environmental and tax avoidance clauses that are an indispensable part of the contract and are mandatory for implementation.

We favour purchasing green, energy-efficient and sustainable products where possible. For this reason, we have developed Green Procurement Recommendations that provide guidelines regarding purchasing environmentally friendly goods and services. In addition, we introduced a Responsible Procurement Training Module to further educate our procurement staff on this topic. Furthermore, we have developed a compulsory Environmental and Social Risk Screening questionnaire for our suppliers, which helps us to evaluate their stance on various environmental and social matters and select only those suppliers who comply with our standards, or plan to comply with them in the near future.

Furthermore, we continually provide assistance to our contractors in managing their environmental and social risks. During 2020, we conducted a environmental and social risks assessment for around 80 contractor companies and provided Environmental and Social Action Plans to 14 companies.

In addition, we strive to support small local companies and newly established businesses by purchasing goods and services from them whenever it is reasonable and rational for the bank. Additionally, our procurement team is always ready to share the experience and knowledge with them to contribute to their emergence and further development in a competitive market.

OUR COMMUNITY

" We aspire to have a positive impact on Georgian society and give back to the community that we operate in by contributing to areas that we regard as vital for the future of our country: promoting entrepreneurship and developing the MSME sector, youth support and education, maintenance of cultural heritage and promotion of healthy life styles. Moreover, this year we launched a COVID-19 related programme called #TBCforyou to support our community throughout the pandemic.

#TBCFORYOU

In order to reduce the damage caused by COVID-19 to the population of Georgia, we created a wide-scale support programme called #TBCforyou (www.tbcforyou.ge), which combines a number of our projects, including, but not limited, to the following:

- Purchased 10,000 COVID-19 rapid tests and handed them over to the Ministry of Health;
- Helped 1,000 elderly people in need with food, medicine and personal hygiene items;
- Cooperated with the business sector, implementing a number of projects in collaboration with them. For example, in cooperation with “Nikora”, a leading Georgian food producer, 300 socially vulnerable families were provided with food product baskets;
- Helped MSMEs to digitalize their businesses and start offering their products and services online. More details on this topic are given in the MSME section on pages 42-49.

YOUNG GENERATION

We continuously support talented young people in their professional development and endeavours by implementing various projects and initiatives.

This year brought a lot of changes to the educational system as all educational institutions in Georgia had to switch to online learning due to the outbreak of COVID-19. This was particularly challenging for students from vulnerable families, who did not have proper tools and facilities for the online learning. TBC bank supported these students with the following initiatives:

- We purchased laptops for 161 socially vulnerable students at six universities;
- With the involvement of TBC staff, laptops were distributed to 100 socially vulnerable senior-grade students residing in different regions of Georgia. TBC doubled the amount voluntarily collected by TBC employees;
- In addition, we covered monthly internet fees until the end of the year for the above students.

In parallel, we continued to roll out our long-lasting projects, which encompass the following:

- Starting from 2016, TBC Bank has been the main partner of the Young Researchers and Innovators Competition Leonardo da Vinci, an annual event that aims to popularize science, technology, engineering and math (STEM) among the young generation. This is a large-scale event, which is held for high-school students all over the country. Participating teams are requested to present an innovative scientific idea that

FOR
YOU

is supported by comprehensive research and experiments. TBC supports the organization of the event and provides annual scholarships for the winners. This year, the event was held online due to pandemic;
- At the end of 2018, we also introduced a new project called "TBC scholarship", which aims to support young, talented people from vulnerable families from all over the Georgia, in different fields including sport, science and arts. Each year, around 200 Georgian young, talented people receive these scholarships in order to develop their knowledge and skills and become successful professionals.

In addition, we run IT Academy and TBC Camp (for future investment bankers) since 2019 and we also introduced Risk Academy in 2020 in order to provide practical knowledge and skills to talented young people in those demanding professions, as well as increase their chances for employment at TBC or other organizations. All courses are offered free of charge and run by experienced staff members. More detailed information is given in our our colleagues section on pages: 62-69.

ARTS & CULTURE

TBC has always played an important role in preserving Georgian heritage and presenting it to the public in modern ways, supporting young artists and fueling artistic life in Georgia.

During the COVID-19 pandemic, when it was not permitted to physically visit museums, we concentrated our efforts on popularization of Georgian history and heritage through digital channels:

- Within the scope of our partnership with the National Museum of Georgia, we created a video animation, telling the history of Georgia through various cultural heritages that are preserved in the Museum. In addition, we continue to provide financial assistance as well as support the maintenance of digital platforms and communication channel used by the Museum.
- TBC acknowledges the importance of using entertainment for the development of new generations. Therefore, in connection with the World Children's Day, we developed an educational museum kit, which unites several creative games, based on museum collections, enabling kids to study history through entertainment. In addition, the kit is accompanied by a video tutorial and tests for children to understand the whole story given in the kit games.
- During pandemic, the National Museum managed to open two new museums in Vani and Bolnisi, related to the antique cultural heritage of Georgia and the prehistoric period. TBC financially supported the museum in Vani, which contains historical relics of ancient Colchis culture, which span the whole first millennia BC. Given the current pandemic, TBC created an introductory video, dedicated to Vani Museum and presented it to the public in an innovative manner.
- In 2020, we started another project started in cooperation with Art Palace of Georgia – Museum of Cultural History, aimed at reviving Georgian heritage. The project's purpose is to promote historical Georgian textiles, inspired by various cloth patterns worn by Georgian kings, queens and historical figures. Georgian fashion startups and brands have created ready to wear collections, while TBC created a webpage qq.vendoo.ge and assisted them in product promotion. TBC also contributed financially to the Art Palace.

In 2020, TBC held the 18th Literary Award, which has run continuously from 2003 and is the most important literary event in the country. Traditionally, the Saba gala event has been held in various cultural landmarks in Georgia. This year, due to pandemic, TBC decided to hold the event online. Since its inception, Saba has awarded more than 170 prizes in different categories, amounting up to GEL 900,000 in total. We also run www.saba.com.ge, the largest online platform for Georgian electronic and audio books. This website provides access to 6,000 electronic books and has attracted c. 190,000 readers, both in Georgia and abroad.

SPORTS

Georgian society's mental and physical health is largely dependent on sport activities and the popularization of healthy lifestyles. Since 2015, TBC has been the general sponsor of the Georgian Rugby Union. We chose to support rugby because it is a national sport, which epitomizes positive characteristics for society and provides an impeccable example of teamwork, goal orientation, respect for opponents and fairness. TBC has substantially contributed to the popularization of rugby through promotional activities over the last six years. In 2020, the Georgian rugby team participated in the Autumn Nations Cup and competed with the world's best teams.

SUPPORTING SMALL BUSINESSES AND ENTREPRENEURSHIP

TBC distinguishes itself through advocacy and support for young startups and MSME businesses. In order to address the social and economic challenges in the country, the development of small and medium businesses is vital. It contributes to the reduction of unemployment and boosts economic growth. We assist businesses through the provision of both financial and non-financial support, including: easing access to capital, sharing knowledge and expertise, developing products and services specially customized for business needs. Detailed information is given in Our MSME section on pages 42-49 respectively.

OUR ENVIRONMENTAL MANAGEMENT SYSTEM

“As we acknowledge the importance of social and environmental matters for the long-term, sustainable development of the Group, we strive to positively impact the environment and play our role in transitioning to a low-carbon economy.

We maintain our focus on environmental and social issues and continue to integrate them in our business as the need for confronting climate change accelerates. In 2020, we took active measures to manage the direct and indirect environmental and social risks associated with our activities. We further strengthened our Environmental Management System (EMS) across the Group and successfully completed the ISO 14001:2015 certification audit remotely, despite these challenging times. This certificate serves as testament to our EMS's full compliance with international standards. In addition to being a great achievement, it also confers the responsibility to maintain and further develop our EMS system.

In 2020, we also released the first, full-scale sustainability report prepared in reference to Global Reporting Initiative (GRI) standards. This report combines comprehensive information about our social, economic and environmental impacts and describes in detail the measures we have taken to make a positive change in this regard for the benefit of all our stakeholders.

OUR ENVIRONMENTAL MANAGEMENT SYSTEM (EMS)

Our Environmental Policy governs our EMS within the Group and ensures that we comply with applicable environmental, health and safety and labour regulations and use sound environmental, health and safety, and labour practices, as well as take reasonable steps to make sure that our customers also fulfill their environmental and social responsibilities. Our Environmental Policy is fully compliant with Georgian environmental legislation and follows international best practices (the full policy is available at www.tbcbankgroup.com).

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

Our Environmental Management System is based on four pillars:
- Internal environmental activities;
- Environmental and social risk management in lending;
- Sustainable finance; and
- External communications.

We believe that raising our employees' environmental awareness is vital for effective implementation of our EMS. For this purpose, we have developed an environmental training programme, which includes introductory trainings for new employees, regular updates about changes in our environmental activities, as well as annual mandatory online EMS e-learning course for all staff, followed by a self-evaluation test. In addition, we conduct specialized trainings about environmental and social risk management in lending for SME and corporate business analysts and risk managers.

Pillar I - Internal Environmental Activities:

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

In order to ensure full compliance with local environmental regulation, TBC Bank conducts an internal environmental check on an annual basis. Our environmental register details the specific legal and other requirements applicable to TBC Bank. The last update of the environmental check was conducted in September, 2020.

As mentioned above, TBC Bank obtained ISO 14001:2015 for its Environmental Management System, which serves as testament to our EMS's full compliance with international standards.

TBC Bank has established a comprehensive internal environmental system to manage and report its GHG emissions within the Group and is committed to reducing its GHG emissions by closely monitoring its consumption of energy, water and paper. The guidelines for documenting environmental data were developed and responsible staff was assigned in subsidiary companies to collect and provide the required data. TBC Bank also commissioned G&L Management LTD, an independent Health, Safety, and Environment (HSE) consulting company, to verify the measurements of its GHG emissions. In the United Kingdom the Group is a low energy user and does not consumer more that 40,0000khw of energy.

			Total CO2 Emissions (tonnes)	KPIs (reduction per FTE)
Data for the FY	**2018***	**2019***	**2020**	**2021**
Scope1** Fuel Combustion (heating, vehicles, generators)	2,144	1,897	2,970	-6%
Scope2 (Electricity consumption)	1,214	1,088	1,524	-5%
Scope3 (International flights)	575	564	106	-
Total emissions (tCO2)	**3,933**	**3,549**	4,600	-5%
Total emission per full time employee (FTE) (CO2t/pp)	**0.62**	**0.57**	0.65	-5%
Water consumption per employee (m3/pp)	16.68	14.40	10.72	-5%
Printing paper per person in reams	17.52	19.62	13.46	-
Revenue (tCO2/US$)	0.000009	0.000009	0.000013	-
EBTDA (tCO2/US$)	0.000018	0.000015	0.000036	-
Net Income (tCO2/US$)	0.000023	0.000018	0.000042	-

* The data is given for the Bank only

**Scope 1:

a. 1,609 CO2e emissions in tonnes (from combustion of fuel (NG) from owned operation and facilities of TBC Bank) in 2020 compared to 1,318 CO2e in 2019 and 1,441 CO2e in 2018.
b. 1,285 CO2e emissions in tonnes (from owned vehicles of TBC Bank) in 2020 compared to 491 CO2e in 2019 and 617 CO2e in 2018.
c. 76 CO2e emissions in tonnes (from owned generators of TBC Bank) in 2020 compared to 88 CO2e in 2019 and 86 CO2e in 2018.

In 2018 and 2019, the data is provided only for the Bank, while the data for 2020 is calculated for JSC TBC Bank, which includes the bank and its subsidiaries. Therefore, year-on-year data is not comparable.

Calculation Methodology

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

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

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

Scope 3 includes emissions from air business travel (short haul, medium haul, long haul and international haul). It should be noted that information on travel class was considered and an "economy class" conversion factor was used to calculate emissions, as described in the following link: www.atmosfair.de. In order to calculate the GHG emissions from the flights of business trips, the detailed route for each air-travel (including transfers of the international flights), type of flight class (first, business, and/or economy) and number of persons being on each business trip was used.

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

Pillar II - Environmental and Social Risk Management in lending

For all commercial transaction, TBC Bank endeavours to ensure that customers demonstrate an organized and systematic approach to environmental and social risk management and comply with local and international environmental, health and safety, and labour regulations and standards in order to mitigate the negative environmental impact of their financed businesses.

For this purpose, TBC Bank has Environmental and Social Risk Management (ESRM) Procedures in place to ensure that appropriate, risk-based, sector specific, environmental and social risk assessment is applied to its commercial lending activities. These procedures are fully integrated into the credit risk management process in TBC Bank and are applied to all commercial lending. The procedures incorporate appropriate consideration of IFC's Performance Standards, EBRD's Performance Requirements (PRs) and ADB's Safeguard Requirements (SRs).

These procedures include:

- Transaction qualification and risk categorization;
- Identification and appropriate assessment;
- Mitigation and control; and
- Monitoring and reporting of environmental and social risks.

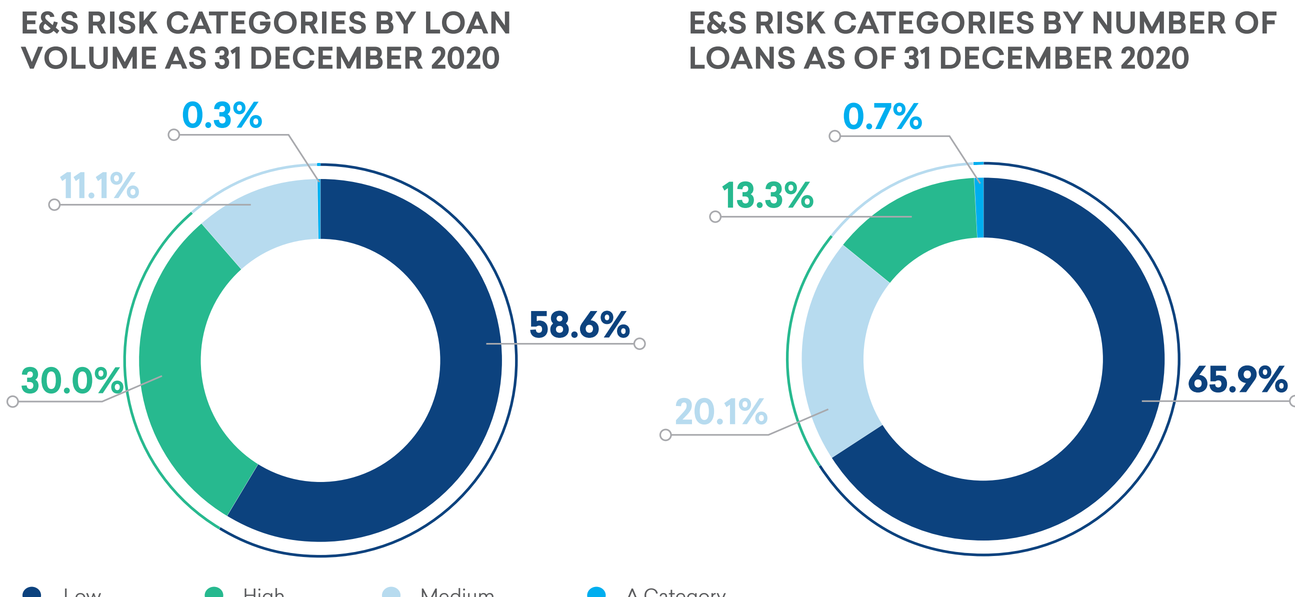
In 2020, we further fine-tuned our environmental and social action plans (ESAP) monitoring system for clients that do not meet our environmental and social standards in order to enhance their environmental performance. All such clients have been monitored and checked.

The latest update of ESRM procedures, in collaboration with our partner IFIs, was conducted and approved in the third quarter of 2020 and included the development of a clear Environmental and Social (E&S) risk categorization matrix. In some cases, E&S risk categories differ. When categorizing the transaction according to E&S risk category, priority is given to the higher risk.

BUSINESS LOANS PORTFOLIO

E&S RISK CATEGORIES BY LOAN VOLUME AS 31 DECEMBER 2020

E&S RISK CATEGORIES BY NUMBER OF LOANS AS OF 31 DECEMBER 2020



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

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

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

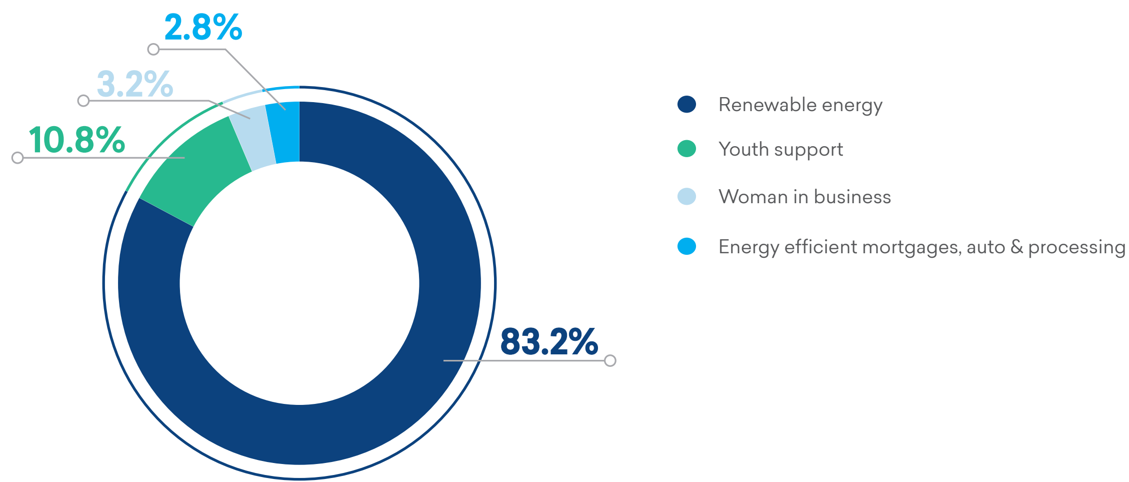
Category A – transactions with potentially significant adverse social or environmental impacts that may be diverse, irreversible or unprecedented, the assessment of which usually requires inputs from independent external experts, and may require the involvement of IFI E&S specialists in the due diligence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

Pillar III - Sustainable finance:

TBC Bank acknowledges the importance of sustainable lending and is actively involved in developing a standardized approach to sustainable finance, including energy efficiency, renewable energy and resource efficiency financing for its private and business clients. For this purpose, we cooperate with the Green for Growth Fund (GGF) to conduct local market research and develop green lending guidelines. This will help us to streamline and considerably enhance the existing green lending operations within the company. In 2020, we developed a CO2 emissions calculation toolkit, which will be used to define our clients' green status.

In order to support green financing, this year we supported Georgia Global Utilities (GGU) to issue Georgia's first green bonds, in the amount of US$ 250 million, which were listed on the Irish Stock Exchange. TBC Capital, together with a number of leading international investment banks, acted as a co-manager for of this transaction.

OUR SUSTAINABILITY PORTFOLIO BREAKDOWN



Note: Our sustainable finance portfolio includes loans financed by special purpose funds received from IFIs except for the renewable energy, which includes all hydro power plants finance by the Bank.

Pillar IV - External Communications:

Transparency and open communication are an essential part of our daily activities. The feedback and recommendations received from our stakeholders and other interested parties enable us to continuously improve our performance. In doing so, we have a grievance mechanism to enable interested parties to provide their complaints with regards to E&S issues. Records of all communication are stored, including responses according to TBC Bank's procedure for addressing external E&S queries and concerns. Interested parties may submit their query on the webpage www.tbcbank.ge or to the following e-mail address: E&Srisk@tbcbank.com.ge.

During 2020, no such complaints were received with regards to E&S issues.

TBC Bank also takes an active part in supporting the development of E&S regulations in the country. Our ESRM group is a member of the regular environmental committees organized by American Chamber of Commerce in Georgia, Business Association of Georgia (BAG) and Business and Economic Centre.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES ('TCFD')

In 2021, we plan to introduce a Task Force for a Climate-related Financial Disclosure (TCFD) framework in order to demonstrate our commitment towards taking active measures to mitigate climate change.

Governance:

In 2021, in order to advance the quality of disclosures related to the potential effects of climate change, the Group will take further steps to enhance its environmental, social and governance (ESG) framework:

- The Risk Committee will take responsibility for approving and overseeing the ESG strategy. It is also planned for the Risk Committee to receive regular reporting on ESG matters.
- An ESG Committee will be established at the senior executive level, which will take responsibility for implementing the ESG strategy and approving the action plan in relation to the TCFD framework.
- The implementation of the ESG strategy will be supported by the various organizational functions responsible for ESG matters: E&S risk management, the ESG Coordinator and the ESG competence center.

Strategy:

In order to increase our positive direct and indirect impact, the Group strives to integrate ESG considerations, in particular climate change related matters, into its main activities, services and products.

In 2021, the Group aims to:

- Implement the recommendations of the Task Force on Climate-related Financial Disclosures;
- Increase understanding of the impact of climate change on business activities, the environment and society;
- Address climate mitigation and adaptation in its countries of operations;
- Develop products, services and approaches that consider its ESG goals, e.g. green loans;
- Set up a formal framework for social projects with a (long-term) sustainability impact.

Risk Management

The Group's existing ESG framework allows for active management of climate change related risks. Please refer to emerging risks section on pages 91-92.

Furthermore, additional analysis under the TCFD framework will allow for better understanding of climate risks and sector specific developments, which, if necessary, will contribute to further development of the E&S risk management system.

Metrics and targets:

In 2021, the Group aims to improve its climate-related annual financial filings, practices and techniques. Improved data analytics in the Group will ultimately support better understanding of the potential implications of climate change for the organization.

In 2021, the Group will work towards:

- identifying material topics related to climate change;
- developing data analytics;
- integrating additional analytical components in its day-to-day operations;
- expanding existing metrics and defining targets; and
- developing metrics to capture non-financial outputs.

MATERIAL EXISTING AND EMERGING RISKS

The emergence of the COVID-19 pandemic has enhanced the critical importance of risk management to the Group's strategy. During the COVID-19 era, it is even more essential to identify emerging risks and uncertainties that could adversely impact the Group's performance, financial condition and prospects. This section analyses the material principal and emerging risks and uncertainties the Group faces. However, we cannot exclude the possibility of the Group's performance being affected by risks and uncertainties other than those listed below. More details regarding risk management practices can be found on pages 93-109.

The Supervisory Board has undertaken a robust assessment of both the principal and emerging risks facing the Group and the long-term viability of the Group's operations, in order to determine whether to adopt the going concern basis of accounting. Based on the review and analysis the Supervisory Board confirmed that they have a reasonable expectation of the Group's viability over the next three years up to 1 January 2024 and that the Group will be able to continue its operations and meet its liabilities as they fall due over the three-year period from 1 January 2021 to 1 January 2024.

PRINCIPAL RISKS AND UNCERTAINTIES

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

As a provider of banking services, the Group is exposed to the risk of loss due to the failure of a customer or counterparty to meet their obligations to settle outstanding amounts in accordance with agreed terms.

Risk description

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

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

COVID-19 has increased uncertainty and caused significant economic disruptions in many sectors, particularly in the hospitality & leisure, real estate management and development sectors. Such economic disruptions run the risk of deteriorating the financial standing of borrowers and increase the credit risk for the Group.

Risk mitigation

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

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

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

The Group's credit portfolio is structurally highly diversified across customer types, product types and industry segments, which minimizes credit risk at Group level. As of 31 December 2020, the retail segment represented 39.2% of the total portfolio, which was split between mortgage and non-mortgage exposures 66.2% and 33.8%, respectively. No single business sector represented more than 9.6% of the total portfolio at the end of 2020.

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

The Group has a largely collateralised portfolio in all its segments, with real estate representing a major share of collateral. As of 31 December 2020, 76.5% of the Group's portfolio was secured by cash, real estate or gold. A sound collateral management framework ensures that collateral serves as an adequate mitigating factor for credit risk management purposes.

As a result of the COVID-19 pandemic, the Group has identified highly vulnerable clients and outlined a strategy for payment holidays, refinancing, or restructuring across all segments. Since the start of the COVID-19 pandemic, the Bank granted of payment holidays on principal and interest payments to individual and MSME customers as well as to corporate borrowers that have been adversely affected by the government lockdowns. According to the strategy, some clients were given payment holidays only on interest, while other clients were given payment holidays on both interest and principal amounts. The government expanded upon a special support programme for the affected sectors - restaurants and small and medium sized hotels received subsidies in the amount of 70-80% of interest payments. For more information about government support programmes see our customers section on pages 58-60.

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

The Bank revised credit underwriting standards across all segments in light of the COVID-19 pandemic and tightened them, where applicable. The revision and tightening of the standards, among other measures, included: changes in the delegation on decision-making and approval particularly for borrowers from vulnerable sectors, applied haircuts to the revenues of individual borrowers from affected sectors, and the integration of the macroeconomic sectoral expectations into the assessment process for business borrowers.

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

A potential material GEL depreciation is one of the most significant risks that could negatively impact portfolio quality, due to the large presence of foreign currencies on the Group's balance sheet. Unhedged borrowers could suffer from an increased debt burden when their liabilities denominated in foreign currencies are amplified.

Risk description

A significant share of the Group's loans (and a large share of the total banking sector loans in Georgia) is denominated in currencies other than GEL, particularly in US$ and EUR. As of 31 December 2020, 59.4% of the Group's total gross loans and advances to customers (before provision for loan impairment) were denominated in foreign currencies.

The income of many customers is directly linked to the foreign currencies via remittances, tourism or exports. Nevertheless, customers may not be protected against significant fluctuations in the GEL exchange rate against the currency of the loan. The US$/GEL rate remained volatile throughout 2020 and the average currency exchange rate of GEL weakened by 10.3% year-on-year. The GEL remains in free float and is exposed to many internal and external factors that in some circumstances could result in its depreciation.

Risk mitigation

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

Given the experience and knowledge built throughout the recent currency volatility, the Group is in a good position to promptly mitigate exchange rate depreciation risks. In January 2019, government authorities continued their efforts to reduce the economy's dependence on foreign currency financing by increasing the cap to GEL 200,000 under which loans must be disbursed in local currency. In addition, the NBG, under its responsible lending initiative, which came into force on 1 January 2019, introduced significantly more conservative PTI and LTV thresholds for unhedged retail borrowers, further limiting their exposure to currency induced credit risk. The NBG eased the above-mentioned regulation from April 2020 for hedged borrowers. For unhedged borrowers, however, PTI and LTV thresholds will stay significantly more conservative.

3. The Group's performance may be compromised by adverse developments in the economic environment, particularly due to the COVID-19 pandemic

A further slowdown in economic growth and the delayed recovery in Georgia due to the COVID-19 virus containment taking longer than expected or the emergence of other shocks, will likely have an additional adverse impact on the repayment capacity of borrowers, restraining their future investment and expansion plans. These occurrences would be reflected in the Group's portfolio quality and profitability, and would also impede portfolio growth rates. Negative macroeconomic developments could compromise the Group's performance through various parameters, such as exchange rate depreciation, a spike in interest rates, rising unemployment, a decrease in household disposable income, falling property prices, worsening loan collateralization, or falling debt service capabilities of companies as a result of decreasing sales. Potential political and economic instability in the neighboring countries and main trading/economic partners could negatively impact Georgia's economic outlook through a worsening current account (e.g. decreased exports, tourism inflows, remittances and foreign direct investments).

Risk description

According to the preliminary estimates of National Statistics Office of Georgia (Geostat), GDP decreased by 6.1% in 2020. Going forward, in the baseline scenario, considering the impact of prolonged lockdown as well as Geostat's significant downward revision of Q2 and Q3 GDP indicators, based on TBC capital calculations, economy is estimated to recover by 4.2% in 2021. According to the World Bank's latest projections[1] Georgian economy is forecasted to grow at 4.0% in 2021 before the growth accelerating to 6.0% in 2022.

The negative impact of the COVID-19 pandemic was also evident on the GEL exchange rate. Throughout 2020, the GEL real effective exchange rate depreciated by 7.4%. The US$ strengthened against the GEL from 2.87 to 3.28, or by 14.3%.

By the end of 2020, despite a weaker GEL, consumer prices went up by just 2.4%, which can be primarily explained by the government subsidy programme for household utilities. Throughout 2020, the NBG decreased its policy rate from 9% to 8%. Considering moderating inflation, recovery in tourism inflows and lower pressures on the exchange rate, it is likely that there will be further gradual rate cuts.

In addition to use of the interest rate policy tool, in 2020 the NBG also intervened heavily in the FX market. In total, the central bank sold US$ 873.2 million. The interventions were primarily financed through external

1 World Bank, Global Economic Prospects, January 2021

government borrowing. As a result, fiscal deficit which stood at around 9.1% of GDP in 2020, predominantly financed externally, was a major source of financing for the worsened CA deficit. The fiscal deficit also significantly supported the overall growth as well as assisting the businesses and households impacted negatively by the pandemic. According to the budget plan, the fiscal deficit is expected to again be sizeable in 2021, with a deficit to GDP ratio of 7.6%.

Bank credit growth weakened to 9.1% year-on-year in FX adjusted terms by the end of December 2020, compared to 16.1% year-on-year growth by the end of 2019.

Risk mitigation

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

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

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

Risk description

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

The regulation includes a phase-in schedule and gradually introduces the buffers over the course of a four year period. However, in response to the COVID-19 pandemic, the NBG has implemented certain countercyclical measures in relation to capital adequacy requirements, which are as follows:

- Postponing the phasing-in of concentration risk and the net General Risk Assessment Programme (GRAPE) buffer capital requirements on CET1 and Tier 1 capital that was supposed to be introduced in March 2020;
- Allowing banks to use the conservation buffer and 2/3 of currency induced credit risk (CICR) buffer;
- Allowing banks to release all the remaining Pillar 2 buffers (remaining 1/3 CICR, concentration risk and Net Grape buffers) in case of necessity.

Since the introduction of these measures, the Bank has utilized both the conservation and 2/3 CICR buffer, and is restricted from making any capital distributions.

As a result of these measures, the Bank's minimum capital requirement, compared to the end of 2019, has decreased by:

- 3.0pp for CET1;
- 3.3pp for Tier 1; and
- 3.8pp for Total Capital.

This is compared to the planned increase of:

- 0.86pp for CET1;
- 1.02pp for Tier 1; and
- 0.37pp for Total Capital.

In December 2020, the systemic buffer increased from 1.5% to 2% as previously planned. The Bank's capitalization as of December 2020 stood at:

- 10.4% for CET1 with updated regulatory minimum requirement of 7.4%;
- 13.0% for Tier 1 with updated regulatory minimum requirement of 9.2%; and
- 17.1% for Total Capital with updated regulatory minimum requirement of 13.7%.

The ratios were well above the respective regulatory minimums.

The NBG outlined a new schedule for the gradual introduction of capital requirements under Basel III. According to the new schedule, Concentration risk and the Net GRAPE buffers phase-in will continue from March 2021 and will be fully introduced by March 2023. The systemic buffer is expected to increase by 0.5pp to 2.5% at the end of 2021. Based on the official announcement by the NBG, the decision for the restoration of CICR and Conservation buffers has been postponed for the next Financial Stability Committee meeting which will be held in June 2021. Once the restoration of the buffers is announced, the Bank will be given a period of one and two years to fully comply with the CICR and Conservation buffer requirements respectively. However, in case the Bank wants to pay out dividends, it has to fully restore and comply with the buffers.

Regardless of the negative impact of the COVID-19 pandemic, GEL volatility has been and remains one of the significant risks impacting the Bank's capital adequacy. A 10% GEL depreciation would translate into a 0.8pp, 0.7pp and 0.6 pp drop in the Bank's CET 1, Tier 1 and Total regulatory capital adequacy ratios, respectively.

Risk mitigation

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

In close co-ordination with the NBG, the Bank created an extra loan loss provision buffer to cover for the potential impact of the COVID-19 pandemic on the Georgian economy. As of 31 March 2020, the Bank booked additional provisions in accordance with local standards in the amount of c.3.1% of the loan book.

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

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

Risk description

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

Under the Georgian banking regulations, the Bank is required, among other things, to comply with minimum reserve requirements and mandatory financial ratios, and to regularly file periodic reports. The Bank is also regulated by the tax code and other relevant laws in Georgia.

The Group takes all the necessary steps with the intention of ensuring compliance with relevant legislation and regulations. The Group is also subject to financial covenants in its debt agreements. For more information, see page 254 in the Group's Audited Financial Statements.

Risk mitigation

The Group has established systems and processes to ensure full regulatory compliance, which are embedded in all levels of the Group's operations. The dedicated compliance department reports directly to the Chief Executive Officer and has a primary role in the management of regulatory compliance risk. The

Group's Risk Committee is responsible for regulatory compliance at the Supervisory Board level. In terms of banking regulations and Georgia's taxation system, the Group is closely engaged with the regulator to ensure that new procedures and requirements are discussed in detail before their implementation. Although the decisions made by regulators are beyond the Group's control, significant regulatory changes are usually preceded by a consultation period that allows all lending institutions to provide feedback and adjust their business practices.

6. The Group is exposed to concentration risk

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

Risk description

The Group's loan portfolio is diversified, with maximum exposure to the single largest industry (Hospitality, Restaurants & Leisure) standing at 9.0% of the loan portfolio as of 31 December 2020. This figure is reasonable and demonstrates adequate credit portfolio diversification. At the end of 2020, the exposure to the 20 largest borrowers stands at 12.1% of the loan portfolio, which is in line with the Group's target of alleviating concentration risk.

Risk mitigation

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

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

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

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

Risk description

The Group was in compliance with minimum liquidity requirements set by NBG which includes Liquidity Coverage Ratio(LCR) and Net Stable Funding Ratio (NSFR). As of 31 December 2020, the net loan to deposits plus international financial institution funding ratio stood at 101.2%, the liquidity coverage ratio at 134.2%, and the net stable funding ratio at 126.0%. These figures are all comfortably above the NBG's minimum requirements or guidance for such ratios.

As a result of COVID-19 pandemic, the NBG implemented certain countercyclical measures in relation to liquidity requirements:

- In April 2020, NBG opened US$/GEL FX swap lines with unlimited amounts;
- NBG removed GEL LCR (>=75%) for 1 year; and
- Business loans could be pledged with NBG for liquidity support.

In addition to above, the NBG announced additional potential countercyclical measures, if necessary, which include:

- Decreasing LCR limits;
- Decreasing mandatory reserve requirements in foreign currency; and Updating criteria for security or repo pledging to support GEL liquidity.

	31-Dec-20	31-Dec-19	31-Dec-18
Minimum net stable funding ratio, as defined by the NBG	**100%**	100%	n/a
Net stable funding ratio as defined by the NBG	**126.0%**	126.7%	129.3%1
Net loans to deposits + IFI funding	**100.7%**	104.3%	89.1%
Minimum total liquidity coverage ratio, as defined by the NBG	**100.0%**	100.0%	100.0%
Minimum LCR in GEL, as defined by the NBG	**n/a**	75.0%	75.0%
Minimum LCR in FC, as defined by the NBG	**100.0%**	100.0%	100.0%
Total liquidity coverage ratio, as defined by the NBG	**134.2%**	110.1%	113.9%
LCR in GEL, as defined by the NBG	**132.2%**	83.7%	102.5%
LCR in FC, as defined by the NBG	**134.9%**	128.4%	121.1%

Risk mitigation

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

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

To counter the potential negative effect of the government lockdowns related to the COVID-19 pandemic on the Bank's liquidity position, in April 2020, the Bank attracted a number of new borrowings which in total amounted to US$ 153.6 million.

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

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

Risk description

The majority of the Group's total income derives from net interest income. Consequently, the NIM's fluctuations affect the Group's results. In 2020, the NIM decreased by 0.8pp year-on-year to 4.7% driven by a decrease in loan yields, increase in GEL deposit costs, as well as currency depreciation due to the COVID-19 pandemic.

The Bank manages its exposure to interest rate risk, following the NBG IRR regulation introduced from September 2020. As of 31 December 2020, GEL 3,846.1 million in assets (18%) and GEL 2,788.12 million in liabilities (14%) were floating in GEL currency, whereas GEL 8,045.1 million of assets (37%) and GEL 1,606.1 million of liabilities (8%) were floating, related to the LIBOR/Euribor/FED/ECB rates. The Bank was in compliance with the EVE (Economic Value of Equity) sensitivity limit set by the NBG at 15% of Tier 1 Capital, with the ratio standing at 3.5% by 31 December 2020.

Risk mitigation

In 2020, the cost optimization was the main mitigation against margin decline. However, the expected strong increase in net fee and commission income and other operating income, as well as efficient cost discipline, helps to safeguard against margin declines and profitability concerns for the Group going forward.

To mitigate the asset-liability maturity mismatch, in cases where loans are extended on fixed rather than floating terms, the interest rate risk is translated into price premiums, safeguarding against changes in interest rates.

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

Risk description

No major cyber-attack attempts have targeted Georgian commercial banks in recent years. Nonetheless, the Group's rising dependency on IT systems increases its exposure to potential cyber-attacks.

Risk mitigation

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

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

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

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

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

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

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

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

Risk description

External fraud events may arise from the actions of third parties against the Group, most frequently involving events related to banking cards, loans and client phishing. Internal frauds arise from actions committed by the Group's employees, and such events happen less frequently. During the reporting period, the Group

faced several instances of fraud, out of which the most considerable case amounted to GEL 2 million. None of these cases had a material impact on the Group's profit and loss statement. As a result of the COVID-19 pandemic, the threat of fraud and the rapid growth in digital crime have been exacerbated and fraudsters are adopting new techniques and approaches to exploit various possibilities to illegally obtain funds. Therefore, unless properly monitored and managed, the potential impact can become substantial.

Risk mitigation

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

11. The Group remains exposed to some reputational risk Risk Description

There are reputational risks to which the Group may be exposed to, such as risks related to the COVID-19 pandemic, increased calls for additional extension of the grace period on loan payments, and increased cases of cybercrimes. However, none of the aforementioned risks are unique to the Group, and represent issues faced by the entire banking sector.

Risk Mitigation

To mitigate possibility of reputational risks, the Bank works continuously to maintain strong brand recognition within its stakeholders. The Bank actively monitors its brand value and media coverage by receiving feedback from stakeholders on an ongoing basis. The Group tries to identify early warning signs of potential reputational or brand damage in order to both mitigate and elevate it to the attention of the Supervisory Board before escalation. Dedicated internal and external marketing and communications teams are in place, which monitor risks, develop scenarios and create respective action plans.

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

The Group's business strategy may not adapt to the environment of ever changing customer needs.

Risk Description

The Group may face the risk of developing a business strategy that does not safeguard long-term value creation in an environment of changing customer needs, competitive environment and regulatory restrictions. In addition, the Group may be exposed to the risk that it will not be able to effectively deliver on its strategic priorities and thereby compromise its capacity for long-term value creation. With the emergence of COVID-19, the Group has strengthened further its focus on the main strategic pillars: customer centricity, digital capabilities, data analytics, and agility. As such, given that the strategic review has been a regular exercise in the past the strategic themes have not shifted significantly.

However, increased uncertainty together with the major economic and social disruptions caused by the COVID-19 pandemic may hamper the Group's ability to effectively develop and execute its strategic initiatives in a timely manner.

Risk Mitigation

The Group conducts annual strategic review sessions involving the Bank's top and middle management in order to ensure that it remains on the right track and assess business performance across different perspectives, concentrating analysis on key trends and market practices, both in the regional and global markets. In addition, the Bank continuously works with the world's leading consultants in order to enhance its strategy. Further, the Group conducts quarterly analysis and monitoring of metrics used to measure strategy execution, and in case of any significant deviations, it ensures the development of corrective or mitigation actions.

13. The Group is exposed to risks related to its ability to attract and retain highly qualified employees A strong employee base is vital to the success of the Group.

Risk Description

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

Risk Mitigation

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

In response to the COVID-19 pandemic, the Bank promptly moved back-office employees to a remote working practice by equipping them with all the necessary IT infrastructure. To ensure the maintenance of an effective internal communication system, we enhanced different digital channels to engage with our employees. Regular management meetings are being conducted with staff in order to keep them updated with the Group's strategic initiatives and financial position as well as address their concerns during this highly uncertain period. In order to further promote and enhance our corporate culture, the Bank's internal Facebook group has become more active by, for example, posting employee profiles and sharing success stories. Additionally, the new remote working policy adopted by the Bank gives the possibility to attract new talent from beyond Georgia.

EMERGING RISKS

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

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

Risk description

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

Risk mitigation

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

The Group has in place an Environmental Policy, which governs its Environmental Management System ("EMS") and ensures adherence of the Group's operations to the applicable environmental, health and safety and labour regulations and practices. We take all reasonable steps to support our customers in fulfilling their environmental and social responsibilities. Management of environmental and social risks is embedded in the Group's lending process through the application of the EMS. The Group has developed risk management procedures to identify, assess, manage and monitor environmental and social risks. These procedures are fully integrated in the Group's credit risk management process and are applied to all commercial transactions:

- Physical risk: The vulnerabilities towards climate change are identified across sectors (e.g. agro), regions and types of activities. Various physical climate factors (e.g. weather and geographic conditions, vulnerability towards climate related events) are assessed and monitored during the credit risk management process and, especially for the exposures where the counterparties are in industries impacted/to be impacted by climate change risks, they are reflected in the decisions, additional requirements and individual assessments (where applicable).
- Transitional risk: The regulatory impact is assessed prior to credit decisions are made and are monitored on the later stages. TBC monitors both existing and upcoming regulations and analyses their impact on both – Group's and customers' business activities. The local regulations for businesses towards a low-carbon economy are developing step by step. Most requirements are requested by IFIs, the Association Agreement with European Union and reporting requirements for commercial banks stipulated by the National Bank of Georgia.
- Monitoring: The annual monitoring of E&S risks of the financed projects is conducted which allows identification of newly emerged risks and timely response. Among other things, the monitoring covers both physical and transitional climate changes and, if important issues are identified, the respective recommendation and requirements are introduced.

Our Environmental Policy is fully compliant with Georgian environmental legislation and follows international best practices (the full policy is available at www.tbcbankgroup.com). For the detailed information on the Environmental Management System, please refer to pages 76-81.

In 2020, the Group released its first full scale sustainability report in reference to Global Reporting Initiative (GRI) standards. The report covers the period from January 1 to December 31 2019. Prior to the release of this report, a piecemeal approach had been taken concerning the disclosure of the Group's activities and its social, economic and environmental impacts. The Global Reporting Initiative (GRI) helps the private sector to realize and understand its role and influence on sustainable development issues such as climate change, human rights and governance. GRI enables companies to take meaningful steps to create and improve communal social, environmental and economic welfare.

2. The Group's performance may be affected by Libor discontinuation and transition

Risk description

There are a number of different types of financial instruments on the Group's balance sheet, each of which carries interest rates benchmarked to the London Interbank Offered Rate ("LIBOR"). LIBOR is also used by the Group in its risk measurement, accounting and valuation processes. In 2017, the FCA announced that it has agreed with LIBOR panel banks to sustain LIBOR until the end of 2021 and called financial sector participants to start working towards the transition to other reference rates. The discontinuation of LIBOR and the process of transition exposes the Group to execution, conduct, financial and operational risks, and may result in earnings volatility, customer complaints and legal proceedings, or have other adverse impact on the Group's business and operations.

Risk mitigation

The Group is in the process of identifying implications of such transition to other reference rates on its risk profile by analysing its execution, conduct, financial and operational risks and how such risks could be addressed. The Group is starting its efforts to raise awareness of the transition, both internally and externally, to ensure that staff has all the necessary knowledge and tools to facilitate the transition and that all of the Group's customers are treated fairly. As a first step of the transition process, the Bank started including the fall-back clauses in the new loan agreements, regulating the transition from LIBOR after its discontinuation. We actively monitor the international as well as local transition-related developments to regulate and align the Group's transition process with the market practice.

RISK MANAGEMENT

OVERVIEW

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

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

Risk management framework

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

ENTERPRISE RISK MANAGEMENT

> RISK APPETITE > RISK STRATEGY > BUSINESS PLANNING

	CREDIT RISK			FINANCIAL RISK		NON-FINANCIAL RISK	
	CORPORATE	MSME	RETAIL	MARKET	LIQUIDITY	OPERATIONAL	OTHER

RISK ORGANISATION AND GOVERNANCE

- GOVERNANCE STRUCTURE
- THREE LINES OF DEFENCE
- COMMITTEES
- POLICIES
- PERFORMANCE MANAGEMENT
- RISK CULTURE

RISK REPORTING

- RISK REPORTING AND ANALYTICS

SYSTEMS AND DATA

- INFRASTRUCTURE, IT AND SYSTEMS

RISK MODELS, METHODOLOGIES AND PROCESSES

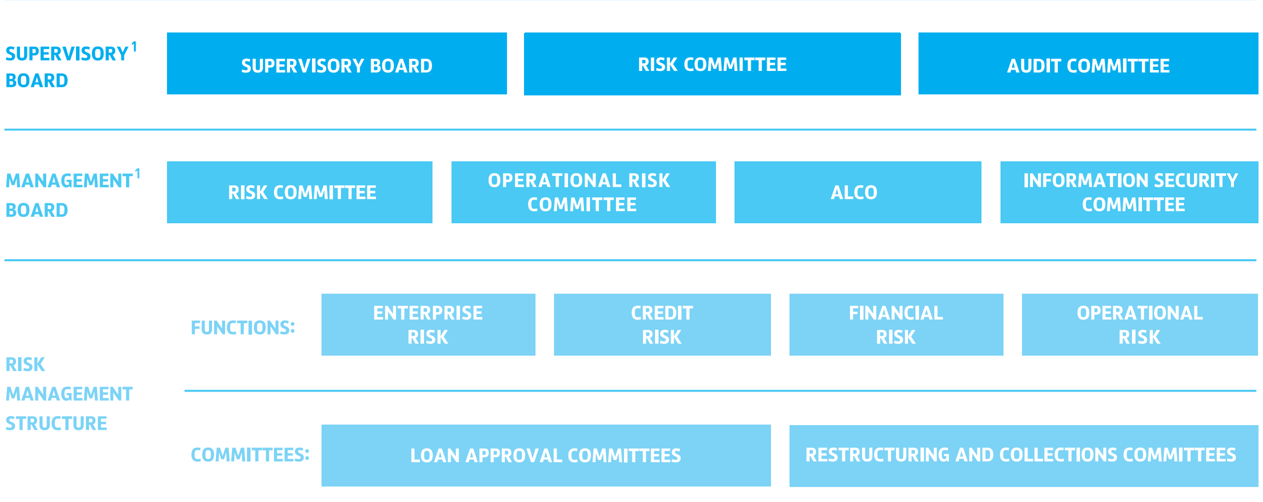
- CREDIT PROCESS
- CREDIT RISK MODELLING
- ASSET AND LIABILITY MANAGEMENT (ALM) AND LIQUIDITY RISK MODELLING AND PROCESSES
- OPERATIONAL RISK MODELLING AND PROCESSES

CROSS-RISK ANALYTICS

- CAPITAL ADEQUACY MANAGEMENT AND STRESS TESTING

GOVERNANCE

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



The risk governance structure consists of two board levels, including the Supervisory Board and the Management Board of the Bank. Both boards have dedicated risk committees. The Supervisory Board has a Risk Committee that supervises the risk profile and risk governance practices within the Group, as well as an Audit Committee that is responsible for implementing key accounting policies and facilitating internal and external auditor activities. The Management Board's Risk Committee was established to guide Group-wide risk management activities and monitor major risk trends to ensure that the risk profile complies with the established risk appetite. The Management Board's Operational Risk Committee makes decisions related to operational risk governance, while the Assets and Liabilities Management Committee (ALCO) is responsible for the implementation of asset-liability management policies. The Supervisory Board and the Bank's senior management govern risk objectives through the Risk Appetite Statement, which establishes the desired risk profile and risk limits. The statement also sets monitoring and reporting responsibilities, as well as escalation paths for different trigger events, and limits breaches, which prompt risk teams to frame and implement established mitigation actions. To effectively incorporate the Group's risk appetite into day-to-day operations, Risk Appetite Statement metrics are cascaded into more granular limits at the business unit level, establishing risk allocation across different segments and activities.

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

1 These terms are defined in the glossary on page 274

risks, risk teams act as the second line of defence by sanctioning transactions, tools and techniques for risk identification, analysis, measurement, monitoring and reporting. The committees established at operational levels are charged with making transaction-level decisions as part of a framework comprised of clear and sophisticated delegations of authority, based on the “four-eyes” principle. All new products and projects pass through risk teams to ensure that the risks are comprehensively analysed. These control arrangements guarantee that the Group makes informed decisions that are adequately priced and that any risks exceeding the Group’s established targets are not taken. Credit, liquidity, market, operational and other non-financial risks are each managed by dedicated teams. The Group’s strong and independent risk-management structure enables the fulfilment of all required risk management functions within the second line of defence by highly skilled professionals, with a balanced mix of credentials in the banking and real sectors in local and international markets. In addition to the risk teams subordinated to the Chief Risk Officer, the compliance department reports directly to the CEO and is specifically in charge of anti-money laundering and compliance risk management. As a third line of defence, the internal audit department is responsible for providing independent and objective assurance and recommendations to the Group to promote the further improvement of operations and risk management.

ENTERPRISE RISK MANAGEMENT

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

- Risk appetite development, cascading and monitoring are essential elements of the Group’s strategy. A risk budget is allocated to individual business lines to ensure the achievement of aggregated metrics;
- Stress-testing exercises are one of the crucial tools for effective risk identification, measurement and mitigation. In that regard, the Group continuously advances its stress-testing capabilities and tools. Various scenario analysis and stress testing methods are conducted by the Bank to ensure that the Bank maintains adequate capital in order to withstand the given stress scenario and remain in a stable financial condition;
- Long term capital planning and continuous work on capital optimisation and analytics are also key aspects of the Bank’s risk management procedures;
- Consistency of risk management practices within the Bank is also an important task of the ERM. A risk management function dedicated to promoting consistency ensures that risks are identified, measured and governed in an optimal manner within the Bank, and reported and understood on a consolidated basis;
- Generating an adequate return on risk plays a crucial role in the sustainability of the business model. Risk inputs for pricing are designed in a way to serve as a backdrop against excessive risk taking and guarantee that the Bank takes adequately priced risks;
- Estimating expected losses, monitoring and analytics across various segments and products are further key features of our strategy;
- Aggregation and analysis of all risk metrics to assess the Group’s risk profile on a consolidated basis is also carried out. Regular reports on the Bank’s risk profile are submitted to the Management Board and to the Supervisory Board’s Risk Committee.

CREDIT RISK MANAGEMENT

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

The major objectives of credit risk management are to put in place a sound credit approval process for informed risk-taking and procedures for effective risk identification, monitoring and measurement. The Group adopts segment and product-specific approaches for prudent and efficient credit risk management. There-

fore, the corporate, MSME and retail portfolios are managed separately to address the specifics of individual segments. Corporate and MSME (except micro) borrowers have larger exposures and are managed on an individual basis, whereas micro and retail borrowers are managed on a portfolio basis. Major credit risk functions can be summarised as follows:

Credit approval

The Group strives to ensure a sound credit-granting process by establishing well defined lending criteria and building up an efficient process for the assessment of a borrower's risk profile. A comprehensive credit risk assessment framework is in place with a clear segregation of duties among parties involved in the credit analysis and approval process. The credit assessment process is distinct across segments, and is further differentiated across various product types to reflect the differing natures of these asset classes. Corporate, SME and larger retail and micro loans are assessed on an individual basis, whereas the decision making process for smaller retail and micro loans is largely automated. After a thorough assessment of borrowers' requirements, credit analysts in the case of corporate and loan officers in the case of SME borrowers prepare a presentation containing certain key information in relation to the potential borrower and submit it for review to the business underwriting risk management. An underwriting risk manager ensures that the project analysis provided by the credit analyst/loan officer is complete, all risks and mitigating factors are identified and adequately addressed, and the loan is properly structured. Business underwriting risk managers specialise in a particular sector to be aware of current industry trends and developments.

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

Currency-induced credit risk

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

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

Credit concentration risk

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

Collateral management policy

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

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

Credit monitoring

The Group's risk management policies and processes are designed to identify and analyse risk in a timely manner and to monitor adherence to predefined limits by means of reliable and timely data. The Group dedicates considerable resources to gain a clear and accurate understanding of the credit risk faced across various business segments. The Group uses a robust monitoring system to react promptly to macro and micro developments, identify weaknesses in the credit portfolio and outline solutions to make informed risk management decisions. Monitoring processes are tailored to the specifics of individual segments, as well as encompassing individual credit exposure, overall portfolio performance and external trends that may impact on the portfolio's risk profile. The Risk Committee reviews reports relating to the credit quality of the loan portfolio quarterly. By comparing current data with historical figures and analysing forecasts, the management believes that it can identify risks and respond to them by amending its policies in a timely manner.

Restructuring and collections

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

the borrower and transfer the exposure back to the performing category. The sophistication and complexity of the rehabilitation process differs based on the type and size of the exposure. Corporate and SME borrowers are transferred to the recovery unit when there is a strong probability that a material portion of the principal amount will not be paid, and the main stream of recovery is no longer the borrower's cash flow. Loan recovery plans may include all available sources of loan recovery, such as selling the borrower's assets, realising collateral or payments under guarantees.

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

Collection strategies are defined based on the size and type of exposure. Specific strategies are tailored to different subgroups of customers, reflecting their respective risk levels, so that greater effort is dedicated to customers with a higher risk profile. Retail and micro loans are generally transferred to the recovery unit at 60 - 90 days past due. Collateralised loans are transferred to the internal recovery unit, whereas the Group collaborates with external collection agencies for unsecured loans. To recover collateralised loans, a recovery plan is outlined that considers the individual borrower's specifics and may involve loan repayments under revised schedules or the sale of collateral. Collection agencies generally negotiate with the borrowers so that the full repayment of the loan or loans can be rescheduled and repaid accordingly. Once the exposure is transferred to the recovery unit, if the Group is unable to negotiate acceptable terms with the borrower, the Group may initiate collateral repossession, which is usually a standard process with limited legal complications, and may include court, arbitration or notary procedures. Qualified incumbent lawyers support the restructuring and recovery units to ensure that litigation and repossession processes are carried out efficiently.

Measurement of Expected Credit Losses

From January 2018, the Group moved to a new provisioning methodology in line with IFRS 9 requirements. The updated methodology makes it possible to assess loan-loss provisions and allowances accurately with the incorporation of forward-looking information. In addition, a new IT tool for provisioning was implemented along with the methodology development.

The project was undertaken with the support of Deloitte and representatives of the Group's risk, finance and IT departments were responsible for the methodology and IT tool implementation. The new models are more complex and make it possible to incorporate expectations of macro developments based on predefined scenarios. The expected credit loss (ECL) measurement is based on four components used by the Group: (i) probability of default (PD); (ii) exposure at default (EAD); (iii) loss given default (LGD); and (iv) discount rate. The Group uses a three-stage model for the ECL measurement and classifies its borrowers across three stages:

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

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

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

- Stage III instruments – a default event has already occurred and the lifetime ECL is estimated based on the expected recoveries. The Group actively reviews and monitors the results produced from IFRS 9 models to ensure that respective results adequately capture the expected losses.

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

COVID-19 Response

In response to the COVID-19 pandemic, the Group has identified its highly vulnerable clients and outlined a strategy for payment holidays, refinancing or restructuring across all segments. Since the outbreak of the pandemic, the Bank has granted payment holidays on both principal and interest payments to individual and MSME customers as well as to corporate borrowers that have been adversely affected by the government lockdowns. According to the strategy, some clients were given payment holidays only on interest, while other clients received them on both interest and principal amounts. The government elaborated a special support programme for the affected sectors: restaurants and small and medium sized hotels received subsidies in the amount of 70-80% of interest payments. For more information about the government support programme please refer to our customers section on pages 58-60.

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

The Bank revised credit underwriting standards across all segments in light of the COVID-19 pandemic and tightened them, where applicable. The revision and tightening of the standards, among other measures, included: changes in the delegation on decision-making and approval particularly for borrowers from vulnerable sectors, applied haircuts to the revenues of individual borrowers from affected sectors, and the integration of macroeconomic sectoral expectations into the assessment process for business borrowers.

FINANCIAL RISK MANAGEMENT

Liquidity risk management

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

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

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

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

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

Funding liquidity risk is the risk that the Group will not be able to efficiently meet both expected and unex-

pected current and future cash flows without affecting either its daily operations or its financial condition under both normal conditions and during a crisis. Liquidity risk is measured by the Bank in accordance with NBG requirements. Additionally, the Group applies, in accordance with best practice, stress tests and "what if" scenario analyses and monitors the various liquidity risk parameters that the Group has developed internally.

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

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

In 2017, the NBG introduced its own LCR for liquidity risk management purposes. In addition to the Basel III guidelines, the ratio applies conservative approaches to the deposit withdrawal rates depending on the client group's concentration. Since September 2017, the Bank has also monitored compliance with the NBG's LCR limits. In addition to the total LCR limit, the NBG has also defined limits per currency for the GEL and foreign currencies (FC). The LCR is calculated by reference to the qualified liquid assets divided by 30-day cash net outflows. It is used to help manage short-term liquidity risks. To promote larization in the country of Georgia, the NBG defines a lower limit for the GEL LCR than that for the FC LCR. From October 2019, FC Mandatory Reserves are considered at 100% within high quality liquid assets for NBG LCR purposes. In addition, in the same period, NBG lowered FC mandatory reserves requirements from 30% to 25%.

In September 2019, the NBG introduced a Net Stable Funding Ratio (NBG NSFR) for funding liquidity risk management purposes. The NSFR is calculated by dividing the available stable funding by the required stable funding. It is used for long-term liquidity risk management to promote resilience over a longer time horizon by creating additional incentives for the Bank to rely on more stable sources of funding on a continuing basis. On a monthly basis the Bank monitors compliance with the set limit for the NBG NSFR. As of 31 December 2020, the ratios were well above the prudential limits set by the NBG, as follows:

	2020	2019	2018
Net stable funding ratio, as defined by the NBG	**126.0%**	126.7%	129.3%[1]
Minimum net stable funding ratio, as defined by the NBG	**100%**	100%	n/a
Total Liquidity Coverage Ratio,as defined by the NBG	**134.2%**	110.1%	113.9%
Minimum total Liquidity Coverage Ratio,as defined by the NBG	**100%**	100%	100%
LCR in GEL, as defined by the NBG	**132.2%**	83.7%	102.5%
Minimum LCR in GEL, as defined by the NBG	**n/a**	75%	75%
LCR in FC, as defined by the NBG	**134.9%**	128.4%	121.1%
Minimum LCR in FC, as defined by the NBG	**100%**	100%	100%

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

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

As a result of the COVID-19 pandemic, the NBG implemented certain countercyclical measures in relation to liquidity requirements:

- In April 2020, NBG opened US$/GEL FX swap lines with unlimited amounts;
- NBG removed GEL LCR (>=75%) for 1 year; and
- Business loans could be pledged with NBG for liquidity support.

1 Based on internal estimates

In addition to above, the NBG announced additional potential countercyclical measures, if necessary, which include:

- Decreasing LCR limits;
- Decreasing mandatory reserve requirements in foreign currency; and Updating criteria for security or repo pledging to support GEL liquidity.

Funding and maturity analysis

The Group's principal sources of liquidity include customer deposits and accounts, borrowings from local and international banks and financial institutions, subordinated loans from international financial institution investors, local interbank short-duration term deposits and loans, proceeds from sales of investment securities, principal repayments on loans, interest income and fee and commission income. The Supervisory Board believes that a strong and diversified funding structure is one of the Group's differentiators. The Group relies on relatively stable deposits from Georgia as the main source of funding. The Group also monitors deposit concentration for large deposits and sets limits for deposits of non-Georgian residents in its deposit portfolio.

To maintain and further enhance its liability structure, the Group sets targets for deposits and funds received from international financial institution investors in its risk appetite via the respective ratios. The loan to deposit and IFI funding ratio (defined as the total value of net loans divided by the sum of total value of deposits and funds received from international financial institutions) stood at 100.7%, 104.3% and 89.1%, as at 31 December 2020, 2019 and 2018, respectively.

In order to assess the possible outflow of the bank's customer accounts, management applied value-at-risk analysis. Value-at-risk (VAR) as of December 2020 equaled 7.6% (2019: 8.4%; 2018: 10.9%). The statistical data was used on the basis of a holding period of one month for a look-back period of five years with a confidence level of 99%. The value at risk analysis was performed for the following maturity gaps: 0-1 months, 0-3 months, 0-6 months and 0-12 months, based on which the maximum percentage of deposits' outflow was calculated.

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

Market risk

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

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

Foreign exchange risk

The NBG requires the Bank to monitor both balance sheet and total aggregate balance (including off-balance sheet) open currency positions and to maintain the latter within 20% of the Bank's regulatory capital. For the year ended 31 December 2020, the Bank maintained an aggregate balance open currency position of 3.4%.

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

Compliance with these limits is also reported daily to the Management Board and periodically to the Supervisory Board and its Risk Committee. On a Group-wide level, foreign-exchange risk is monitored and reported monthly. To assess the currency risk, the Bank performs a VAR sensitivity analysis on a quarterly basis. The analysis calculates the effect on the Group's income determined by the worst possible movements of currency rates against the Georgian Lari, with all other variables held constant. During the years ended 31 December 2020, 2019 and 2018, the sensitivity analysis did not reveal any significant potential effect on the Group's equity:

In thousands of GEL	**As of 31 December 2020**	**As of 31 December 2019**	**As of 31 December 2018**
Maximum loss (VAR, 99% confidence level)	(1,063)	(1,470)	(6,758)
Maximum loss (VAR, 95% confidence level)	(772)	(1,016)	(4,683)

Interest rate risk management

Interest rate risk arises from potential changes in market interest rates that can adversely affect the value of the Group's financial assets and liabilities. This risk can arise from maturity mismatches of assets and liabilities, as well as from the re-pricing characteristics of such assets and liabilities. The deposits, and a part of the loans offered by the Group, are at fixed interest rates, while a portion of the Group's borrowing is based on a floating interest rate. The Group's floating rate borrowings are, to a certain extent, hedged because the NBG pays a floating interest rate on the minimum reserves that the Bank holds with it. Furthermore, many of the Bank's loans to customers contain a clause allowing it to adjust the interest rate on the loan in case of adverse interest rate movements, thereby limiting exposure to interest rate risk. The management also believes that the Bank's interest rate margins provide a reasonable buffer to mitigate the effect of a possible adverse interest rate movement. The Bank also applies for interest rate risk hedging instruments in order to mitigate interest rate risk.

The Group employs an advanced framework for the management of interest rate risk by establishing appropriate Risk Appetite limits, monitoring compliance with them and preparing forecasts. From September 2020, the NBG introduced a regulation on interest rate risk and set the limit for Economic Value of Equity (EVE) sensitivity at 15% of NBG Tier 1 Capital. The main principles and assumptions of the NBG's IRR methodology are in line with the Basel standards and EBA guidelines developed for IRR management purposes. As of 31 December 2020, the Bank was in compliance with the regulatory requirement with EVE at 3.5%. According to NBG guidelines, Net Interest Income sensitivity under parallel shifts of interest rate scenarios are maintained for monitoring purposes, while EVE sensitivity is calculated under six predefined stress scenarios of interest rate changes. The limit is then applied to the worst case scenario result. Interest rate risk is managed by the financial risk management department and is monitored by the ALCO, which decides on actions that are necessary for effective interest rate risk management and follows up on their implementation. The major aspects of interest rate risk management development and the respective reporting are periodically provided to the Management Board, the Supervisory Board and the Risk Committee.

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

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

Counterparty risk

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

To manage counterparty risk, the Bank defines limits on an individual basis for each counterparty, while on a portfolio basis it limits the expected loss from both treasury and trade finance exposures. As of 31 December 2020, the Bank's interbank exposure was concentrated with banks that external agencies, such as Fitch, Moody's and Standard and Poor's, have assigned high A-grade credit ratings.

CAPITAL RISK MANAGEMENT

Capital risk is the risk that the Group may not have a sufficient level of capital to maintain its normal business activities, and to meet its regulatory capital requirements under normal or stressed operating conditions. The management's objectives in terms of capital management are to maintain appropriate levels of capital to support the business strategy, meet regulatory and stress testing-related requirements and safeguard the Group's ability to continue as a going concern. The Group undertakes stress-testing and sensitivity analysis to quantify extra capital consumption under different scenarios. Capital forecasts, as well as the results of the stress-testing and what-if scenarios, are actively monitored with the involvement of the Bank's Management Board and Risk Committee to ensure prudent capital management and timely actions when needed. In 2020, the Group and the Bank complied with all regulatory capital requirements.

In December 2017, the NBG adopted amendments to the regulations relating to capital adequacy requirements. The changes include amendments to the regulation on capital adequacy requirements for commercial banks, and the introduction of new requirements (i) on additional capital buffer requirements for commercial banks within Pillar 2; (ii) on the determination of the countercyclical buffer rate; and (iii) on the identification of systematically important banks and determining systemic buffer requirements. The purpose of these amendments is to improve the quality of banks' regulatory capital and achieve better compliance with the Basel III framework.

Pillar 1 minimum requirements plus combined buffer requirements. The amendments to the regulation on capital adequacy requirements for commercial banks have made Pillar 1 minimum requirements in Georgia compatible with the framework established by the Basel Committee of Banking Supervision. The amendments included:

- the separation of the 2.5% conservation buffer, which was previously merged with minimum capital requirements. The updated minimum regulatory capital requirements are 4.5%, 6.0% and 8.0% for Common
- Equity Tier 1 Capital, Tier 1 Capital and Total Regulatory Capital, respectively; the introduction of a requirement that banks hold an additional combined buffer through Common Equity Tier 1 Capital, consisting of conservation, countercyclical and systemic buffers.

The rate for the conservation buffer has been set at 2.5% of RWAs, while a 0% rate has been set for the countercyclical buffer. The countercyclical buffer can vary within the range of 0% to 2.5% and will be reviewed periodically based on the prevailing financial and macroeconomic environment. In addition, the NBG designated certain commercial banks in Georgia as domestic systemically important banks (DSIBs) for which individual systemic buffers have been introduced, which means that the DSIBs will be required to set aside more Common Equity Tier 1 Capital relative to RWAs, with the requirements being phased in from the end of 2018 to the end of 2021. In particular, the following systemic buffers and compliance timeframes have been set by the NBG in relation to the Bank: 1.0% for the period from 31 December 2018 to 31 December 2019, 1.5% for the period from 31 December 2019 to 31 December 2020, 2.0% for the period from 31 December 2020 to 31 December 2021, and 2.5% from 31 December 2021 onwards.

Pillar 2 requirements. In accordance with the Basel III framework, the NBG also introduced additional capital buffer requirements for commercial banks within Pillar 2 that are based on a supervisory review and assessment process and deal with bank-specific risks that are not sufficiently covered under Pillar 1, including an unhedged currency induced credit risk buffer and a net General Risk Assessment Programme (GRAPE) buffer. The NBG has also introduced a credit portfolio concentration buffer and a net stress test buffer. The credit portfolio concentration buffer became effective from 1 April 2018, and the need for the net stress buffer will be assessed based on the regulatory stress testing results. Under the NBG regulation, 56% of the capital required under Pillar 2 should be held through Common Equity Tier 1 Capital, while 75% of the capital should be held through Tier 1 Capital and 100% of the capital should be held through Total Regulatory Capital.

Temporary Measures

With the intention of reducing the negative effects caused by the COVID-19 pandemic, the NBG has developed a temporary supervisory plan. According to the plan, the capital requirements will be relieved by:

- Postponing the phasing in of concentration risk and the net General Risk Assessment Programme (GRAPE) buffer capital requirements on CET1 and Tier 1 capital that was supposed to be introduced in March 2020;

- Allowing banks to use the conservation buffer and 2/3 of the currency induced credit risk (CICR) buffer;
- Allowing banks to release all the remaining Pillar 2 buffers (remaining 1/3 CICR, concentration risk and Net Grape buffers) in case of necessity.

During the COVID-19 pandemic, the Bank has utilised both the conservation and 2/3 of CICR buffer and is restricted from making any capital distribution.

The NBG outlined a new schedule for the gradual introduction of capital requirements under Basel III. According to the new schedule, concentration risk and the Net GRAPE buffers phase-in will continue from March 2021 and will be fully integrated by March 2023. The systemic buffer is expected to increase by 0.5pp to 2.5% at the end of 2021. Based on the official announcement by the NBG, the decision for the restoration of CICR and Conservation buffers has been postponed for the next Financial Stability Committee meeting which will be held in June 2021. Once the restoration of the buffers is announced, the Bank will be given a period of one and two years to fully comply with the CICR and Conservation buffer requirements respectively. However, in case the Bank wants to pay out dividends, it has to fully restore and comply with the buffers.

As of December 2020, the Bank's updated Pillar 2 requirement is 0.9%, 1.2% and 3.7% for Common Equity Tier 1, Tier 1 and Total Regulatory Capital, respectively.

Both, Tier 1 and Total Regulatory Capital adequacy ratios are calculated based on the Basel III methodology introduced by the NBG. The following table presents the capital adequacy ratios and minimum requirements set by the NBG:

In thousands of GEL	**2020**	**2019**	**2018**
CET 1 Capital	**1,911,233**	1,871,892	1,629,594
Tier 1 Capital	**2,385,181**	2,281,706	1,678,716
Tier 2 Capital	**752,731**	692,323	672,553
Total regulatory capital	**3,137,912**	2,974,029	2,351,269
Risk-weighted Exposures			
Credit Risk Weighted Exposures	**16,322,524**	13,825,677	11,458,497
Risk Weighted Exposures for Market Risk	**106,379**	15,429	179,381
Risk Weighted Exposures for Operational Risk	**1,872,574**	1,749,821	1,516,993
Total Risk-weighted Exposures	**18,301,477**	15,590,927	13,154,872
Minimum CET 1 ratio	**7.4%**	10.4%	9.7%
CET 1 Capital adequacy ratio	**10.4%**	12.0%	12.4%
Minimum Tier 1 ratio	**9.2%**	12.5%	11.8%
Tier 1 Capital adequacy ratio	**13.0%**	14.6%	12.8%
Minimum total capital adequacy ratio	**13.7%**	17.5%	16.7%
Total Capital adequacy ratio	**17.1%**	19.1%	17.9%

NON-FINANCIAL RISK MANAGEMENT

Operational risk management

One of the main risks that the Group faces is operational risk, which is the risk of loss resulting from internal and external fraud events, inadequate process or products, business disruptions and system failures, human error or damages of assets. Operational risk also implies losses driven by legal, reputational, compliance or cybersecurity risks.

The Group is exposed to many types of operational risk, including: fraudulent and other internal and external criminal activities; breakdowns in processes, controls or procedures; and system failures or cyber-attacks from an external party with the intention of making the Group's services or supporting infrastructure unavailable to its intended users, which in turn may jeopardize sensitive information and the financial transactions of the Group, its clients, counterparties or customers.

Moreover, the Group is subject to risks that cause disruption to systems performing critical functions or business disruption arising from events wholly or partially beyond its control, such as natural disasters, transport or utility failures etc., which may result in losses or reductions in service to customers and/or economic losses to the Group.

The operational risks discussed above are also applicable where the Group relies on outsourcing services from third parties. Considering the dynamic environment and sophistication of both banking services and possible fraudsters, the importance of constantly improving processes, controls, procedures and systems is heightened to ensure risk prevention and reduce the risk of loss to the Group.

To oversee and mitigate operational risk, the Group maintains an operational risk management framework, which is an overarching document that outlines the general principles for effective operational risk management and defines the roles and responsibilities of the various parties involved in the process. Policies and procedures enabling the effective management of operational risks complement the framework. The Management Board ensures a strong internal control culture within the Group, where control activities are an integral part of operations. The Supervisory Board sets the operational risk appetite and the Operational Risk Committee oversees compliance with the limits. The Operational Risk Committee discusses the Group's operational risk profile and risk mitigation recommendations on a regular basis.

The operational risk management department acts as a second line of defence. It is responsible for implementing the framework and appropriate policies and procedures to enable the Group to manage operational risks, as well as monitoring operational risk events, risk exposures against risk appetite and material control issues. The department is also responsible for the day-to-day management of operational risks, using various techniques. These include, but are not limited to:

- running risk and control self-assessments (RCSA), which are aimed at detecting possible gaps in operations and processes with the purpose of suggesting appropriate corrective actions;
- collecting internal risk events and conducting root-cause analyses for further risk mitigation purposes; forming a unified operational loss database for further quantitative and qualitative analysis;
- analyzing internal fraud events and monitoring key risk indicators;
- performing new risk assessment and validating the launch of new products, services or procedures; providing business advisory services regarding non-standard cases;
- monitoring IT incident occurrence and overseeing activities targeted at solving identified problems; and obtaining insurance policies to transfer the risk of losses from operational risk events.

The operational risk management department has reinforced its risk assessment teams and methodologies to further fine-tune the existing control environment. The same applies to the set of actions directed to homogenise operational risk management processes throughout the Group's member companies. The operational risk management department reports to the Chief Risk Officer. Various policies, processes and procedures are in place to control and mitigate operational risks, including, but not limited to:

- the New Risk Assessment Policy, which enables thorough risk evaluation prior to the adoption of new products, services, or procedures;
- the Outsourcing Risk Management Policy, which enables the Group to control outsourcing (vendor) risk arising from adverse events and risk concentrations due to failures in vendor selection, insufficient controls and oversight over a vendor and/or services provided by a vendor and other impacts to the vendor;
- the Risk and Control Self-Assessment (RCSA) Policy, which enables the Group to continuously evaluate existing and potential risks, establish risk mitigation strategies and systematically monitor the progress of risk mitigation plans;
- the Operational Risk Event Identification Policy, which enables the Group to promptly report on operational risk events, perform systematic root-cause analysis of such events and take corrective measures to prevent the reoccurrence of significant losses; and
- the Special Operational Risk Awareness Programme, which provides regular training to the Group's employees and strengthens the Group's internal risk culture.

During the reporting period, one of the key operational risk management focus areas was the Risk and Control Self-Assessment (RCSA) exercise, under which the Bank's top priority processes were reviewed and areas of improvement were identified.

The Operational Risk Management Framework and its complementing policies were updated to ensure effective execution of the operational risk management programme. Additionally, the Bank has developed a bank-wide operational risk registry.

Compliance

The compliance department is the key body executing the Bank's compliance function; it has a formal status and is independent from operating structural units and business lines. The compliance function role is executed by compliance officers, who act as compliance advisers and coordinators, addressing compliance issues in structural units or business lines. The Chief Compliance Officer reports quarterly to the Risk Committee, with a disciplinary reporting line to the CEO. The department is responsible for the Group's compliance and reputational risk management. It implements and monitors the fulfillment of requirements of the following policies: the Anti-Money Laundering and Counter-Terrorist Financing Policy; the Sanctions Policy; the Anti-Bribery, Anti-Corruption and Anti-Facilitation of Tax Evasion Policy; the Related-Party Transaction Policy; the Share Dealing Policy; the Code of Ethics; the Change Management Policy; and the Whistleblowing Policy.

The compliance department manages regulatory risk by:

- ensuring that applicable changes in laws and regulations are implemented by the process owners in a timely manner;
- participating in the new product/process risk approval process;
- conducting analysis of customer complaints, the operational risk event database, internal audit findings and litigation cases to proactively reveal process weaknesses; and
- conducting annual RCSA of the internal processes.

Based on the outcomes of the above-mentioned analysis and processes, the Compliance Department initiates changes to internal instructions or gives recommendations to the Bank's structural units on relevant process amendments. Compliance officers have the role of educators and advisers on compliance issues. The compliance department establishes training programmes that cover AML/CFT laws, regulations, and the Group's policies and procedures used to mitigate financial crime risks and delivers training to all existing staff members and newcomers. Due to the COVID-19 pandemic, in 2020 the compliance department delivered training courses via distance-learning sessions to existing staff members and newcomers, and promoted a compliance culture within the Group. The distance-learning programme included both formal training courses and ongoing communications that served to educate employees and maintain their continuous awareness of regulatory requirements.

Anti-money laundering (AML)

The Group is committed to high standards both of anti-money laundering and counter-terrorist financing (AML/CTF) and requires all Group member companies, management and employees to adhere to these standards in order to prevent the use of the Bank's products and services for money laundering/terrorist financing purposes. The Group's AML/CTF programme is based on the applicable legal and regulatory requirements, which are in line with FATF recommendations, EU regulations and best practices.

The Group's AML/CTF compliance programme, as implemented, comprises written policies, procedures, internal controls and systems including, but not limited to: policies and procedures to ensure compliance with AML laws and regulations; KYC and customer due diligence procedures; customer acceptance policy; customer screening against a global list of terrorists and specially designated nationalities relevant financial and other sanctions lists; regular staff training and awareness raising; and procedures for monitoring and reporting suspicious activities of the Bank's customers.

As part of the second line of defence, the AML unit ensures that risks are managed in accordance with the risk appetite defined by the Group and promotes a strong risk culture throughout the organization.

The Group has a sophisticated AML solution in place that enables the AML unit to comply with the Sanctions Policy, monitor clients' transactions and identify suspicious behavior. The AML unit works on the constant improvement of software to increase operational efficiency and decrease false-positive alerts.

Following regulatory changes, the Group developed and approved a new AML policy in 2020. The new regulation expanded the definition of a politically exposed person (PEP), introduced a new list of reportable

transactions, and imposed additional Know Your Client (KYC) requirements for one-time clients. Following a gap analysis conducted by the Group, the compliance department introduced a number of changes to its internal processes and procedures.

In order to enhance the efficiency and effectiveness of the transaction monitoring system and mitigate regulatory risk, the Bank launched a new advanced analytics and artificial intelligence (AI) project for the purpose of identifying suspicious transactions. An AI-equipped solution will be applied in the first half of 2021.

On October 30 2019, the Government of Georgia approved the first Money Laundering and Terrorism Financing National Risk Assessment (NRA). The NRA assessed money laundering and terrorism financing on national and sectoral levels. At the national level, the banking sector's risk level of money laundering was assessed as medium, while the risk level of terrorism financing was assessed as low.

The Bank developed a sophisticated methodology of Enterprise-Wide AML Risk Assessment and performed a risk assessment exercise for the year 2019, in line with this methodology. The assessment results showed that no control area fell under the red zone; however, several underperforming controls were identified and an action plan was developed to address those gaps. Overall group-wide residual risks were assessed as medium.

Information Security

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

A newly built Security Operations Center monitors any anomaly that is identified across the organization's network in order to detect potential incidents and respond to them effectively.

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

An Information Security Steering Committee has been established and charged with continuously improving information security and business continuity management processes and minimising information security risks. The committee has been formed to centralise the information security function, including physical security, HR security, data security, IT security and business continuity.

The Group invests in effective information security risk management, incident management and awareness programmes, which are enhanced with automated tools that ensure acceptable levels of information security risk within the organisation. Whenever preventive controls are not applicable, comprehensive business continuity and incident response plans ensure the Group's ability to operate on an ongoing basis and limit losses in the event of a severe business disruption. Since employees play a crucial role in information security, regular mandatory training sessions are conducted for all employees, comprised of remote learning courses on security issues, fraud and phishing simulations and informative emails to further assist our employees with information security matters. New employees are also given this training as part of the induction process. These measures ensure that employees are fully aware of their responsibilities and are prepared for various security threats.

Legal

The Bank's legal department manages all legal and related matters concerning the activities of the Bank and the Group. In accomplishing its mission to ensure that such activities fully conform with all applicable laws and regulations, the legal team delivers a wide array of professional legal services: it (i) interacts with internal and external clients, outside counsel, government and regulatory entities; (ii) issues memos and opinions; (iii) drafts standardized and individual contracts; (iv) prepares corporate resolutions; (v) provides regulatory updates; and (vi) represents the Bank in courts, other dispute resolution venues and before other third parties. The legal team, which comprises lawyers with diverse backgrounds and experience, consists

of the following key divisions: regulatory and legal compliance, corporate, dispute resolution, legal support and corporate governance teams. Each division functions within its clear and distinct job descriptions corresponding to relevant knowledge, skill and capabilities of its members. As part of the Bank's agile transformation effort, several lawyers are working within and/or in close cooperation with the teams in charge of specific commercial projects. The department ensures effective execution of its duties through different processes and procedures.

The Bank's General Counsel manages the legal department. S/he determines key business objectives for all legal teams, introduces policies and vision, and ensures the effective performance of their duties. The General Counsel reports directly to the Management Board and the Supervisory Board and their respective committees on existing legal risks, their mitigation strategies and the vision for their effective management in the future.

Conduct risk

Conduct risk is defined as the risk to the delivery of fair outcomes for customers and other stakeholders.

The Group's Code of Ethics serves as a moral compass for all staff and sets high ethical standards that each employee is required to uphold.

The Group's employees undertake and perform their responsibilities with honesty and integrity. They are critical to maintaining trust and confidence in its operations and upholding important values of trust, loyalty, prudence and care.

Additionally, the Group's management understands that it bears responsibility to a diversified group of domestic and international investors and needs to embrace the rules and mechanisms of protecting customers and maintaining the confidence of investors and financial markets. The Group's Directors strive to establish the "tone from the top," which sets out the messages describing and illustrating the core components of good conduct.

In managing conduct risk, the Group entrusts different departments and divisions with carrying out the task of managing, mitigating and eliminating conduct risk across all of the Group's operations with clients and other stakeholders. The compliance and operational risk departments cooperate to create a unified conduct risk management framework and assist business lines and departments in the following:

1. developing and maintaining policies and procedures to ensure that the respective departments and individual employees comply with the provisions set out by regulatory provisions, best practice and the Code of Conduct and the Code of Ethics;
2. maintaining liaison with the compliance department regarding the administration of policies and procedures and the investigation of complaints regarding the conduct of the department, its manager and/ or its employees;
3. ensuring that the product information provided to clients by front-line employees is accurate and complete, and is conveyed (both in written and oral form) in a simple and understandable way, regardless of the level of sophistication of a given client;
4. maintaining records of client conversations and emails that contain sensitive and sales-related information, including information pertaining to the acquisition of new clients and making complex product offers to existing and prospective clients;
5. delivering timely, on-going training for new employees regarding proper conduct and ensuring that all employees stay up to date on evolving compliance standards within the Group through periodic training;
6. developing an open culture that encourages employees to speak up without fear of punishment. Specifically, this means setting up processes for the prevention and detection of conflicts of interest, creating ethical incentives and bonus formulas, and aligning incentives and disciplinary practices to the Group's risk appetite; and
7. employing qualified staff and sufficient human and technological resources to investigate, analyse, implement and monitor sales and after-sales activities. This approach ensures that the management of conduct risk is not limited to risk management units, including the compliance department, but is fully embraced by front-line departments and that the proper conduct is fully integrated into required job skills.

FINANCIAL REVIEW

Changes in accounting policies, IAS 16

In 2Q 2020, the accounting policy in relation to subsequent measurement of land, buildings and construction in progress was changed from the revaluation model to the cost model. This led to the restatement of appropriate balance sheet amounts in 2019, while no material impact was recorded in the income statement.

FINANCIAL HIGHLIGHTS

FY 2020 P&L Highlights

- Profit for the period amounted to GEL 337.3 million (FY 2019: GEL 545.7 million)
- Return on average equity (ROE) stood at 12.9% (FY 2019: 24.3%[1])
- ROE before expected credit loss allowances[2] stood at 26.4% (FY 2019: 28.4%[1])
- Return on average assets (ROA) stood at 1.7% (FY 2019: 3.3%[1])
- Cost to income stood at 35.1% (FY 2019: 37.7%)
- Cost of risk stood at 2.4% (FY 2019: 0.7%)
- Net interest margin (NIM) stood at 4.7% (FY 2019: 5.5%)

Balance Sheet Highlights as of 31 December 2020

- Total assets amounted to GEL 22,399.0 million, up by 22.7% YoY
- Gross loans and advances to customers stood at GEL 15,200.5 million, up by 20.0% YoY or at 8.7% on a constant currency basis
- Net loans to deposits + IFI[3] funding stood at 100.7%, down by 3.6 pp YoY, and Regulatory Net Stable Funding Ratio (NSFR), effective from 30 September 2019, stood at 126.0%
- NPLs were 4.7%, up by 2.0 pp YoY
- NPLs coverage ratios stood at 85.6%, or 189.1% with collateral, on 31 December 2020 compared to 91.1% or 194.2% with collateral, as of 31 December 2019
- Total customer deposits amounted to GEL 12,634.3 million, up by 24.9% YoY or at 13.7% on constant currency basis
- The Bank's Basel III CET 1, Tier 1 and Total Capital Adequacy Ratios per NBG methodology stood at 10.4%, 13.0%, and 17.1%, respectively, while minimum eased regulatory requirements amounted to of 7.4%, 9.2%, and 13.7%, respectively

Market Shares as of December 2020[4]

- Market share by total assets reached 38.2%, remaining the same YoY
- Market share by total loans was 39.0%, down by 0.5 pp YoY
- Market share of total deposits reached 37.2%, down by 1.8 pp YoY

1 Prior to the change in PPE (property, plant and equipment) accounting policy from the revaluation model to the cost method, ROE stood at 23.8%, while ROE before expected credit loss allowances stood at 27.8% and ROA remained unchanged in for the FY 2019.

2 Return on average total equity (ROE) before expected credit loss allowances equals net income attributable to owners excluding all credit loss allowance, but after net modification losses divided by the monthly average of total shareholders 'equity attributable to the TBC JSC's equity holders for the same period.

3 International Financial Institutions

4 Market share figures are based on data from the National Bank of Georgia (NBG). The NBG includes interbank loans for calculating market share in loans

Income Statement Highlights

in thousands of GEL	FY'20	FY'19	Change YoY
Net interest income	827,699	793,240	4.3%
Net fee and commission income	168,779	179,126	-5.8%
Other operating non-interest income	118,585	120,812	-1.8%
Credit loss allowance	(350,551)	(91,612)	NMF
Operating profit after expected credit losses	**764,512**	**1,001,566**	**-23.7%**
Losses from modifications of financial instrument	(41,015)	-	NMF
Operating expenses	(391,299)	(412,359)	-5.1%
Profit before tax	**332,198**	**589,207**	**-43.6%**
Income tax expense	5,062	(43,522)	NMF
Profit for the period	**337,260**	**545,685**	**-38.2%**

Balance Sheet and Capital Highlights

in thousands of GEL	Dec-20	Dec-19	Change YoY
Total Assets	22,398,962	18,255,610*	22.7%
Gross Loans	15,200,515	12,661,955	20.0%
Customer Deposits	12,634,295	10,112,002	24.9%
Total Equity	2,830,180	2,483,146*	13.9%
Regulatory Common Equity Tier I Capital (Basel III)	1,911,233	1,871,892	2.1%
Regulatory Tier I Capital (Basel III)	2,385,181	2,281,706	4.5%
Regulatory Total Capital (Basel III)	3,137,912	2,974,029	5.5%
Regulatory Risk Weighted Assets (Basel III)	18,301,477	15,590,927	17.4%

** Certain amounts do not correspond to the 2019 consolidated financial statement as they reflect the change in accounting policy for PPE (property, plant and equipment) from the revaluation model to the cost method in 2Q 2020*

Key Ratios

	FY'20	FY'19	Change YoY
ROE	12.9%	24.3%*	-11.4 pp
ROE before expected credit loss allowances	26.4%	28.4%*	-2.0 pp
ROA	1.7%	3.3%*	-1.6 pp
NIM	4.7%	5.5%	-0.8 pp
Cost to income	35.1%	37.7%	-2.6 pp
Cost of risk	2.4%	0.7%	1.7 pp
NPL to gross loans	4.7%	2.7%	2.0 pp
NPLs coverage ratio exc. collateral	85.6%	91.1%	-5.5 pp
CET 1 CAR (Basel III)	10.4%	12.0%	-1.6 pp
Regulatory Tier 1 CAR (Basel III)	13.0%	14.6%	-1.6 pp
Regulatory Total CAR (Basel III)	17.1%	19.1%	-2.0 pp
Leverage (Times)	7.9x	7.4x**	0.6x

** Prior to the change in PPE (property, plant and equipment) accounting policy from the revaluation model to the cost method, ROE stood at 23.8%, while ROE before expected credit loss allowances stood at 27.8% and ROA remained unchanged in for the FY 2019.*

*** Prior to the change in PPE (property, plant and equipment) accounting policy from revaluation model to cost method, leverage stood at 7.2x for FY 2019*

CONSOLIDATED FINANCIAL RESULTS OVERVIEW FOR FY 2020

Net Interest Income

In FY 2020, we generated GEL 827.7 million net interest income, up by 4.3% YoY.

The YoY increase in interest income of GEL 225.7 million, or 15.7%, was mainly supported by an increase in interest income from loans, which was driven by an increase in the respective portfolio by GEL 2,538.6 million, or 20.0%. This effect was partially offset by a 0.9pp drop in loan yields across all segments, mainly related to a decrease in the Libor rate, currency devaluation, a change in the segment mix towards corporate, as well as the slowdown of lending activities due to the pandemic. Furthermore, growth was supported by interest income from investment securities, on the back of an increase in the respective portfolio of 613.3 million, or 30.5%, as well as by the increased share of new securities acquired in 2020 with higher interest rates due to the increased average refinance rate.

Our interest expense increased by GEL 183.7 million, or 27.4%, which was mainly related to an increase in interest expense from deposits and other borrowed funds. The former increase was attributable to a growth in the respective portfolio of GEL 2,522.3 million, or 24.9%, which was further supported by an increase in yields due to an increase in the average refinance rate, as well as currency depreciation. The latter increase was mainly driven by growth in the NBG loan balances, which further supported the growth in the respective yield by 0.1pp (the GEL yield went up by 0.9pp on the back of the higher average refinance rate, while the FC yield declined by 1.3pp due to the decrease in the Libor rate). Another contributor was the growth in debt securities in issue related to an increase in interest expense from the Senior and AT1 Bonds issued in June and July 2019, respectively, in the amount of US$ 425 million.

In FY 2020, our NIM stood at 4.7%, down by 0.8pp YoY.

In thousands of GEL	FY'20	FY'19	Change YoY
Interest income	1,660,838	1,435,106	15.7%
Interest expense	(854,089)	(670,422)	27.4%
Net gains from currency swaps	20,950	28,556	-26.6%
Net interest income	**827,699**	**793,240**	**4.3%**
NIM	**4.7%**	**5.5%**	**-0.8 pp**

Net fee and commission income

In FY 2020, net fee and commission income totalled GEL 168.8 million, down by 5.8% YoY.

The slight decrease on a YoY basis is caused by card operations and other fee and commission income on the back of reduced economic activity due to the COVID-19 pandemic. This effect was partially offset by an increase in fees from guarantees issued and letters of credit, mainly driven by the increase in the respective portfolio.

	FY'20	FY'19	Change YoY
Net fee and commission income			
Card operations	45,403	56,263	-19.3%
Settlement transactions	71,326	68,203	4.6%
Guarantees issued and letters of credit	37,814	30,327	24.7%
Other	14,236	24,333	-41.5%
Total net fee and commission income	**168,779**	**179,126**	**-5.8%**

Other Non-Interest Income

Total other non-interest income decreased slightly YoY and amounted to GEL 118.6 million in FY 2020. The decline of GEL 2,227.0, or 1.8%, was mainly driven by the reduction in other operating income on the back of the high base of other operating income last year due to the gain from sale of inventory and gain on disposal of premises and equipment.

In thousands of GEL	FY'20	FY'19	Change YoY
Other non-interest income			
Net income from foreign currency operations	105,847	102,715	3.0%
Other operating income	12,738	18,097	-29.6%
Total other non-interest income	**118,585**	**120,812**	**-1.8%**

Credit Loss Allowance

Total credit loss allowance in 2020 amounted to GEL 350.6 million. This year, we booked additional COVID-19 related provisions, which resulted in significant growth in provision charges. As a result, our CoR for the full year 2020 stood at 2.4%.

In thousands of GEL	FY'20	FY'19	Change YoY
Credit loss allowance for loan to customers	(330,811)	(82,030)	NMF
Credit loss allowance for other transactions	(19,740)	(9,582)	NMF
Total credit loss allowance	**(350,551)**	**(91,612)**	**NMF**
Operating profit after expected credit losses	**764,512**	**1,001,566**	**-23.7%**
Cost of risk	**2.4%**	**0.7%**	**1.7 pp**

NMF – no meaningful figures

Operating Expenses

In FY 2020, our total operating expenses decreased by 5.1% YoY, thanks to our effective cost control measures.

The decrease in staff cost was mainly attributable to the fact that management did not receive deferred bonus share and LTIP grant for the year 2020. The decrease in administrative & other operating expenses was driven by a reduction in consultation services and business trip expenses, as well as the impact of renegotiated rent expenses per IFRS 16 in the amount of GEL 4.2 million.

Thus, in FY 2020 our cost to income ratio stood at 35.1%, down by 2.6pp YoY.

In thousands of GEL	FY'20	FY'19	Change YoY
Operating expenses			
Staff costs	(206,887)	(226,008)	-8.5%
Provisions for liabilities and charges	(2,600)	(2,105)	23.5%
Depreciation and amortization	(64,068)	(57,319)	11.8%
Administrative & other operating expenses	(117,744)	(126,927)	-7.2%
Total operating expenses	**(391,299)**	**(412,359)**	**-5.1%**
Cost to income	**35.1%**	**37.7%**	**-2.6 pp**

Net Income

In FY 2020 we managed to maintain resilient profitability, driven by the increase in net interest income and effective cost management. Over the same period, we also recorded losses from modifications of financial instruments, in the amount of GEL 41.0 million to reflect the decrease in the present value of cash-flows resulting from the loan repayment grace periods granted to the borrowers. As a result, our ROE before expected credit loss allowances stood at 26.4%, down by 2.0pp.

Over the same period, credit loss allowances increased significantly to cover the potential impact of the COVID-19 pandemic on our borrowers reducing our ROE to 12.9%.

In thousands of GEL	FY'20	FY'19	Change YoY
Losses from modifications of financial instruments	**(41,015)**	**-**	**NMF**
Profit before tax	**332,198**	**589,207**	**-43.6%**
Income tax expense	5,062	(43,522)	NMF
Profit for the period	**337,260**	**545,685**	**-38.2%**
ROE	**12.9%**	**24.3%***	**-11.4 pp**
ROE before expected credit loss allowances	**26.4%**	**28.4%***	**-2.0 pp**
ROA	**1.7%**	**3.3%***	**-1.6 pp**

** Prior to the change in PPE (property, plant and equipment) accounting policy from the revaluation model to the cost method, ROE stood at 23.8% while ROE before expected credit loss allowances stood at 27.8% and ROA remained unchanged in FY 2019*

Funding and Liquidity

As of 31 December 2020, the total liquidity coverage ratio, as defined by the NBG, was 134.2 %, above the 100% limit, while the LCR in GEL and FC stood at 132.2% and 134.9%, respectively, above the respective limits of 75% and 100%.

However, in light of the COVID-19 pandemic, starting from May 2020, the NBG removed the minimum requirement on GEL LCR of 75%, for a one-year period. Despite the easing of the requirement, we continue to operate with high liquidity buffers.

As of 31 December 2020, NSFR stood at 126.0%, compared to the regulatory limit of 100%, effective from September 2019.

	31-Dec-20	31-Dec-19	Change YoY
Minimum net stable funding ratio, as defined by the NBG	100%	100%	0.0 pp
Net stable funding ratio as defined by the NBG	126.0%	126.7%	-0.7 pp
Net loans to deposits + IFI funding	100.7%	104.3%	-3.6 pp
Leverage (Times)	7.9x	7.4x*	0.5x
Minimum liquidity ratio, as defined by the NBG	30.0%	30.0%	0.0 pp
Liquidity ratio, as defined by the NBG	33.3%	32.2%	-1.1 pp
Minimum total liquidity coverage ratio, as defined by the NBG	100.0%	100.0%	0.0 pp
Minimum LCR in GEL, as defined by the NBG	n/a	75.0%	NMF
Minimum LCR in FC, as defined by the NBG	100.0%	100.0%	0.0 pp
Total liquidity coverage ratio, as defined by the NBG	134.2%	110.1%	24.1 pp
LCR in GEL, as defined by the NBG	132.2%	83.7%	48.5 pp
LCR in FC, as defined by the NBG	134.9%	128.4%	6.5 pp

**Prior to the change in PPE (property, plant and equipment) accounting policy from the revaluation model to the cost method, Leverage stood at 7.2x as of 31 December 2019*

Regulatory Capital

As of 31 December 2020, CET1 Capital increased by 2.1% YoY, mainly due to net income generation, while Tier1 and Total Capital grew by 4.5% and 5.5% respectively, further supported by an increase in FX denominated AT1 bonds and subordinated loans due to GEL depreciation.

The YoY increase in risk-weighted assets was mainly driven by the GEL depreciation and portfolio growth.

CET1 and Tier 1 CAR ratios decreased by 1.6pp YoY. The decrease was mainly attributable to the effect of Covid-19 on the Bank`s net income and the depreciation of GEL on a YoY basis. The total CAR ratio decreased by 2.0% YoY, which was due to the additional amortization of sub-debt instruments.

As a result, the Bank's CET1, Tier 1 and Total Capital ratios stood at 10.4%, 13.0% and 17.1%, respectively, and remained comfortably above the eased minimum regulatory requirements by 3.0%, 3.8% and 3.4%, accordingly.

In thousands of GEL	31-Dec-20	31-Dec-19	Change YoY
CET 1 Capital	1,911,233	1,871,892	2.1%
Tier 1 Capital	2,385,181	2,281,706	4.5%
Total Capital	3,137,912	2,974,029	5.5%
Total Risk-weighted Exposures	18,301,477	15,593,925	17.4%
Minimum CET 1 ratio	7.4%	10.4%	-3.0 pp
CET 1 Capital adequacy ratio	10.4%	12.0%	-1.6 pp
Minimum Tier 1 ratio	9.2%	12.5%	-3.3 pp
Tier 1 Capital adequacy ratio	13.0%	14.6%	-1.6 pp
Minimum total capital adequacy ratio	13.7%	17.5%	-3.8 pp
Total Capital adequacy ratio	17.1%	19.1%	-2.0 pp

Loan Portfolio

As of 31 December 2020, the gross loan portfolio reached GEL 15,200.5 million, up by 20.0% YoY or up by 8.7% on a constant currency basis. The YoY increase was spread across all segments. The proportion of gross loans denominated in foreign currency increased by 0.7pp YoY and accounted for 59.4% of total loans, while on a constant currency basis the proportion of gross loans denominated in foreign currency decreased by 3.5pp and stood at 55.2%.

As of 31 December 2020, our market share in total loans stood at 39.0%, down by 0.5pp YoY, while our loan market share in legal entities was 38.6%, down by 0.3pp over the same period, and our loan market share in individuals stood at 39.4%, down by 0.6pp YoY.

In thousands of GEL	31-Dec-20	31-Dec-19	Change YoY
Loans and advances to customers			
Retail	**5,953,687**	**5,053,203**	**17.8%**
Retail loans GEL	*2,996,854*	*2,386,750*	*25.6%*
Retail loans FC	*2,956,833*	*2,666,453*	*10.9%*
Corporate	**5,690,749**	**4,660,473**	**22.1%**
Corporate loans GEL	*1,576,778*	*1,424,309*	*10.7%*
Corporate loans FC	*4,113,971*	*3,236,164*	*27.1%*
MSME	**3,556,079**	**2,948,279**	**20.6%**
MSME loans GEL	*1,592,836*	*1,419,804*	*12.2%*
MSME loans FC	*1,963,243*	*1,528,475*	*28.4%*
Total loans and advances to customers	**15,200,515**	**12,661,955**	**20.0%**

	FY'20	FY'19	Change YoY
Loan yields	**10.1%**	**11.0%**	**-0.9 pp**
Loan yields GEL	*15.2%*	*15.7%*	*-0.5 pp*
Loan yields FC	*6.7%*	*7.8%*	*-1.1 pp*
Retail Loan Yields	**11.3%**	**12.1%**	**-0.8 pp**
Retail loan yields GEL	*16.4%*	*18.0%*	*-1.6 pp*
Retail loan yields FC	*6.6%*	*7.3%*	*-0.7 pp*
Corporate Loan Yields	**8.7%**	**9.3%**	**-0.6 pp**
Corporate loan yields GEL	*13.2%*	*11.6%*	*1.6 pp*
Corporate loan yields FC	*7.1%*	*8.4%*	*-1.3 pp*
MSME Loan Yields	**10.3%**	**11.4%**	**-1.1 pp**
MSME loan yields GEL	*15.1%*	*15.4%*	*-0.3 pp*
MSME loan yields FC	*6.3%*	*7.7%*	*-1.4 pp*

Loan Portfolio Quality

Total par 30 increased by 0.9pp YoY and stood at 2.6%, driven by all segments. The increase in the retail and MSME segments was related to the overall deterioration in the quality of the respective portfolios due to COVID-19, while the increase in the corporate segment was mainly due to one corporate borrower. However, the outlook for that client is positive and the exposure is expected to be settled in 1Q 2021.

The NPL ratio increased YoY, as the COVID-19 impact began to materialize and amounted to 4.7% at the end of 2020, compared to 2.7% at the end of 2019. The increase in the retail segment was mainly due to the COVID-19 related restructurings offered to our customers on an individual basis, while the increase in the MSME segment was due to negative impact of COVID-19 on several SME borrowers, which were classified as NPLs after the monitoring process of the vulnerable borrowers. In addition, the growth in the corporate segment was mainly due to one corporate borrower, as mentioned above.

Par 30	31-Dec-20	31-Dec-19	Change YoY
Retail	3.4%	2.1%	1.3 pp
Corporate	1.1%	0.5%	0.6 pp
MSME	3.8%	2.8%	1.0 pp
Total Loans	**2.6%**	**1.7%**	**0.9 pp**

Non-performing Loans	31-Dec-20	31-Dec-19	Change YoY
Retail	5.6%	3.0%	2.6 pp
Corporate	2.5%	1.8%	0.7 pp
MSME	6.6%	3.8%	2.8 pp
Total Loans	**4.7%**	**2.7%**	**2.0 pp**

NPL Coverage	31-Dec-20		31-Dec-19	
	Exc. Collateral	Incl. Collateral	Exc. Collateral	Incl. Collateral
Retail	101.3%	178.5%	111.1%	182.9%
Corporate	76.4%	230.1%	97.1%	241.4%
MSME	68.6%	179.2%	59.7%	173.7%
Total	**85.6%**	**189.1%**	**91.1%**	**194.2%**

Cost of risk

The total cost of risk for FY 2020 stood at 2.4%, up by 1.7pp. The YoY increase was spread across all segments and was driven by the extra credit loss allowances booked in 2020 in relation to COVID-19 expected losses.

Cost of Risk	FY'20	FY'19	Change YoY
Retail	3.7%	1.6%	2.1 pp
Corporate	0.6%	-0.1%	0.7 pp
MSME	3.1%	0.3%	2.8 pp
Total	**2.4%**	**0.7%**	**1.7 pp**

Deposit Portfolio

The total deposits portfolio increased by 24.9% YoY and amounted to GEL 12,634.3 million, while on a constant currency basis the total deposit portfolio increased by 13.7% over the same period. The proportion of deposits denominated in foreign currency increased by 0.5pp YoY and accounted for 66.0% of total deposits, while on a constant currency basis the proportion of deposits denominated in foreign currency decreased by 2.9pp YoY and stood at 62.6%.

As of 31 December 2020, our market share in deposits amounted to 37.2%, down by 1.8pp YoY, and our market share in deposits to legal entities stood at 34.5%, down by 6.1pp over the same period. Our market share in deposits to individuals stood at 39.5%, up by 1.6% YoY.

In thousands of GEL	31-Dec-20	31-Dec-19	Change YoY
Customer Accounts			
Retail	**7,255,020**	**5,673,917**	**27.9%**
Retail deposits GEL	*1,330,942*	*1,098,681*	*21.1%*
Retail deposits FC	*5,924,078*	*4,575,236*	*29.5%*
Corporate	**4,001,068**	**3,249,996**	**23.1%**
Corporate deposits GEL	*2,298,064*	*1,798,034*	*27.8%*
Corporate deposits FC	*1,703,004*	*1,451,962*	*17.3%*
MSME	**1,378,207**	**1,188,089**	**16.0%**
MSME deposits GEL	*671,658*	*594,389*	*13.0%*
MSME deposits FC	*706,549*	*593,700*	*19.0%*
Total Customer Accounts	**12,634,295**	**10,112,002**	**24.9%**

	FY'20	FY'19	Change YoY
Deposit rates	**3.6%**	**3.4%**	**0.2 pp**
Deposit rates GEL	*6.5%*	*5.8%*	*0.7 pp*
Deposit rates FC	*2.0%*	*2.0%*	*0.0 pp*
Retail Deposit Yields	**2.9%**	**2.8%**	**0.1 pp**
Retail deposit rates GEL	5.6%	5.0%	0.6 pp
Retail deposit rates FC	2.3%	2.3%	0.0 pp
Corporate Deposit Yields	**5.5%**	**5.0%**	**0.5 pp**
Corporate deposit rates GEL	8.2%	7.5%	0.7 pp
Corporate deposit rates FC	1.5%	1.7%	-0.2 pp
MSME Deposit Yields	**1.0%**	**0.9%**	**0.1 pp**
MSME deposit rates GEL	1.6%	1.5%	0.1 pp
MSME deposit rates FC	0.3%	0.3%	0.0 pp

SEGMENT DEFINITION AND INCOME STATEMENT

Business Segments

The segment definitions are as follows:

- Corporate – a legal entity/group of affiliated entities with an annual revenue exceeding GEL 12.0 million or which have been granted facilities with more than GEL 5.0 million. Some other business customers may also be assigned to the corporate segment or transferred to the MSME segment on a discretionary basis;
- Retail – non-business individual customers; all individual customers are included in retail deposits;
- MSME – business customers who are not included in the corporate segment; or legal entities which have been granted a pawn shop loan; or individual customers of the fully-digital bank, Space; and
- Corporate centre and other operations – comprises the Treasury, other support and back office functions, and non-banking subsidiaries of the Bank.

Business customers are all legal entities or individuals who have been granted a loan for business purposes.

Income Statement by Segments

FY'20 (In thousands of GEL)	Retail	MSME	Corporate	Corp.Centre	Total
Interest income	617,125	335,161	462,203	246,349	1,660,838
Interest expense	(184,738)	(12,020)	(208,556)	(448,775)	(854,089)
Net gains from currency swaps				20,950	20,950
Net transfer pricing	(59,379)	(125,599)	34,456	150,522	-
Net interest income	**373,008**	**197,542**	**288,103**	**(30,954)**	**827,699**
Fee and commission income	214,377	26,405	57,949	(235)	298,496
Fee and commission expense	(109,887)	(11,001)	(8,698)	(131)	(129,717)
Net fee and commission income	**104,490**	**15,404**	**49,251**	**(366)**	**168,779**
Net gains from derivatives, foreign currency operations and translation	31,561	27,187	51,443	(4,336)	105,855
Gains less Losses from Disposal of Investment Securities Measured at Fair Value through Other Comprehensive Income	-	-	-	(624)	(624)
Other operating income	6,901	429	1,855	4,169	13,354
Other operating non-interest income	**38,462**	**27,616**	**53,298**	**(791)**	**118,585**
Credit loss allowance for loans to customers	(201,652)	(100,070)	(29,089)	-	(330,811)
Credit loss allowance for performance guarantees and credit related commitments	(241)	(67)	3,546	-	3,238
Credit loss allowance for investments in finance lease	-	-	-	(7,760)	(7,760)
Credit loss allowance for other financial assets	(1,476)	-	(5,600)	(6,332)	(13,408)
Credit loss allowance for financial assets measured at fair value through other comprehensive income	-	-	(876)	(934)	(1,810)
Profit/(loss) before G&A expenses and income taxes	**312,591**	**140,425**	**358,633**	**(47,137)**	**764,512**
Losses from modifications of financial instruments	**(23,633)**	**(7,153)**	**(6,345)**	**(3,884)**	**(41,015)**
Staff costs	(109,492)	(47,835)	(34,068)	(15,492)	(206,887)
Depreciation and amortization	(45,256)	(11,187)	(4,296)	(3,329)	(64,068)
Provision for liabilities and charges	(2,200)	-	(400)	-	(2,600)
Administrative and other operating expenses	(68,309)	(22,466)	(11,973)	(14,996)	(117,744)
Operating expenses	**(225,257)**	**(81,488)**	**(50,737)**	**(33,817)**	**(391,299)**
Profit/(loss) before tax	**63,701**	**51,784**	**301,551**	**(84,838)**	**332,198**
Income tax expense	21,360	3,568	(18,695)	(1,171)	5,062
Profit/(loss) for the year	**85,061**	**55,352**	**282,856**	**(86,009)**	**337,260**

CONSOLIDATED FINANCIAL STATEMENTS OF TBC BANK JSC

Consolidated Balance Sheet

In thousands of GEL	Dec-20	Dec-19
Cash and cash equivalents	1,601,599	994,479
Due from other banks	19,690	15,597
Mandatory cash balances with National Bank of Georgia	2,098,506	1,591,829
Loans and advances to customers	14,594,269	12,349,399
Investment securities measured at fair value through other comprehensive income	1,527,268	985,293
Bonds carried at amortised cost	1,059,946	1,021,568
Net investments in lease	270,978	256,660
Investment properties	68,689	72,667
Current income tax prepayment	69,762	25,695
Deferred income tax asset	2,134	2,173
Other financial assets	161,002	115,211
Other assets	256,646	247,201
Premises and equipment	362,863	329,529*
Right of use assets	49,746	57,086
Intangible assets	223,577	159,109
Goodwill	28,197	29,459
Investments in associates	4,090	2,655
TOTAL ASSETS	**22,398,962**	**18,255,610***
LIABILITIES		
Due to credit institutions	4,485,873	3,593,901
Customer accounts	12,634,295	10,112,002
Other financial liabilities	211,242	95,643
Current income tax liability	27	818
Deferred income tax liability	13,084	18,806*
Debt Securities in issue	1,419,513	1,213,598
Provision for liabilities and charges	17,451	16,979
Other liabilities	59,969	70,366
Lease liabilities	54,588	59,316
Subordinated debt	672,740	591,035
TOTAL LIABILITIES	**19,568,782**	**15,772,464**
EQUITY		
Share capital	21,014	21,014
Share premium	521,190	521,190
Retained earnings	2,355,105	2,016,119*
Share based payment reserve	(73,130)	(62,669)
Fair value reserve	11,157	(6,399)
Cumulative currency translation reserve	(5,261)	(6,691)
Equity attributable to owners	**2,830,075**	**2,482,564***
Non-controlling interest	**105**	**582**
TOTAL EQUITY	**2,830,180**	**2,483,146***
TOTAL LIABILITIES AND EQUITY	**22,398,962**	**18,255,610***

** Figures calculated due to the changed PPE (property, plant and equipment) accounting policy from the revaluation model to the cost method in 2Q 2020.*

Consolidated Statement of Profit or Loss and Other Comprehensive Income

In thousands of GEL	FY'20	FY'19
Interest income	1,660,838	1,435,106
Interest expense	(854,089)	(670,422)
Net interest gains on currency swaps	20,950	28,556
Net interest income	**827,699**	**793,240**
Fee and commission income	298,496	284,428
Fee and commission expense	(129,717)	(105,302)
Net fee and commission income	**168,779**	**179,126**
Net gains from currency derivatives, foreign currency operations and translation	105,855	102.435
(Net losses)/gains from disposal of investment securities measured at fair value through other comprehensive income	(624)	169
Other operating income	13,354	17,576
Share of profit of associates	-	632
Other operating non-interest income	**118,585**	**120,812**
Credit loss allowance for loans to customers	(330,811)	(82,030)
Credit loss allowance for investments in lease	(7,760)	582
Credit loss allowance for performance guarantees and credit related commitments	3,238	(2,156)
Credit loss allowance for other financial assets	(13,408)	(7,717)
Credit loss allowance for financial assets measured at fair value through other comprehensive income	(1,810)	(291)
Operating income after credit impairment losses	**764,512**	**1,001,566**
Staff costs	(206,887)	(226,008)
Depreciation and amortization	(64,068)	(57,319)
Provision for liabilities and charges	(2,600)	(2,105)
Administrative and other operating expenses	(117,744)	(126,927)
Operating expenses	**(391,299)**	**(412,359)**
Losses from modifications of financial instruments	**(41,015)**	**-**
Profit before tax	**332,198**	**589,207**
Income tax recovery/(expense)	5,062	(43,522)
Profit for the period	**337,260**	**545,685**
Other comprehensive income/ (expense) for the year		
Items that may be reclassified subsequently to profit or loss:		
Movement in fair value reserve	17,633	(15,175)
Exchange differences on translation to presentation currency	1,588	241
Other comprehensive income/(expense) for the year	**19,221**	**(14,934)**
Total comprehensive income for the year	**356,481**	**530,751**
Profit is attributable to:		
– Shareholders of the Group	337,238	545,612
– Non-controlling interest	22	73
Profit for the year	**337,260**	**545,685**
Total comprehensive income is attributable to:		
– Shareholders of the Group	356,459	530,678
– Non-controlling interest	22	73
Total comprehensive income for the year	**356,481**	**530,751**

Consolidated Statement of Cash Flows

in thousands of GEL	FY '20	FY'19
Cash flows from (used in) operating activities		
Interest received	1,455,624	1,359,528
Interest received on currency swaps	20,950	28,556
Interest paid	(841,146)	(657,671)
Fees and commissions received	297,030	282,715
Fees and commissions paid	(129,445)	(105,207)
(Expense)/income from trading in foreign currencies	(92,191)	79,287
Other operating income received	10,216	18,356
Staff costs paid	(203,247)	(198,345)
Administrative and other operating expenses paid	(103,273)	(132,181)
Income tax paid	(44,285)	(68,166)
Cash flows from operating activities before changes in operating assets and liabilities	**370,232**	**606,872**
Net change in operating assets		
Due from other banks and mandatory cash balances with the National Bank of Georgia	(341,901)	(14,811)
Loans and advances to customers	(1,059,684)	(2,013,577)
Net investments in lease	(2,010)	(44,268)
Other financial assets	(58,914)	26,582
Other assets	33,750	2,702
Net change in operating liabilities		
Due to other banks	(32,294)	(1,938)
Customer accounts	1,457,569	274,769
Other financial liabilities	132,679	10,205
Other liabilities and provision for liabilities and charges	(5,128)	8,432
Net cash flows (used in)/from operating activities	**494,299**	**(1,145,032)**
Cash flows from/(used in) investing activities		
Acquisition of investment securities measured at fair value through other comprehensive income	(763,530)	(1,781,816)
Proceeds from disposal of investment securities measured at fair value through other comprehensive income	287,917	240,603
Proceeds from redemption at maturity of investment securities measured at fair value through other comprehensive income	165,632	1,598,536
Dividends received	694	-
Acquisition of subsidiaries, net of cash acquired	-	410
Cash received from acquired subsidiaries	-	-
Acquisition of bonds carried at amortised cost	(639,824)	(613,383)
Proceeds from redemption of bonds carried at amortised cost	413,038	216,871
Acquisition of premises, equipment and intangible assets	(153,791)	(120,677)
Proceeds from disposal of premises, equipment and intangible assets	3,450	13,225
Proceeds from disposal of investment properties	13,513	13,681
Net cash used in investing activities	**(672,902)**	**(432,550)**
Cash flows from (used in) financing activities		
Proceeds from other borrowed funds	4,031,812	1,819,899
Redemption of other borrowed funds	(3,319,426)	(1,392,897)
Repayment of principal of lease liabilities	(13,251)	(6,453)
Proceeds from subordinated debt	–	–
Redemption of subordinated debt	–	(104,079)
Proceeds from debt securities in issue	31,601	1,176,049
Redemption of debt securities in issue	–	(14,296)
Recharge paid	(27,932)	(62,840)
Dividends paid	–	(80,911)
Net cash flows from financing activities	**702,803**	**1,334,472**
Effect of exchange rate changes on cash and cash equivalents	82,919	73,186
Net (decrease)/ increase in cash and cash equivalents	**607,120**	**(169,924)**
Cash and cash equivalents at the beginning of the year	**994,479**	**1,164,403**
Cash and cash equivalents at the end of the year	**1,601,599**	**994,479**

KEY RATIOS

Average Balances

The average balances included in this document are calculated as the average of the relevant monthly balances as of each month-end. Balances have been extracted from TBC's unaudited and consolidated management accounts, which were prepared from TBC's accounting records. These were used by the management for monitoring and control purposes.

Key Ratios

Ratios (based on monthly averages, where applicable)	**FY'20**	**FY'19**
Profitability ratios:		
ROE[1]	12.9%	24.3%*
ROA[2]	1.7%	3.3%*
ROE before expected credit loss allowances[3]	26.4%	28.4%*
Cost to income[4]	35.1%	37.7%
NIM[5]	4.7%	5.5%
Loan yields[6]	10.1%	11.0%
Deposit rates[7]	3.6%	3.4%
Yields on interest earning assets[8]	9.5%	10.2%
Cost of funding[9]	4.9%	4.7%
Spread[10]	4.6%	5.5%
Asset quality and portfolio concentration:		
Cost of risk[11]	2.4%	0.7%
PAR 90 to Gross Loans[12]	1.5%	1.1%
NPLs to Gross Loans[13]	4.7%	2.7%
NPLs coverage[14]	85.6%	91.1%
NPLs coverage with collateral[15]	189.1%	194.2%
Credit loss level to Gross Loans[16]	4.0%	2.5%
Related Party Loans to Gross Loans[17]	0.0%	0.1%
Top 10 Borrowers to Total Portfolio[18]	7.9%	8.3%
Top 20 Borrowers to Total Portfolio[19]	12.1%	12.3%
Capital optimisation:		
Net Loans to Deposits plus IFI Funding[20]	100.7%	104.3%
Net Stable Funding Ratio[21]	126.0%	126.7%
Liquidity Coverage Ratio[22]	134.2%	110.1%
Leverage[23]	7.9x	7.4x**
CET 1 CAR (Basel III)[24]	10.4%	12.0%
Regulatory Tier 1 CAR (Basel III)[25]	13.0%	14.6%
Regulatory Total 1 CAR (Basel III)[26]	17.1%	19.1%

** Prior to the change in PPE (property, plant and equipment) accounting policy from the revaluation model to the cost method ROE stood at 23.8%, while ROE before expected credit loss allowances stood at 27.8% and ROA remained unchanged in FY 2019*

*** Prior to the change in PPE (property, plant and equipment) accounting policy from the revaluation model to the cost method, Leverage stood at 7.2x as of 31 December 2019*

Ratio definitions

1. Return on average total equity (ROE) equals net income attributable to owners divided by the monthly average of total shareholders' equity attributable to the JSC's equity holders for the same period; annualised where applicable.
2. Return on average total assets (ROA) equals net income of the period divided by monthly average total assets for the same period; annualised where applicable.
3. Return on average total equity (ROE) before expected credit loss allowances equals net income attributable to owners excluding all credit loss allowance, but after net modification losses divided by the monthly average of total shareholders 'equity attributable to the JSC's equity holders for the same period.

4. Cost to income ratio equals total operating expenses for the period divided by the total revenue for the same period. (Revenue represents the sum of net interest income, net fee and commission income and other non-interest income).
5. Net interest margin (NIM) is net interest income divided by monthly average interest-earning assets; annualised where applicable. Interest-earning assets include investment securities (excluding corporate shares), net investment in finance lease, net loans, and amounts due from credit institutions.
6. Loan yields equal interest income on loans and advances to customers divided by monthly average gross loans and advances to customers; annualised where applicable.
7. Deposit rates equal interest expense on customer accounts divided by monthly average total customer deposits; annualised where applicable.
8. Yields on interest earning assets equal total interest income divided by monthly average interest earning assets; annualised where applicable.
9. Cost of funding equals total interest expense divided by monthly average interest bearing liabilities; annualised where applicable.
10. Spread equals difference between yields on interest earning assets (including but not limited to yields on loans, securities and due from banks) and cost of funding (including but not limited to cost of deposits, cost on borrowings and due to banks).
11. Cost of risk equals credit loss allowance for loans to customers divided by monthly average gross loans and advances to customers; annualised where applicable.
12. PAR 90 to gross loans ratio equals loans for which principal or interest repayment is overdue for more than 90 days divided by the gross loan portfolio for the same period.
13. NPLs to gross loans equals loans with 90 days past due on principal or interest payments, and loans with a well-defined weakness, regardless of the existence of any past-due amount or of the number of days past due divided by the gross loan portfolio for the same period.
14. NPLs coverage ratio equals total credit loss allowance for loans to customers calculated per IFRS 9 divided by the NPL loans.
15. NPLs coverage with collateral ratio equals credit loss allowance for loans to customers per IFRS 9 plus the total collateral amount of NPL loans (excluding third party guarantees) discounted at 30-50% depending on segment type divided by the NPL loans.
16. Credit loss level to gross loans equals credit loss allowance for loans to customers divided by the gross loan portfolio for the same period.
17. Related party loans to total loans equals related party loans divided by the gross loan portfolio.
18. Top 10 borrowers to total portfolio equals the total loan amount of the top 10 borrowers divided by the gross loan portfolio.
19. Top 20 borrowers to total portfolio equals the total loan amount of the top 20 borrowers divided by the gross loan portfolio.
20. Net loans to deposits plus IFI funding ratio equals net loans divided by total deposits plus borrowings received from international financial institutions.
21. Net stable funding ratio equals the available amount of stable funding divided by the required amount of stable funding as defined by NBG in line with Basel III guidelines.
22. Liquidity coverage ratio equals high-quality liquid assets divided by the total net cash outflow amount as defined by the NBG.
23. Leverage equals total assets to total equity.
24. Regulatory CET 1 CAR equals CET 1 capital divided by total risk weighted assets, both calculated in accordance with the Pillar 1 requirements of the NBG Basel III standards. The reporting started from the end of 2017. Calculations are made for TBC Bank stand-alone, based on local standards.
25. Regulatory tier 1 CAR equals tier I capital divided by total risk weighted assets, both calculated in accordance with the Pillar 1 requirements of the NBG Basel III standards. The reporting started from the end of 2017. Calculations are made for TBC Bank stand-alone, based on local standards.
26. Regulatory total CAR equals total capital divided by total risk weighted assets, both calculated in accordance with the Pillar 1 requirements of the NBG Basel III standards. The reporting started from the end of 2017. Calculations are made for TBC Bank stand-alone, based on local standards.

Exchange Rates

To calculate the YoY growth without the currency exchange rate effect, we used the USD/GEL exchange rate of 2.8677 as of 31 December 2019. As of 31 December 2020, the USD/GEL exchange rate equalled 3.2766. For P&L items growth calculations without currency effect, we used the average USD/GEL exchange rate for the following periods: FY 2020 3.1097, FY 2019 2.8192.

CORPORATE GOVERNANCE

Joint Stock Company TBC Bank (the "Bank") is a main subsidiary of London Stock Exchange premium segment listed TBC Bank Group PLC (together the "Group"). The Bank's Corporate Governance is in compliance with the requirements of the National Bank of Georgia's Code on Corporate Governance for Commercial Banks, dated 26th of September 2018 (the "Code"). At the same time, the Bank complies with the highest standards of Corporate Governance as prescribed by the UK Corporate Governance Code.

In addition, the Bank has in place an effective internal control system in order to ensure accurate and reliable financial reporting. The Bank has a well-defined framework of accountability and delegation of authority, as well as policies and procedures that include financial planning and reporting; preparation of monthly management accounts; project governance; information security; and review of the disclosures within the annual report and accounts from the respective leads, to appropriately disclose all relevant developments in the year and to meet the requirements of a true and fair presentation.

The Supervisory Board ensures that the Bank's governance structure enables adequate oversight and accountability, as well as a clear segregation of duties. The involvement of all governance levels in risk management, the clear segregation of authority, and effective communications between different entities facilitate clarity regarding the strategic and risk objectives, adherence to the established risk appetite, risk budget and sound risk management. The centralised Enterprise Risk Menegment (ERM) function ensures effective development, communication and implementation of risk strategy and risk appetite across the Group.

The main shareholder of the Bank is TBC Bank Group PLC, a company incorporated in England and Wales, which holds 99.9% of the Bank. TBC Bank Group PLC is London Stock Exchange premium segment listed company. The rights of the shareholders are set out in the Charter of the Bank and governed by Law of Georgia on Entrepreneurs and the Law on the Activities of Commercial Banks.

The TBC Bank Group PLC Board of Directors (the " Board") is the principal decision-making body of the Group and is collectively responsible for promoting the Group's purpose, culture, values and long term success strategy and the delivery of sustainable value to stakeholders by establishing and overseeing the strategic direction of the Group.

In addition, the affairs of the the Bank, are supervised by a Supervisory Board (the "Supervisory Board") of the Bank. There is also equivalent committee structure of the Supervisory Board as the Board's committees. There are, therefore, in practice two equivalent supervisory bodies within the Group represented by the Board and the Supervisory Board, which are separate but interconnected together with committees. However, the work of the Board, the Supervisory Board and their respective committees is carefully balanced, dividing functions according to whether they are supervising the topics that impact the Group or solely the Bank. As a result, the Group's governance structure ensures adequate oversight and accountability, as well as clear segregation of duties. The Board and the Supervisory Board have joint overall responsibility to set the tone at the top of the Group and monitor compliance with the established objectives, while the Management Board governs and directs the Group's daily activities.

Both Supervisory Board and the Board have identical composition in terms of non executive memebrship.

At the date of this report, in line with the "independence" definition criteria set by the NBG Corporate Governance Code, the Supervisory Board is comprised of five non-executive independent members: Arne Berggren (Chairman), Tsira Kemularia (interim SID), Maria Luisa Cicognani, Nicholas Haag, Abhijit Akerkar, Nikoloz Enukidze and one non-independent member Eric Rajendra.

The Board and the Supervisory Board discharges some of its responsibilities through and is supported by, its Committees which provide oversight and make recommendations on the matters delegated to them by the

Board and the Supervisory Board. The Board and Supervisory Board have established their respective four principal Committees: Corporate Governance and Nomination Committee, Audit Committee, Risk Committee and Remuneration Committee. The Comittees at both the Board and the Supervisory Board have the same membership of non-executive memebrs. The Chairs of each Board and the Supervisory Board Committees provide a report on committee business at each Board/Supervisory Board meeting, including the matters being recommended by a Committee for Board and/or the Supervisory Board's approval.

The Group recognises the importance of ensuring diversity and sees significant benefit to our business in having a Board and Supervisory Board and management team that is drawn from a diverse range of backgrounds, since this brings the required expertise, cultural diversity and different perspectives to the Board discussions and helps to improve the quality of decision making.

There are two female Directors on the Supervisory Board. In addition, there are a number of talented women in key positions, who report directly to the General Director of the Bank and other members of the Management Board within the Bank. As at 31 December 2020, 14% of Group's top management and 33% of Group's middle management roles were performed by females. Moreover, 67% of employees across the Group's entire workforce were female.

SUPERVISORY BOARD BIOGRAPHIES

ARNE BERGGREN

Chairman

In March, 2021 Arne Berggren, was appointed as the Chairman of the Board and Chairman of the Supervisory Board.

Mr Berggren has studied at a number of renowned academic institutions such as the Swedish Institute of Management, New York University Graduate School of Business, University of Geneva, University of Amsterdam and the University of Uppsala.

Arne Berggren currently serves as a member of the board of Bank of Cyprus and Piraeus Bank. Prior to his current roles, Mr Berggren served as a board member of Turkish asset management company, LBT Varlik Yonetim and Slovenian bank asset management company, DUBT Ltd. He also has held a number of senior leadership and advisory roles at prominent financial intuitions including the IMF, World Bank, Swedbank, Carnegie Investment Bank AB and the Swedish Ministry of Finance and Bank Support Authority. During the Swedish banking crisis in 1991-1993, Mr Berggren developed a strategic framework and a process for handling systemic banking crises and introduced a more effective tool for restructuring and portfolio management of complex NPLs. During the Asian crisis he assisted FRA in Thailand and FSC/KAMCO in Korea to handle problem assets.

Mr Berggren was appointed to the Bank's Supervisory Board in July 2019 and to the Board as an independent non-executive Director in August 2019.

TSIRA KEMULARIA

Senior Independent Non-Executive Director

In March, 2021, Tsira Kemularia was elected as an interim Senior Independent Director for both the Board and the Supervisory Board. She continues her current role as chair of Corporate Governance and Nomination Committee.

Tsira Kemularia graduated from the Louisiana State University with a degree in International Trade and Finance & Economics in 1999. Ms Kemularia has 21 years of international experience in financial services and risk management.

From 1999 to 2005, she held various market risk management roles both In Dynegy Inc. in USA and UK and at Shell International Trading & Shipping Ltd (STASCO) in London. From 2005 to 2008, she was Manager, M&A and Commercial Finance, in Group Treasury and Corporate Finance, at Shell International. From 2008 to 2011, she served as a Commercial Finance Manager, M&A in Group Treasury & Corporate finance, at Shell Exploration and Production Services (B.V) in Moscow, RF. Thereafter, she served as Finance Manager and a Country Controller at Shell Western Supply and Trading LTD in Barbados, West Indies from 2011 to 2016. From 2016 to 2019, Ms Kemularia was the Head of Group Pensions Strategy and Standards at Shell International Ltd based in London. Since 2019, Ms. Kemularia is responsible for managing Internal Audit of Shell's global Trading and Supply organization, which is the world's biggest commodity trading and supply business.

From 2006 to 2010, Ms Kemularia was a a board member of the British- Georgian Society. She was a chairwoman of the Georgian Community in the UK from 2004-2009. In 2011, she joined the board of Shell Western Supply and Trading Ltd. From 2016 to 2018 she served as a board member of British Gas General Partner Ltd and since 2016 she is a company nominated Trustee of the British Gas Trustee Solutions Ltd, a pension fund managed by Shell Group Treasury as a result of British Gas acquisition by Shell. Tsira Kemularia is a member of the Institute of Directors in London, UK, and is currently a pursuing chartered director programme.

Ms Kemularia was appointed to the Board as an independent non-executive Director of TBC Bank Group PLC and as a member of the Supervisory Board of JSC TBC Bank in September 2018. She also serves as a Board's designated employee ambassador responsible for staff engagement.

MARIA LUISA CICOGNANI

Independent Non-Executive Director

In February, 2021 in addition to her current role as the Chairman of Remuneration Committee, Maria Luisa Cicognani has been appointed as the interim chair of the Audit Committee of the Board and the Supervisory Board.

Maria Luisa Cicognani graduated from Bocconi University in 1987 with a degree in Business Administration. She holds a master degree from the Int'l University of Japan in Japanese Economy and Business.

Ms Cicognani has extensive experience in the field of banking, financial institutions and corporate governance. She worked at the European Bank for Reconstruction and Development (London, UK) between 1993 and 2005. Subsequently, she was a director of Financial Institutions at Merrill Lynch and Head of Financial Institutions at Renaissance Capital in London and Moscow as well as a Managing Director of Mediobanca (London Branch). During 2014-2016, she served as a non-executive member of the board at Azimut Global Counseling Srl (Italy) and Azimut International Holding SA (Luxemburg). She has been Chairperson of Moneta Money Bank (listed on the Prague Stock Exchange) and NED of Arafa Holding (listed in Cairo Stock Exchange), and until recently member of the Board of UBI Banca (Italy) including as member of the Risk and of the Control Committees. She is currently Chairperson of Mobius Investment Trust, listed on LSE.

Ms Cicognani was appointed to the Board as an independent non-executive Director of TBC Bank Group PLC and as a member of the Supervisory Board of JSC TBC Bank in September 2018.

ABHIJIT AKERKAR

Independent Non-Executive Director

In March, 2021 Abhijit Akerkar was appointed as an interim Risk Committee Chair.

Abhijit Akerkar graduated from the University of Pune, India with a degree in engineering. He holds an MBA from London Business School.

Mr Akerkar is an influential thought leader in Artificial Intelligence, in banking and has 25 years of cross-disciplinary global experience operating at a strategic level at the forefront of technology. He has gained advisory experience at McKinsey by engaging with leaders in taking strategic, operational, organisational, and investment decisions.

During 1993 - 2003, Abhijit held various management positions in Malaysia and India. He served at Maybank, the largest banking group in Malaysia, to digitally transform mortgage and trade finance. From 2003 to 2007, as the Director of Business Process Services in HCL Technologies, he launched a new line of business working directly with the Founder Chairman and the board. As an Associate Partner & Service Line Leader in Mckinsey & Co, between 2008-2016, Mr Akerkar was responsible for strategic and operational projects. He served companies around the world at the board and executive-committee levels across a diverse set of industries on corporate strategy, digital ventures, organisational restructuring, regulatory strategy, sustainability, and M&A value enhancement.

Most recently, until his appointment in July 2020, he was the Head of Applied Sciences Business Integration in the Group Transformation programme at Lloyds Banking Group. To gain efficiency, capital optimisation and growth across Retail, Commercial, and Insurance, he drove safe scaling and adoption of machine intelligence, aligned ways of working, and conquered the last mile by embedding analytics into decision-making processes.

Mr Akerkar has joined the Board of TBC Bank Group PLC as an Independent non-executive Director and as a member of supervisory board of JSC TBC Bank in July, 2020.

NICHOLAS DOMINIC HAAG

Independent Non-Executive Director

Nicholas Haag earned an M.A. from the University of Oxford with a degree in Modern Studies (Geography) in 1980.

Mr Haag has 40 years of working experience in the financial services industry, with a significant emphasis on equity capital markets, corporate finance and technology banking. From 1980 to 1999 he held various capital markets and project finance roles at Barclays and Paribas Capital Markets. Between 1999 and 2001 he served at ING Barings as a managing director and global head of technology banking group. From 2001 to 2007 he served at ABN AMRO (London) as the global head of technology banking, member of Global TMT Management Committee, senior managing director and member of the Senior Credit Committee; and from 2008 to 2012 he held positions of managing director, head of London equity capital markets and member of the Global Equities Origination Management Committee at the the Royal Bank of Scotland.

Since 2012, he was a senior independent adviser to the chairman of the management board and, from 2013 until November 2016, a member of the supervisory board of Credit Bank of Moscow. He also serves as a Non-Executive Chairman of Bayport Management Limited (pan-African and Latin American consumer lender) and since 2016 as a director of AS Citadele Banka in Riga. From 2012, he has acted as sole director of his own consulting company, Nicdom Limited.

Mr Haag was appointed to the Bank's Supervisory Board in 2013 and to the Board as an independent non-executive Director in May 2016. Nicholas Haag has the recent and relevant financial experience required by the UK Corporate Governance Code to fulfil his responsibilities as a designated financial expert on the Audit Committee of TBC Bank Group PLC. Until February, 2021 he held the position of the Senior Independent Director of the Board and the Chair of the Audit Committee.

NIKOLOZ ENUKIDZE

Non-Executive Director

Nikoloz Enukidze graduated from Tbilisi State University with a degree in physics in 1993 and obtained an MBA from the University of Maryland in 1996.

In 2006 – 2010 Nikoloz Enukidze served as the Chairman (and prior to that as Vice-Chairman) of the Supervisory Board of Bank of Georgia and was one of the key people leading the bank in its successful IPO on the London Stock Exchange, the first ever IPO in London from the Caucasus region. He also serves as a member of the board of Yelo Bank in Azerbaijan. Prior to his roles at Bank of Georgia, Nikoloz worked at ABN AMRO Corporate Finance in Moscow and London, Concorde Capital in Kyiv and Global One Communications in Reston, Virginia.

Nikoloz Enukidze served as the Chairman of TBC Bank Group PLC and JSC TBC Bank since July 2019 and August 2019 respectively, until his resignation in March, 2021. Previous to that, Nikoloz was appointed as the independent member of the Supervisory Board of JSC TBC Bank in 2013 and as Senior Independent Director of the Board in 2016.

ERIC J. RAJENDRA

Independent Non-Executive Director

Eric Rajendra graduated from Brandeis University, earned his M.A.L.D. at The Fletcher School in 1982 (Tufts University, in cooperation with Harvard University) and conducted postgraduate research at INSEAD Business School in the areas of financial markets and institutions.

Mr. Rajendra is also a graduate of the Australian Institute of Company Directors and was formerly an Adjunct Professor of Strategy at INSEAD. During 2005-2014, he held the position of Senior Advisor to the IFC and served as a board director or consulting adviser on selected emerging markets financial institutions where the World Bank Group had an equity interest, as well as leading strategic initiatives for the firm. Prior to joining the IFC, he was a Vice President at Capgemini (Paris HQ) and a Vice President at Electronic Data Systems (Plano, Texas); in both institutions, he was a key leader of the financial services practice.

During 2006-2014, he was a member of the Board of Directors of Locko Bank, where he was also the chairman of the Audit and Risk Committee. From 2010 to 2012, he was a member of the Board of Directors at Orient Express Bank and earlier was a member of the Board of Directors of ACLEDA Bank in Cambodia. He started his career as a commercial and investment banker at JP Morgan Chase Bank in 1982 and later became a partner at McKinsey & Company based in various offices in North America, Europe and Asia. Mr. Rajendra was first appointed to the Bank's Supervisory Board in 2010 and to the Board as an independent non-executive Director in May 2016.

THE BANK'S MANAGEMENT BOARD BIOGRAPHIES

VAKHTANG BUTSKHRIKIDZE

CEO

Vakhtang Butskhrikidze joined TBC Bank as a Senior Manager of the Credit Department in 1993 and was elected as Deputy Chairman of the Management Board in 1994. He became Chairman of the Management Board in 1996. Since 1998, he has held the position of CEO of TBC Bank and has headed a number of TBC's committees.

Mr Butskhrikidze was appointed as a CEO of the Company in May 2016. He also served as a member of the Supervisory Board from September 2016 till April 2018. He is also a member of the supervisory board of the Association of Banks of Georgia and is chairman of the financial committee of the Business Association of Georgia. In 2016, Mr Butskhrikidze joined the Visa Central & Eastern Europe, Middle East and Africa (CEMEA) Business Council.

Mr Butskhrikidze has been honoured with several prestigious awards, including "Best Businessman of the Year" award by Georgian Times Magazine and in 2001, "Best Banker 2011" by GUAM – Organization for Democracy and Economic Development award, CEO of the Year 2014 in Central and Eastern Europe and the CIS by EMEA Finance magazine. In March 2019 he won the Special Award for Responsible Capitalism in Adversity from the prestigious FIRST organisation - a multidisciplinary international affairs organization, which aims to enhance dialogue between leaders in industry, finance and government.

Mr Butskhrikidze obtained an MBA from the European School of Management in Tbilisi in 2001. He graduated from Tbilisi State University in 1992 with a degree in Economics and holds postgraduate qualifications from the Institute of Economics, Academy of Sciences of Georgia.

GIORGI MEGRELISHVILI

Deputy CEO, Chief Financial Officer

Giorgi Megrelishvili joined TBC Bank as a Deputy CFO starting from March 2020.

Mr Megrelishvili became member of JSC TBC Bank's Management Board in October 2020, occupying the position of a Deputy CEO/CFO of the Bank.

Before joining TBC Bank, Giorgi was Director, Head of Capital Risk and Stress Testing at Natwest Markets N.V. in Amsterdam, Netherlands. Prior to that, Mr Megrelishvili held various senior positions at Barclays Bank in London between 2008 and 2019. From 2008 to 2010, he was part of MBA Global Leaders Programme with rotations as a Head of Strategic Planning for Barclaycard UK and as an Associate Director for Barclays Corporate International Credit Risk, Business Support & Recoveries. From 2010 to 2014 he worked at Barclays Treasury as a Vice President of Capital Management and Later as a Director, Head of Internal Large Exposure. From 2014 to 2016 he served as a Director, Head of Central Planning at Barclays Finance. From 2016 to 2019 Mr Megrelishvili was Barclays Bank PLC Solo Capital and Leverage Management Lead at Barclays International Treasury.

In his earlier career, starting from 1998 to 2007, Mr Megrelishvli held various senior managerial positions including CFO of several Georgian organisations.

Mr Megrelishvili obtained an MBA from the University of Cambridge Judge Business School in 2008 and graduated with honours. He completed the undergraduate degree at European School of Management, ESM-Tbilisi with a degree in Business Administrations.

GEORGE TKHELIDZE

Deputy CEO, Corporate and Investment Banking

Following the structural changes in management board, starting from January 2021, George assumed responsibility for Wealth Management business and TBC Leasing.

George joined TBC Bank in 2014 as Deputy CEO in charge of Risk Management. Following acquisition of Bank Republic and creation of Corporate and Investment Banking (CIB) unit at the Bank in November 2016, George overtook the responsibility for the CIB. George has more than 15 years of experience in financial services.

Prior to joining TBC Bank, George worked for Barclays Investment Bank, where he held the position of vice president in the Financial Institutions Group (FIG), EMEA since June 2011. From September 2009 he was an associate director in Barclays debt finance and restructuring teams. During his career with Barclays in London, George worked on and executed multiple M&A, debt and capital markets transactions with European financial institutions.

In his earlier career in Georgia, George held various managerial positions at ALDAGI insurance company during 2000- 2007, where he also served as chief executive officer. George graduated from the London Business School with an MBA degree (2009). He also holds Master of Laws degree (LL.M) in International Commercial Law from the University of Nottingham (2002) and graduate diploma in Law from Tbilisi State University (2000).

NIKOLOZ KURDIANI

Deputy CEO, MSME Banking, Marketing, Payments and Space

Following the structural changes in the management board, starting from January 2021, Nikoloz has been appointed as the chairman of TBC UZ and Payme and transferred his duties as lead of MSME Banking to Tornike Gogichaishvili. Nikoloz remains a Deputy CEO of the Bank and continues to lead marketing, payments and Space as well as assumed responsibility for international expansion.

Nikoloz joined TBC Bank in 2014 as a Deputy CEO in charge of Microbanking and CEO of Bank Constanta. After the merger with Bank Constanta in 2015, he became lead of Marketing and MSME banking. In addition, since 2018 Nikoloz has been leading the digital banking platform Space. In 2020 his duties were further expanded to include the payments business.

Nikoloz has more than fifteen years of experience in the banking industry which includes five years at UniCredit Group in Austria, Turkey and Kazakhstan. Immediately before joining TBC Bank in 2014, Nikoloz was managing director at Kaspi Bank, a leading retail bank in Kazakhstan.

Earlier in his career, he served as head of the retail banking division of Bank Republic Georgia, Société Générale Group, and also held several positions at Bank of Georgia between 2003 and 2006. He has expertise in post-acquisition integration and restructuring, as well as retail and SME banking. Between 2008 and 2010, Nikoloz held the position of senior sales support expert at the CEE retail division of Bank Austria, UniCredit Group, responsible for Turkey, Kazakhstan, Ukraine and Serbia. Between 2010 and 2013, he was head of the retail division of ATF Bank, UniCredit Group in Kazakhstan.

Nikoloz obtained his MBA degree from IE Business School in 2007. He also holds an MSc degree in International Economics from the Georgian Technical University and completed BBA studies at Ruhr University Bochum in Germany and the Caucasus School of Business.

TORNIKE GOGICHAISHVILI

Deputy CEO, Retail Banking

Following the structural changes in the management board, starting from January 2021, in addition to his current responsibilities, Tornike assumed the duties of the lead of MSME banking business from Nikoloz Kurdiani.

Tornike joined TBC Bank in 2018 as Chief Operating Officer and deputy CEO following 20 years of financial services and operations management experience. In 2020, Tornike was appointed to lead the retail banking business of the Bank.

Prior to joining TBC, he has served as a Deputy CEO, Chief Operation Officer at Bank of Georgia since 2016. Between 2010 and 2016 Tornike served as director of operations' department at Bank of Georgia. He also served as head of international banking at Bank of Georgia Group. Between 2008-2010 Tornike held the position of CFO at BG Bank Ukraine (the subsidiary of Bank of Georgia).

Between 2006 and 2008 he held the position of CEO at Insurance Company Aldagi. He also served as chief financial officer of UEDC PA consulting and held various managerial positions at BCI Insurance Company from 1998 to 2004.

Tornike graduated from the Faculty of Law at Tbilisi State University and holds an MBA from Caucasus School of Business and an executive diploma from Said Business School, Oxford.

NINO MASURASHVILI

**Deputy CEO,
Chief Risk Officer**

Nino joined TBC Bank in 2000 as a manager in the planning and control department and became head of that department in 2002.

Between 2004 and 2005, she acted as head of the sales department and retail bank coordinator. In 2006 Nino was appointed as a deputy CEO and was in charge of retail banking until 2008. In addition, from 2008 to 2016 she assumed responsibility for MSME banking. Between 2016 and 2020 she served as a lead of retail banking. In 2020, Nino was appointed as the Chief Risk Officer of the Bank.

Between 2006 and 2008, Nino was the chairman of the supervisory board of UFC. During 2011-2015 she also held a position of a member of the supervisory board of Bank Constanta until its full merger with TBC Bank. During 2011- 2016, Nino has been a member of the supervisory board of TBC Kredit. During 2016-2020, Nino served as a member of the supervisory board of TBC Pay.

In her earlier career, she held the positions of credit account manager, credit officer, financial analyst (financial department) and head of the financial analysis and forecasting department at JSC TbilCom Bank between 1995 and 2000. Between 1998 and 2000, she also held the position of accountant at the Barents Group.

Nino graduated from Tbilisi State University in 1996 with a degree in Economics and obtained an MBA degree from the European School of Management in Tbilisi.

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of JSC TBC Bank

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of JSC TBC Bank (the "Bank") and its subsidiaries (together – the "Group") as at 31 December 2020, and the Group's and the Bank's consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, with the requirements of the order N284/04 of the President of the National Bank of Georgia dated 26 December 2018, and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing.

What we have audited

The Group's and the Bank's consolidated and separate financial statements comprise:

- the consolidated and separate statements of financial position as at 31 December 2020;
- the consolidated and separate statements of profit or loss and other comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the consolidated and separate financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report.

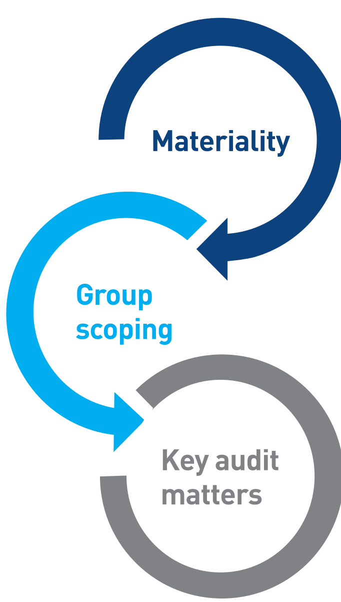
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Overview



- Overall Group materiality: GEL 23.8 million, which represents 5% of Group's average profit before tax for the last three years.
- Overall Bank materiality: GEL 22.7 million, which represents 5% of Bank's average profit before tax for the last three years.
- Our scoping was driven by legal entity contribution to profit before tax and other key financial metrics. We also considered overall coverage in assessing the appropriateness of our scoping.
- Audit matters which were of most significance in the audit of the consolidated and separate financial statements are:
  - Expected credit loss allowance of loans and advances to customers;
  - Impact of COVID-19 .

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated and separate financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated and separate financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group and Bank materiality for the consolidated and separate financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated and separate financial statements as a whole.

Overall Group and Bank materiality	Group: GEL 23.8 million (2019: GEL 29.5 million) Bank: GEL 22.7 million (2019: GEL 28.2 million)
How we determined it	5% of average profit before tax for last three years
Rationale for the materiality benchmark applied	Profit before tax is a primary measure used by the shareholder in assessing the performance of the Group and the Bank and is a generally accepted benchmark for determining audit materiality. We have considered the economic impact of the COVID-19 pandemic in the Group's and the Bank's results. Whilst profit before tax is still considered to be the most suitable benchmark, we used a three year average, to eliminate the volatility introduced by COVID-19.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Expected credit loss allowance on loans and advances to customers We focused on this area as the management estimates regarding the expected credit loss ('ECL') allowance are complex and require a significant degree of judgement. Under IFRS 9 management is required to determine the credit loss allowance expected to occur over either a 12 month period or the remaining life of an asset, depending on the categorisation of the individual asset. This categorisation is determined by assessing of whether or not there has been a significant increase in credit risk ('SICR') or default of the borrower since loan origination. Additionally, certain events in course of the year (e.g. payment holidays) resulted in necessity for management to apply judgement in determination of the stage of credit quality of the exposure. It is also necessary to consider the impact of different future macroeconomic conditions in the determination of ECLs. The impact of COVID-19 on the economy has further increased the level of uncertainty in the macroeconomic forecasts. Management has designed and implemented a number of models to achieve compliance with the requirements of IFRS 9. Among others, management has applied judgement to the models in situations where past experience was not considered to be reflective of future outcomes due to limited or insufficient data. We consider the appropriateness of the model methodologies and the following judgements used in the determination of the modelled ECL allowance to be significant: › Setting of appropriate staging criteria including identification of SICR and default, taking into consideration the impact of payment holidays granted to the borrowers due to COVID-19 pandemic; › Critical assumptions applied in the determination of loss given default ('LGD') and probability of default ('PD'); › Assessment of model limitations and use of post model adjustments ('PMAs') if required to address such risks; and › Assessment of the key assumptions related to forward-looking information ('FLI') including the appropriateness of scenario weightings and macro economic variables in light of COVID-19 impact. Refer to pages 149 to 168 (Significant accounting policies), page 168 to 170 (Critical accounting estimates and judgements in applying accounting policies), and pages 177 to 199 (note 9: Loans and Advances to customers).	We understood and evaluated the design of the key controls over the determination of ECL allowance and tested their operating effectiveness. These controls included among others: › Controls over model performance monitoring, including periodic reviews of the policy and models, testing model estimates against actual outcomes and approval of model methodology changes; › Review and approval of the key judgements and assumptions used for determining staging criteria, LGDs, PDs and FLI; › Controls over key parameters calculation by the calculation engine; › Controls over regular monitoring of the financial standing of the borrowers; › Controls over assignment of staging criteria to exposures; › Controls over ECL calculation and analysis of results; and › The Management Risk Committee's review and approval of judgemental assumptions and assessment of ECL modelled outputs. We noted no exceptions in the design or operating effectiveness of the above controls. We assessed whether the IFRS 9 ECL model methodologies developed by management are appropriate, engaging our credit risk modelling specialists and our industry knowledge. This included an evaluation of the criteria set by management for determining whether there had been a s SICR or default, and the critical judgements and assumptions applied in determination of LGDs, PDs and FLI. We concluded that management's judgements in deriving staging, LGDs, PDs and FLI were reasonable. We independently verified the calculation of ECL and assessed whether the ECL calculations were consistent with the approved model methodologies. We critically evaluated key aspects of model monitoring and validation ("backtesting" of projected ECL) performed by management relating to model performance and stability and critically assessed the monitoring results. The test results of statistical models were interpreted in the context of COVID-19 circumstances and explanations were obtained for deviations from the expectation. We challenged management in respect of the appropriateness of the macroeconomic assumptions as well as weightings applied to each macroeconomic scenario. We are satisfied that macroeconomic assumptions and scenario weightings used by the Bank are reasonable. We challenged management in respect of the completeness and ongoing appropriateness of PMAs recognised. We assessed the PMAs applied including judgements and assumptions used and calculations involved. As a result, we deem that the impact of COVID-19 pandemic is appropriately addressed by applying PMAs where existing models were not able to capture the emerging risks, and management's judgements are reasonable.

Impact of COVID-19 (group and parent)

The impact of the Covid-19 pandemic has resulted in unprecedented economic conditions and resulting government support programmes and regulatory interventions to support businesses and people. The Covid-19 pandemic has also changed the way that companies operate their businesses, with one of most substantial impacts being the transition to remote working. A substantial proportion of the Group's employees have been working remotely during 2020. Our audit team has also been working remotely for most of 2020.

The impact of the Covid-19 pandemic and resulting uncertainty has impacted a number of the estimates in the Group and Bank financial statements.

Our planning and execution of the audit has given specific consideration to the impact of COVID-19. This included adopting a different basis for determining materiality to take account of the significant reduction in profits due to expected credit losses.

We engaged with the Board and management in a manner consistent with our previous audits, albeit remotely using video and telephone calls. The information and audit evidence we need for the audit was provided in electronic format in most of the cases. While our team ensured that certain physical presence was still maintained and inspection of physical evidence was still performed, audit procedures were mostly performed virtually. We understood and assessed the transition of Group employees to working remotely on the control environment relevant to financial reporting, and reflected this in our audit approach for new or changed processes and controls.

Our work in relation to expected credit losses, the most significant accounting judgements with COVID-19 impact, is set out in the Key Audit Matter 'expected credit loss allowance on loans and advances to customers' above.

We assessed the disclosures made in the Group and Bank financial statements. We are satisfied that these disclosures are appropriate and in compliance with the accounting requirements.

How we tailored our Group and Bank audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated and separate financial statements as a whole, taking into account the structure of the Group and the Bank, the accounting processes and controls, and the industry in which the Group and the Bank operate.

The Group's banking activities are primarily carried out in Georgia, with small subsidiary operations in two other countries. The Group's business activities comprise of four segments for which it manages and reports its operating results and financial position, namely Retail Banking, Corporate and Investment Banking, Micro Small and Medium Enterprises ('MSME') and Corporate Centre.

The Bank is the largest component of the Group. Its main operations are Retail and Commercial banking, with all significant operations based in Georgia. Accounting functions and management of the Bank are primarily based in Georgia, and represent 98% of the Group assets and 94% of Group revenue. We also performed other audit procedures including testing information technology general controls and other relevant controls related to financial reporting, to mitigate the risk of material misstatement.

Our audit approach and team was also designed to reflect the structure of the Group. We did not use component auditors for audit of in-scope areas. Based on the procedures we performed over the reporting units our audit scoping/coverage accounted for 99% of total assets and 98% of revenue.

Other information

Management is responsible for the other information. The other information comprises the Management Report (but does not include the consolidated and separate financial statements and our auditor's report thereon).

Our opinion on the consolidated and separate financial statements does not cover the Management Report.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the Management Report and, in doing so, consider whether the Management Report is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit,

or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report that fact. We have nothing to report in this regard.

In addition, we are required by the Law of Georgia on Accounting, Reporting and Auditing to express an opinion whether certain parts of the Management Report comply with respective regulatory normative acts and to consider whether the Management Report includes the information required by the Law of Georgia on Accounting, Reporting and Auditing.

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

- the information given in the Management Report for the financial year for which the consolidated and separate financial statements are prepared is consistent with the consolidated and separate financial statements;
- the information given in the Management Report complies with the requirements of paragraph 6 and paragraph 7 (c), (g) of article 7 of the Law of Georgia on Accounting, Reporting and Auditing;
- the information given in the Management Report includes the information required by paragraph 7 (a), (b), (d) – (f) and paragraph 8 of article 7 of the Law of Georgia on Accounting, Reporting and Auditing.

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

Management is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards, with the requirements of the order N284/04 of the President of the National Bank of Georgia dated 26 December 2018, and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing, and for such internal control as management determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the consolidated and separate financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Levan Kankava.

PricewaterhouseCoopers Georgia LLC

PricewaterhouseCoopers Georgia LLC (Reg.# SARAS-F-775813)

Levan Kankava (Reg.# SARAS-A-592839)

26 April 2021
Tbilisi, Georgia

PricewaterhouseCoopers Georgia LLC
King David Business Centre, 7th floor,
#12 M. Aleksidze Street, Tbilisi 0171, Georgia
Tel: +995 (32) 250 80 50, www.pwc.com/ge

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of GEL	Note	31 December 2020	31 December 2019 (as restated)*	31 December 2018 (as restated)*
ASSETS				
Cash and cash equivalents	6	1,601,599	994,479	1,164,403
Due from other banks	7	19,690	15,597	37,384
Mandatory cash balances with National Bank of Georgia	8	2,098,506	1,591,829	1,422,809
Loans and advances to customers	9	14,594,269	12,349,399	10,038,452
Investment securities measured at fair value through other comprehensive income	10	1,527,268	985,293	1,005,239
Bonds carried at amortised cost	11	1,059,946	1,021,568	653,703
Net investments in leases	13	270,978	256,660	203,802
Investment properties	17	68,689	72,667	84,296
Current income tax prepayment		69,762	25,695	2,159
Deferred income tax asset	34	2,134	2,173	1,992
Other financial assets	12	161,002	115,211	154,259
Other assets	14	256,646	247,201	177,923
Premises and equipment	15	362,863	329,529	314,069
Right of use assets	16	49,746	57,086	–
Intangible assets	15	223,577	159,109	108,505
Goodwill	18	28,197	29,459	29,459
Investments in associates		4,090	2,655	2,432
TOTAL ASSETS		**22,398,962**	**18,255,610**	**15,400,886**
LIABILITIES				
Due to credit institutions	19	4,485,873	3,593,901	3,031,505
Customer accounts	20	12,634,295	10,112,002	9,444,746
Other financial liabilities	23	211,242	95,643	78,205
Current income tax liability		27	818	63
Deferred income tax liability	34	13,084	18,806	19,793
Debt securities in issue	21	1,419,513	1,213,598	13,343
Provision for liabilities and charges	22	17,451	16,979	13,817
Other liabilities	24	59,969	70,366	86,296
Lease liabilities	16	54,588	59,316	–
Subordinated debt	25	672,740	591,035	650,919
TOTAL LIABILITIES		**19,568,782**	**15,772,464**	**13,338,687**
EQUITY				
Share capital	26	21,014	21,014	21,014
Share premium	26	521,190	521,190	521,190
Retained earnings		2,355,105	2,016,119	1,551,176
Share based payment reserve	27	(73,130)	(62,669)	(33,591)
Fair value reserve		11,157	(6,399)	8,775
Cumulative currency translation reserve		(5,261)	(6,691)	(6,933)
Equity attributable to owners		**2,830,075**	**2,482,564**	**2,061,631**
Non-controlling interest	38	105	582	568
TOTAL EQUITY		**2,830,180**	**2,483,146**	**2,062,199**
TOTAL LIABILITIES AND EQUITY		**22,398,962**	**18,255,610**	**15,400,886**

*Certain amounts do not correspond to the 2019 consolidated financial statements as they reflect the adjustments made due to the change in accounting policy of Premises and equipment as described in Note 2. Restatement does not apply to Right of use assets as transition provisions for IFRS 16 have been adopted in 2019.

The consolidated and the separate financial statements on pages 140 to 273 were approved by the Supervisory Board on 26 April 2021 and signed on its behalf by:

Vakhtang Butskhrikidze
Chief Executive Officer

Giorgi Megrelishvili
Chief Financial and Operations Officer

The notes set out on pages 148 to 273 form an integral part of these consolidated and the separate financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

in thousands of GEL	Note	31 December 2020	31 December 2019 (as restated)*	31 December 2018 (as restated)*
Interest income	29	1,660,838	1,435,106	1,283,213
Interest expense	29	(854,089)	(670,422)	(512,655)
Net interest gains on currency swaps	29	20,950	28,556	–
Net interest income		**827,699**	**793,240**	**770,558**
Fee and commission income	30	298,496	284,428	234,626
Fee and commission expense	30	(129,717)	(105,302)	(78,134)
Net fee and commission income		**168,779**	**179,126**	**156,492**
Net gains from currency derivatives, foreign currency operations and translation	2	105,855	102,435	106,977
(Net losses)/gains from disposal of investment securities measured at fair value through other comprehensive income		(624)	169	2
Other operating income	31	13,354	17,576	30,906
Share of profit of associates		–	632	1,154
Other operating non-interest income		**118,585**	**120,812**	**139,039**
Credit loss allowance for loans to customers	9	(330,811)	(82,030)	(143,723)
Credit loss allowance for investments in leases	13	(7,760)	582	(1,765)
Credit loss allowance for performance guarantees and credit related commitments	22	3,238	(2,156)	(3,486)
Credit loss allowance for other financial assets	12	(13,408)	(7,717)	(16,446)
Credit loss allowance for financial assets measured at fair value through other comprehensive income		(1,810)	(291)	(86)
Operating income after expected credit losses		**764,512**	**1,001,566**	**900,583**
Staff costs	32	(206,887)	(226,008)	(212,469)
Depreciation and amortisation	15	(64,068)	(57,319)	(45,278)
Provision for liabilities and charges	22	(2,600)	(2,105)	(4,000)
Administrative and other operating expenses	33	(117,744)	(126,927)	(134,185)
Operating expenses		**(391,299)**	**(412,359)**	**(395,932)**
Losses from modifications of financial instruments		(41,015)	–	–
Profit before tax		**332,198**	**589,207**	**504,651**
Income tax recovery/(expense)	34	5,062	(43,522)	(71,351)
Profit for the year		**337,260**	**545,685**	**433,300**
Other comprehensive income/ (expense) for the year				
Items that may be reclassified subsequently to profit or loss:				
Movement in fair value reserve	10	17,633	(15,175)	6,966
Exchange differences on translation to presentation currency		1,588	241	425
Other comprehensive income/ (expense) for the year		**19,221**	**(14,934)**	**7,391**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**356,481**	**530,751**	**440,691**
Profit is attributable to:				
- Shareholders of the Group		337,238	545,612	433,051
- Non-controlling interest		22	73	249
Profit for the year		**337,260**	**545,685**	**433,300**
Total comprehensive income is attributable to:				
- Shareholders of the Group		356,459	530,678	440,442
- Non-controlling interest		22	73	249
Total comprehensive income for the year		**356,481**	**530,751**	**440,691**

*Certain amounts do not correspond to the 2019 consolidated financial statements as they reflect the adjustments made due to the change in accounting policy of Premises and equipment and reclassification of net gains from currency derivatives, foreign currency operations and translation as described in Note 2. Restatement does not apply to Right of use assets as transition provisions for IFRS 16 have been adopted in 2019.

The notes set out on pages 148 to 273 form an integral part of these consolidated and the separate financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in thousands of GEL	Note	Share Capital	Share premium	Share based payments reserve	Revaluation reserve for premises	Fair value reserve	Cumulative currency translation reserve	Retained earnings	Total equity excluding non-con-trolling interests	Non-controlling interest	Total quity
Balance as of 1 January 2018 (as originaly presented)		**21,014**	**521,190**	**(7,272)**	**70,038**	**1,809**	**(7,358)**	**1,180,548**	**1,779,969**	**4,735**	**1,784,704**
Effect of change in accounting policy	2	–	–	–	(70,038)	-	-	28,787	(41,251)	–	(41,251)
Balance as of 1 January 2018 (as restated)*		**21,014**	**521,190**	**(7,272)**	–	**1,809**	**(7,358)**	**1,209,335**	**1,738,718**	**4,735**	**1,743,453**
Profit for the year		–	–	–	–	–	–	433,051	433,051	249	433,300
Other comprehensive income (as restated)*		–	–	–	–	6,966	425	–	7,391	-	7,391
Total comprehensive income for 2018 (as restated)*		**–**	**–**	**–**	**-**	**6,966**	**425**	**433,051**	**440,442**	**249**	**440,691**
Share based payment	27	-	-	11,691	-	-	-	-	11,691	-	11,691
Share based payment recharge by parent company		-	-	(38,010)	-	-	-	-	(38,010)	-	(38,010)
Purchase of additional interest from NCI		-	-	-	-	-	-	4,416	4,416	(4,416)	-
Dividends declared		-	-		-	-	-	(95,626)	(95,626)	-	(95,626)
Balance as of 31 December 2018 (as restated)*		**21,014**	**521,190**	**(33,591)**	-	**8,775**	**(6,933)**	**1,551,176**	**2,061,631**	**568**	**2,062,199**
Profit for the year		-	-	–	–	-	-	545,612	545,612	73	545,685
Other comprehensive income (as restated)*		-	-	–	–	(15,175)	241	-	(14,934)	-	(14,934)
Total comprehensive income for 2019 (as restated)*		**–**	**–**	**–**	**–**	**(15,175)**	**241**	**545,612**	**530,678**	**73**	**530,751**
Share based payment	27	-	-	33,762	-	-	-	-	33,762	-	33,762
Share based payment recharge by parent company		-	-	(62,840)	-	-	-	-	(62,840)	-	(62,840)
Purchase of additional interest from NCI		-	-	-	-	-	-	-	-	(19)	(19)
Dividends declared		-	-	-	-	-	-	(80,911)	(80,911)	-	(80,911)
Other movements	–	-	-	-	-	1	1	242	244	(40)	204
Balance as of 31 December 2019 (as restated)*		**21,014**	**521,190**	**(62,669)**	-	**(6,399)**	**(6,691)**	**2,016,119**	**2,482,564**	**582**	**2,483,146**
Profit for the year		-	-	-	–	–	–	337,238	337,238	22	337,260
Other comprehensive income		-	-	-	–	17,633	1,588	–	19,221	–	19,221
Total comprehensive income for 2020		**–**	**–**	**–**	**–**	**17,633**	**1,588**	**337,238**	**356,459**	**22**	**356,481**
Share based payment	27	-	-	17,472	–	-	-	-	17,472	–	17,472
Share based payment recharge by parent company		-	-	(27,932)	-	-	-	-	(27,932)	–	(27,932)
Other movements		–	–	(1)	-	(77)	(158)	1,748	1,512	(499)	1,013
Balance as of 31 December 2020		**21,014**	**521,190**	**(73,130)**	**-**	**11,157**	**(5,261)**	**2,355,105**	**2,830,075**	**105**	**2,830,180**

*Certain amounts do not correspond to the 2019 consolidated financial statements as they reflect the adjustments made due to the change in accounting policy of Premises and equipment as described in Note 2.

The notes set out on pages 148 to 273 form an integral part of these consolidated and separate financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

in thousands of GEL	Note	31 December 2020	31 December 2019	31 December 2018
Cash flows from/(used in) operating activities				
Interest received		1,455,624	1,359,528	1,224,200
Interest received on currency swaps		20,950	28,556	–
Interest paid		(841,146)	(657,671)	(504,138)
Fees and commissions received		297,030	282,715	235,508
Fees and commissions paid		(129,445)	(105,207)	(78,123)
(Expense)/income from trading in foreign currencies		(92,191)	79,287	91,678
Other operating income received		10,216	18,356	15,655
Staff costs paid		(203,247)	(198,345)	(195,160)
Administrative and other operating expenses paid		(103,274)	(132,181)	(122,467)
Income tax paid		(44,285)	(68,166)	(34,918)
Cash flows from/(used in) operating activities before changes in operating assets and liabilities		**370,232**	**606,872**	**632,235**
Net change in operating assets				
Due from other banks and mandatory cash balances with the National Bank of Georgia		(341,901)	(14,811)	(336,232)
Loans and advances to customers		(1,059,684)	(2,013,577)	(1,718,446)
Net investments in leases		(2,010)	(44,268)	(54,784)
Other financial assets		(58,914)	26,582	(32,481)
Other assets		33,750	2,702	(3,866)
Net change in operating liabilities				
Due to other banks		(32,294)	(1,938)	69,755
Customer accounts		1,457,569	274,769	1,442,126
Other financial liabilities		132,679	10,205	(7,153)
Other liabilities and provision for liabilities and charges		(5,128)	8,432	3,602
Net cash flows from/(used in) operating activities		**494,299**	**(1,145,032)**	**(5,244)**
Cash flows (used in)/from investing activities				
Acquisition of investment securities measured at fair value through other comprehensive income	10	(763,531)	(1,781,816)	(717,630)
Proceeds from disposal of investment securities measured at fair value through other comprehensive income	10	287,917	240,603	14,781
Proceeds from redemption at maturity of investment securities measured at fair value through other comprehensive income	10	165,632	1,598,536	370,571
Dividends received		694	-	-
Acquisition of subsidiaries, net of cash acquired		-	410	809
Acquisition of bonds carried at amortised cost	11	(639,824)	(613,383)	(395,717)
Proceeds from redemption of bonds carried at amortised cost	11	413,038	216,871	200,658
Acquisition of premises, equipment and intangible assets	15	(153,791)	(120,677)	(104,960)
Proceeds from disposal of premises, equipment and intangible assets		3,450	13,225	17,933
Proceeds from disposal of investment properties		13,513	13,681	42,515
Net cash used in investing activities		**(672,902)**	**(432,550)**	**(571,040)**
Cash flows from/(used in) financing activities				
Proceeds from other borrowed funds		4,031,812	1,819,899	1,776,489
Redemption of other borrowed funds		(3,319,427)	(1,392,897)	(1,539,562)
Repayment of principal of lease liabilities		(13,251)	(6,453)	–
Proceeds from subordinated debt		–	–	255,899
Redemption of subordinated debt		–	(104,079)	(60,910)
Proceeds from debt securities in issue		31,601	1,176,049	–
Redemption of debt securities in issue		–	(14,296)	(7,596)
Recharge paid		(27,932)	(62,840)	(38,010)
Dividends paid		–	(80,911)	(95,626)
Net cash flows from financing activities		**702,803**	**1,334,472**	**290,684**
Effect of exchange rate changes on cash and cash equivalents		82,920	73,186	21,232
Net increase/(decrease) in cash and cash equivalents		**607,120**	**(169,924)**	**(264,368)**
Cash and cash equivalents at the beginning of the year	**6**	**994,479**	**1,164,403**	**1,428,771**
Cash and cash equivalents at the end of the year	**6**	**1,601,599**	**994,479**	**1,164,403**

The notes set out on pages 148 to 273 form an integral part of these consolidated and separate financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION

In thousands of GEL	Note	31 December 2020	31 December 2019 (as restated)*	31 December 2018 (as restated)*
Assets				
Cash and cash equivalents		1,536,717	978,870	1,155,388
Due from other banks		13,717	12,709	28,930
Mandatory cash balances with the National Bank of Georgia		2,098,506	1,591,829	1,422,809
Loans and advances to customers	9	14,611,204	12,416,985	10,079,844
Investment securities measured at fair value through other comprehensive income		1,547,330	983,131	1,004,235
Bonds carried at amortised cost		1,059,946	1,021,568	653,893
Investment properties		67,812	71,801	83,422
Current income tax prepayment		69,166	25,126	1,166
Other financial assets	12	173,075	119,593	121,353
Other assets		226,892	197,904	144,437
Premises and equipment	15	335,124	302,190	283,284
Intangible assets	15	210,602	152,393	104,066
Right of use assets		46,699	55,571	-
Goodwill		27,502	27,502	27,502
Investments in subsidiaries and associates		33,142	33,080	26,350
TOTAL ASSETS		**22,057,434**	**17,990,252**	**15,136,679**
LIABILITIES				
Due to credit institutions		4,230,013	3,418,798	2,859,090
Customer accounts		12,746,959	10,177,027	9,481,716
Debt securities in issue		1,381,009	1,213,598	-
Other financial liabilities	23	186,487	58,809	45,347
Deferred income tax liability	34	13,083	18,347	19,792
Provisions for liabilities and charges	22	17,451	16,978	13,817
Other liabilities		52,083	60,371	82,258
Lease liabilities		51,215	58,476	-
Subordinated debt		639,641	562,060	623,863
TOTAL LIABILITIES		**19,317,941**	**15,584,464**	**13,125,883**
EQUITY				
Share capital		21,014	21,014	21,014
Share premium		521,190	521,190	521,190
Retained earnings		2,259,159	1,933,412	1,493,407
Share based payment reserve		(73,129)	(62,669)	(33,590)
Fair value reserve		11,259	(7,159)	8,775
Total equity		**2,739,493**	**2,405,788**	**2,010,796**
Total liabilities and equity		**22,057,434**	**17,990,252**	**15,136,679**

*Certain amounts do not correspond to the 2019 consolidated and separate financial statements as they reflect the adjustments made due to the change in accounting policy of Premises and equipment as described in Note 2. Restatement does not apply to Right of use assets as transition provisions for IFRS 16 have been adopted in 2019.

The consolidated and separate financial statements on pages 140 to 273 were approved by the Board of Directors on 26 April 2021 and signed on its behalf by:

Vakhtang Butskhrikidze
Chief Executive Officer

Giorgi Megrelishvili
Chief Financial and Operations Officer

The notes set out on pages 148 to 273 form an integral part of these consolidated and separate financial statements.

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

In thousands of GEL	Note	31 December 2020	31 December 2019 (as restated)*	31 December 2018 (as restated)*
Interest income		1,609,791	1,387,720	1,244,451
Interest expense		(839,830)	(657,579)	(502,331)
Net interest gains on currenct swaps		20,950	28,556	-
Net interest income		**790,912**	**758,697**	**742,120**
Fee and commission income	30	271,981	254,764	206,555
Fee and commission expense	30	(147,583)	(118,969)	(88,769)
Net fee and commission income		**124,398**	**135,795**	**117,786**
Net gains from currency derivatives, foreign currency operations and translation		108,101	103,210	107,225
Net (losses)/gains from disposal of Investment Securities measured at fair value through other comprehensive income		(624)	169	2
Other operating income		6,120	15,452	22,847
Share of profit of associates		-	633	1,092
Other operating non-interest income		**113,597**	**119,464**	**131,166**
Credit loss allowance for loan to customers	9	(323,651)	(84,562)	(148,443)
Credit loss allowance for performance guarantees and credit related commitments		3,238	(2,156)	(3,486)
Credit loss allowance for other financial assets	12	(9,514)	(1,278)	(12,521)
Credit loss allowance for financial assets measured at fair value through other comprehensive income		(1,915)	(291)	(86)
Credit loss allowance for financial assets measured at amortised cost		(331)	(895)	-
Operating income after expected credit losses		**696,735**	**924,774**	**826,536**
Staff costs	32	(186,395)	(205,026)	(194,016)
Depreciation and amortisation		(55,761)	(50,726)	(39,969)
Provision for liabilities and charges	22	(2,600)	(2,105)	(4,000)
Administrative and other operating expenses	33	(94,643)	(102,939)	(112,460)
Operating expenses		**(339,399)**	**(360,796)**	**(350,445)**
Losses from modifications of financial instruments		(37,131)	–	–
Profit before tax		**320,204**	**563,978**	**476,091**
Income tax benefit/(expense)		5,264	(43,101)	(70,034)
Profit for the year		**325,468**	**520,877**	**406,057**
Other comprehensive income (OCI):				
Items that may be reclassified subsequently to profit or loss:				
Movement in fair value reserve		17,632	(15,933)	6,966
Other comprehensive income/(expense) for the year		**17,632**	**(15,933)**	**15,272**
Total comprehensive income for the year		**343,100**	**504,944**	**421,329**

*Certain amounts do not correspond to the 2019 consolidated and separate financial statements as they reflect the adjustments made due to the change in accounting policy of Premises and equipment as described in Note 2. Restatement does not apply to Right of use assets as transition provisions for IFRS 16 have been adopted in 2019.

The notes set out on pages 148 to 273 form an integral part of these consolidated and separate financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY

in thousands of GEL	Note	Share Capital	Share premium	Share based payments reserve	Revaluation reserve for premises	Fair value reserve	Retained earnings	Total
Balance as of 1 January 2018 (as originaly presented)		**21,014**	**521,190**	**(7,272)**	**70,038**	**1,809**	**1,154,190**	**1,760,969**
Effect of change in accounting policy	2	–	–	–	(70,038)	–	28,787	(41,251)
Balance as of 1 January 2018 (as restated)*		**21,014**	**521,190**	**(7,272)**	**-**	**1,809**	**1,182,977**	**1,719,718**
Profit for the year		–	–	–	–	–	406,057	406,057
Other comprehensive income (as restated)*		–	–	–	-	6,966	–	6,966
Total comprehensive income for 2018 (as restated)*		**–**	**–**	**–**	**-**	**6,966**	**406,057**	**413,023**
Share based payment	27	–	–	11,691	–	–	–	11,691
Share based payment recharge by parent company		–	–	(38,010)	–	–	–	(38,010)
Dividends declared		–	–	–	–	–	(95,626)	(95,626)
Balance as of 31 December 2018 (as restated)*		**21,014**	**521,190**	**(33,591)**	**-**	**8,775**	**1,493,408**	**2,010,796**
Profit for the year		–	–	–	–	-	520,877	520,877
Other comprehensive income (as restated)*		–	–	–	–	(15,933)	-	(15,933)
Total comprehensive income for 2019 (as restated)*		**–**	**–**	**–**	**–**	**(15,933)**	**520,877**	**504,944**
Share based payment	27	–	–	33,762	–	–	–	33,762
Share based payment recharge by parent company		–	–	(62,840)	–	–	–	(62,840)
Dividends declared		–	–	–	–	–	(80,911)	(80,911)
Other movements		–	–	–	–	–	38	38
Balance as of 31 December 2019 (as restated)*		**21,014**	**521,190**	**(62,669)**	**-**	**(7,158)**	**1,933,412**	**2,405,789**
Profit for the year		–	–	–	–	–	325,468	325,468
Other comprehensive income		–	–	–	–	17,632	–	17,632
Total comprehensive income for 2020		**–**	**–**	**–**	**–**	**17,632**	**325,468**	**343,100**
Share based payment	27	–	–	17,472	–	–	–	17,472
Share based payment recharge by parent company		–	–	(27,932)	–	–	–	(27,932)
Other movements		–	–	–	–	785	279	1,064
Balance as of 31 December 2020		**21,014**	**521,190**	**(73,129)**	**-**	**11,259**	**2,259,159**	**2,739,493**

Certain amounts do not correspond to the 2019 consolidated and separate financial statements as they reflect the adjustments made due to the change in accounting policy of Premises and equipment as described in Note 2.

The notes set out on pages 148 to 273 form an integral part of these consolidated and separate financial statements.

SEPARATE STATEMENT OF CASH FLOWS

in thousands of GEL	Note	31 December 2020	31 December 2019	31 December 2018
Cash flows from/(used in) operating activities				
Interest received		1,402,828	1,310,626	1,186,528
Interest received on currency swaps		20,950	28,556	–
Interest paid		(826,633)	(663,802)	(494,409)
Fees and commissions received		270,516	253,250	207,663
Fees and commissions paid		(147,379)	(118,969)	(88,769)
(Expense)/income received from trading in foreign currencies		(91,996)	79,618	91,723
Other operating income received		4,803	9,543	12,716
Staff costs paid		(182,627)	(178,518)	(176,966)
Administrative and other operating expenses paid		(80,965)	(110,569)	(102,331)
Income tax paid		(44,040)	(68,508)	(34,500)
Cash flows from/(used in) operating activities before changes in operating assets and liabilities		**325,457**	**541,227**	**601,655**
Net change in operating assets				
Due from other banks and mandatory cash balances with the National Bank of Georgia		(338,835)	(20,393)	(333,075)
Loans and advances to customers		(993,187)	(2,042,091)	(1,746,945)
Other financial assets		(45,601)	477	(24,692)
Other assets		6,882	19,332	19,304
Net change in operating liabilities				
Due to other banks		(32,294)	(1,938)	69,755
Customer accounts		1,499,686	300,888	1,431,035
Other financial liabilities		125,129	3,456	5,370
Other liabilities and provision for liabilities and charges		(459)	5,019	1,858
Net cash flows from/(used in) operating activities		**546,778**	**(1,194,023)**	**24,265**
Cash flows (used in)/from investing activities				
Acquisition of investment securities measured at fair value through other comprehensive income	10	(783,530)	(1,781,432)	(717,630)
Proceeds from disposal of investment securities measured at fair value through other comprehensive income	10	287,917	240,603	14,781
Proceeds from redemption at maturity of investment securities measured at fair value through other comprehensive income	10	165,632	1,598,536	370,571
Dividends received		694	5,211	-
Cash contribution to subsidiaries		(667)	-	-
Acquisition of subsidiaries, net of cash acquired		–	–	809
Acquisition of bonds carried at amortised cost	11	(639,824)	(613,383)	(395,717)
Proceeds from redemption of bonds carried at amortised cost	11	413,038	216,871	200,658
Acquisition of premises, equipment and intangible assets	15	(142,367)	(112,345)	(76,631)
Proceeds from disposal of premises, equipment and intangible assets		4,510	10,140	3,902
Proceeds from disposal of investment properties		12,849	12,446	42,574
Net cash used in investing activities		**(681,748)**	**(423,353)**	**(556,683)**
Cash flows from/(used in) financing activities				
Proceeds from other borrowed funds		3,860,292	1,703,411	1,685,389
Redemption of other borrowed funds		(3,209,347)	(1,270,653)	(1,487,189)
Repayment of principal of lease liabilities		(15,784)	(6,960)	–
Proceeds from subordinated debt		–	–	211,808
Redemption of subordinated debt		–	(104,079)	(40,558)
Proceeds from debt securities in issue		–	1,196,422	-
Redemption of debt securities in issue		–	(14,296)	–
Recharge paid		(27,932)	(62,840)	(38,010)
Dividends paid		–	(80,911)	(95,626)
Acquisition of non-controlling interest in subsidiary		–	–	7,190
Net cash flows from financing activities		**607,229**	**1,374,390**	**243,004**
Effect of exchange rate changes on cash and cash equivalents		85,588	66,468	27,418
Net increase/(decrease) in cash and cash equivalents		**557,847**	**(176,518)**	**(261,996)**
Cash and cash equivalents at the beginning of the year	**6**	**978,870**	**1,155,388**	**1,417,384**
Cash and cash equivalents at the end of the year	**6**	**1,536,717**	**978,870**	**1,155,388**

The notes set out on pages 148 to 273 form an integral part of these consolidated and separate financial statements.

1. INTRODUCTION

Principal activity. JSC TBC Bank (hereafter the "Bank") was incorporated on 17 December 1992 and is domiciled in Georgia. The Bank is a joint stock company limited by shares and was set up in accordance with Georgian regulations. The Bank's principal business activity is universal banking operations that include corporate, small and medium enterprises ("SME"), retail and micro operations within Georgia. The Bank is a parent of a group of companies (hereafter the "Group") incorporated in Georgia and Azerbaijan; their primary business activities include providing banking, leasing, brokerage and card processing services to corporate and individual customers. The Bank has been operating since 20 January 1993 under a general banking license issued by the National Bank of the Georgia ("NBG"). The Bank's registered address and place of business is 7 Marjanishvili Street, 0102 Tbilisi, Georgia. The Bank was registered by District Court of Vake and the registration number is 204854595.

The Bank has 149 (2019:148; 2018:146) branches within Georgia.

TBC Bank Group PLC ("TBCG") is a public limited liability company, incorporated in England and Wales. TBCG held 99.88% of the share capital of JSC TBC Bank Group as at 31 December 2020 (2019: 99.88%, 2018: 99.88%), thus representing the Bank's ultimate parent company. TBC Bank Group PLC's registered legal address is Elder House St Georges Business Park, 207 Brooklands Road, Weybridge, Surrey, KT13 0TS. Registered number of TBC Group PLC is 10029943.

The following shareholders directly owned more than 5% of the total outstanding shares of the Group. Other shareholders individually owned less than 5% of the outstanding shares. As of 31 December 2020, 2019, and 2018 the Group had no ultimate controlling party.

	% of ownership interest held as of 31 December		
Shareholders	**2019**	**2019**	**2018**
TBC Bank Group PLC	99.88%	99.88%	99.88%
Other*	0.12%	0.12%	0.12%
Total	**100.00%**	**100.00%**	**100.00%**

* Other includes individual as well as corporate shareholders.

As of 31 December 2020, 31 December 2019 and 31 December 2018, the shareholder structure by beneficiary ownership interest was as follows:

	% of ownership interest held as of 31 December		
Shareholders	**2020**	**2019**	**2018**
Mamuka Khazaradze	8.64%	10.26%	13.54%
Badri Japaridze	6.00%	6.00%	6.77%
Institutional and retail investors	74.79%	68.70%	66.91%
IFIs	7.84%	8.04%	8.18%
Other Shareholders	2.73%	7.00%	4.60%
Total	**100.00%**	**100.00%**	**100.00%**

TBC Bank (hereafter the "Bank") was incorporated on 17 December 1992 and is domiciled in Georgia. The Bank is a joint stock company limited by shares and was set up in accordance with Georgian regulations. The Bank's principal business activity is universal banking operations that include corporate, small and medium enterprises ("SME"), retail and micro operations within Georgia. The Bank is a parent of a group of companies (hereafter the "Group") incorporated in Georgia and Azerbaijan; their primary business activities include providing banking, leasing, brokerage and card processing services to corporate and individual customers. The Bank has been operating since 20 January 1993 under a general banking license issued by the National Bank of the Georgia ("NBG"). The Bank's registered address and place of business is 7 Marjanishvili Street, 0102 Tbilisi, Georgia. The Bank was registered by District Court of Vake and the registration number is 204854595.

1. INTRODUCTION CONTINUED

The Bank has 149 (2019:148; 2018:146) branches within Georgia.

TBC Bank Group PLC ("TBCG") is a public limited liability company, incorporated in England and Wales. TBCG held 99.88% of the share capital of JSC TBC Bank Group as at 31 December 2020 (2019: 99.88%, 2018: 99.88%), thus representing the Bank's ultimate parent company. TBC Bank Group PLC's registered legal address is Elder House St Georges Business Park, 207 Brooklands Road, Weybridge, Surrey, KT13 0TS. Registered number of TBC Group PLC is 10029943.

The Bank is a parent of a group of companies incorporated in mainly in Georgia, Azerbaijan and Uzbekistan, their primary business activities include providing banking, leasing, brokerage and card processing services to corporate and individual customers.

As of 31 December 2020, 2019, and 2018, the following shareholders directly owned more than 5% of the total outstanding shares of the Group. Other shareholders individually owned less than 5% of the outstanding shares. As of 31 December 2020, 2019, and 2018 the Group had no ultimate controlling party.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated and separate financial statements (hereafter the "Financial Statements") have been prepared in accordance with international Financial Reporting Standards (IFRS). The consolidated and separate financial statements have been prepared under the historical cost convention, as modified by the certain financial assets and liabilities (including derivative instruments) and certain class of premises and equipment which are measured at fair value. The principal accounting policies applied in the preparation of the consolidated and separate financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated below.

Changes in presentation of the net gains from currency derivatives, foreign currency operations and translation

To further foster clarity of the consolidated and the separate statements of comprehensive income, the Group has re-considered the presentation of the net gains from currency derivatives, foreign currency operations and translation. As a result of reclassification, management has combined "Net gains/(losses) from trading in foreign currencies", "Net gains/(losses) from foreign exchange translation" and "Net gains/(losses) from derivative financial instruments", under one financial statement line item "Net gains from currency derivatives, foreign currency operations and translation". Management believes, that such presentation will allow the Group to present the results of foreign currency operations clearly and allow the users to understand the effectiveness of the Group's foreign currency management. The presentation of comparative figures has been adjusted to confirm to the presentation of the current period amounts

Effects on consolidated statement of comprehensive income.

in thousands of GEL	**31 December 2019 (as originally presented)**	**Reclassification**	**31 December 2019 (as reclassified)**
Net gains/(losses) from trading in foreign currencies	79,287	(79,287)	-
Net gains/(losses) from foreign exchange translation	23,428	(23,428)	-
Net gains/(losses) from derivative financial instruments	(280)	280	-
Net gains from currency derivatives, foreign currency operations and translation	-	102,435	102,435

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

in thousands of GEL	31 December 2018 (as originally presented)	Reclassification	31 December 2018 (as reclassified)
Net gains/(losses) from trading in foreign currencies	91,678	(91,678)	-
Net gains/(losses) from foreign exchange translation	15,503	(15,503)	-
Net gains/(losses) from derivative financial instruments	(204)	204	-
Net gains from currency derivatives, foreign currency operations and translation	-	106,977	106,977

Effects on separate statement of comprehensive income

in thousands of GEL	31 December 2019 (as originally presented)	Reclassification	31 December 2019 (as reclassified)
Net gains/(losses) from trading in foreign currencies	79,618	(79,618)	-
Net gains/(losses) from foreign exchange translation	23,872	(23,872)	-
Net gains/(losses) from derivative financial instruments	(280)	280	-
Net gains from currency derivatives, foreign currency operations and translation	-	103,210	103,210

in thousands of GEL	31 December 2018 (as originally presented)	Reclassification	31 December 2018 (as reclassified)
Net gains/(losses) from trading in foreign currencies	91,723	(91,723)	-
Net gains/(losses) from foreign exchange translation	15,706	(15,706)	-
Net gains/(losses) from derivative financial instruments	(204)	204	-
Net gains from currency derivatives, foreign currency operations and translation	-	107,225	107,225

For disclosure purposes, net gains from currency derivatives, foreign currency operations and translation for 2020 is composed of following line items:

in thousands of GEL	2020 Group	2020 Bank
Net gains/(losses) from trading in foreign currencies	(96,484)	(96,289)
Net gains/(losses) from foreign exchange translation	202,331	204,382
Net gains/(losses) from derivative financial instruments	8	8
Total net gains from currency derivatives, foreign currency operations and translation	**105,855**	**108,101**

Changes in accounting policies, IAS 16

In 2020, the Group changed the accounting policy in relation to subsequent measurement for land, buildings and construction in progress. The Group now applies the cost model, where assets are carried at cost less accumulated depreciation and any accumulated impairment. Prior to this change, the Group applied revaluation model: it carried land, buildings and construction in progress at a revalued amount being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The Group believes that the cost model provides more relevant and consistent information, as well as it enables investors to make accurate comparisons across the banking industry, since the application of the cost model is a common and widespread market practice. The balance sheet accounts for the affected periods were restated accordingly, while the prior period income statement accounts remained the same, due to the fact that the change did not have material impact on them.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Effects on respective periods are disclosed below:

Effects on consolidated statement of financial position

in thousands of GEL	31 December 2019 (as originally presented)	Change in accounting policy	31 December 2019 (as resated)
Assets:			
Premises and equipment	380,537	(51,008)	329,529
Liabilities:			
Deferred income tax liability	21,250	(2,444)	18,806
Equity:			
Retained earnings	2,008,397	7,722	2,016,119
Revaluation reserve for premises	56,286	(56,286)	-

in thousands of GEL	31 December 2018 (as originally presented)	Change in accounting policy	31 December 2018 (as restated)
Assets:			
Premises and equipment	366,071	(52,002)	314,069
Liabilities:			
Deferred income tax liability	22,237	(2,444)	19,793
Equity:			
Retained earnings	1,543,581	7,595	1,551,176
Revaluation reserve for premises	57,153	(57,153)	-

Effects on separate statement of financial position

In thousands of GEL	31 December 2019 (as originally presented)	Change in accounting policy	31 December 2019 (as restated)
Assets:			
Premises and equipment	353,198	(51,008)	302,190
Liabilities:			
Deferred income tax liability	20,790	(2,443)	18,347
Equity:			
Retained earnings	1,925,690	7,722	1,933,412
Revaluation reserve for premises	56,286	(56,286)	-

In thousands of GEL	31 December 2018 (as originally presented)	Change in accounting policy	31 December 2018 (as restated)
Assets:			
Premises and equipment	335,286	(52,002)	283,284
Liabilities:			
Deferred income tax liability	22,237	(2,445)	19,792
Equity:			
Retained earnings	1,485,812	7,595	1,493,407
Revaluation reserve for premises	57,153	(57,153)	-

Going Concern. The Management of the Group has prepared these financial statements on a going concern basis. In making this judgement, management considered the Group's financial position, current intentions, profitability of operations and access to financial resources. Management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern.

MANAGEMENT REPORT Overview
MANAGEMENT REPORT Strategy & Performance
GOVERNANCE
FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

In reaching this assessment, the directors have specifically considered the implications of the COVID-19 pandemic upon the Group's performance and projected funding and capital position and also taken into account the impact of further stress scenarios. On this basis, the directors are satisfied that the Group will maintain adequate levels of funding and capital for the foreseeable future.

Presentation currency. These consolidated financial statements are presented in thousands of Georgian Lari ("GEL thousands"), unless otherwise indicated.

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because it (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than the majority of voting power in it. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

Subsidiaries and associates. The consolidated financial statements include the following principal subsidiaries:

	Proportion of voting rights and ordinary share capital held as of 31 December			Principal place of business or incorporation	Year of incorporation	Principal activities
Subsidiaries Name	**2020**	**2019**	**2018**			
JSC TBC Bank	99.88%	99.88%	99.88%	Tbilisi, Georgia	1992	Banking
United Financial Corporation JSC	99.53%	99.53%	98.67%	Tbilisi, Georgia	1997	Card processing
TBC Capital LLC	100.00%	100.00%	100.00%	Tbilisi, Georgia	1999	Brokerage
TBC Leasing JSC	100.00%	100.00%	99.61%	Tbilisi, Georgia	2003	Leasing
TBC Kredit LLC	100.00%	100.00%	100.00%	Baku, Azerbaijan	1999	Non-banking credit institution
Banking System Service Company LLC	N/A	N/A	100.00%	Tbilisi, Georgia	2009	Information services
TBC Pay LLC	100.00%	100.00%	100.00%	Tbilisi, Georgia	2009	Processing
TBC Invest LLC	100.00%	100.00%	100.00%	Ramat Gan,Israel	2011	PR and marketing
Index LLC	100.00%	100.00%	100.00%	Tbilisi, Georgia	2011	Real estate management

	Proportion of voting rights and ordinary share capital held as of 31 December			Principal place of business or incorporation	Year of incorporation	Principal activities
Subsidiaries Name	**2020**	**2019**	**2018**			
CreditInfo Georgia JSC	21.08%	21.08%	21.08%	Tbilisi, Georgia	2005	Financial intermediation
Tbilisi Stock Exchange JSC	28.87%	28.87%	N/A	Tbilisi, Georgia	2019	Finance, Service
Georgian Central Securities Depository JSC	22.87%	27.70%	N/A	Tbilisi, Georgia	2019	Finance, Service
Georgian Stock Exchange JSC	17.33%	17.33%	N/A	Tbilisi, Georgia	2019	Finance, Service
Kavkasreestri JSC	10.03%	10.03%	N/A	Tbilisi, Georgia	2019	Finance, Service

The country of registration or incorporation is also the principal area of operation of each of the above subsidiaries.

The Group's corporate structure consists of a number of related undertakings, comprising subsidiaries and associates, which are not consolidated or equity accounted due to immateriality. A full list of these undertakings, the country of incorporation and the ownership of each share class is set out below.[i]

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Subsidiaries Name	Proportion of voting rights and ordinary share capital held as of 31 December 2020	2019	2018	Principal place of business or incorporation	Year of incorporation	Principal activities
TBC Invest International Ltd[1]	100.00%	100.00%	100.00%	Tbilisi, Georgia	2016	Investment Vehicle
University Development Fund[1]	33.33%	33.33%	33.33%	Tbilisi, Georgia	2007	Education
Natural Products of Georgia LLC[1]	25.00%	25.00%	25.00%	Tbilisi, Georgia	2001	Trade, Service
Mobi Plus JSC[1]	14.81%	14.81%	14.81%	Tbilisi, Georgia	2009	Data monitoring and processing
GRDC	1.75%	1.75%	1.75%	Tbilisi, Georgia	2008	Investment Real Estate
Georgian Card JSC	0.15%	0.15%	0.15%	Tbilisi, Georgia	1997	Plastic Card Services
Georgian Securities Central Depositor	0.003%	0.05%	0.05%	Tbilisi, Georgia	1999	Finance, Service
JSC Givi Zaldastanishvili American Academy In Georgia	14.48%	14.48%	14.48%	Tbilisi, Georgia	2001	Education
United Clearing Centre	18.75%	18.75%	18.75%	Tbilisi, Georgia	2008	Clearing Centre
Banking and Finance Academy of Georgia[1]	16.67%	16.67%	16.67%	Tbilisi, Georgia	1998	Education
Tbilisi's City JSC[1]	1.80%	1.80%	1.80%	Tbilisi, Georgia	2007	Education
TBC Trade[1]	100.00%	100.00%	100.00%	Tbilisi, Georgia	2008	Trade, Service
Mineral Oil Distribution Corporation JSC[1]	9.90%	9.90%	9.90%	Tbilisi, Georgia	2009	Data monitoring and processing

Business combinations and goodwill accounting. Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured at the fair value of the consideration, including contingent consideration, given at the acquisition date. Acquisition-related costs are recognised as an expense in the profit or loss in the period in which they are incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures the non-controlling interest that represents the current ownership's interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquired entity. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the acquiree's net assets from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after the management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services.

Transaction costs incurred for issuing equity instruments are deducted from the equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

1 Dormant

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests that are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Group's equity.

Associates. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 per cent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investments in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Financial instruments – key measurement terms. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or the liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity owned by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (ie an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure the fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are ana-

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

lysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not solely based on observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for expected credit losses. Accrued interest includes the amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position. Repayments for loans are accounted for penalties in the first place, then accrued interest and after that principal amount.

The effective interest method is a method of allocating interest income or interest expense over the term of the financial instrument so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy). For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

Initial recognition of financial instruments. Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL (expected credit loss) allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame set by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets – classification and subsequent measurement – measurement categories. The Group classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Financial assets – classification and subsequent measurement – business model. The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Group considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the "hold to collect" business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the "hold to collect" business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Group assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Group's control, is not recurring and could not have been anticipated by the Group, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The "hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model's objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. The judgements applied by the Group in performing the SPPI test for its financial assets is as follows:

The time value of money element may be modified, for example, if a contractual interest rate is periodically reset but the frequency of that reset does not match the tenor of the debt instrument's underlying base interest rate, for example a loan pays three months interbank rate but the rate is reset every month. The effect of the modified time value of money was assessed by comparing relevant instrument's cash flows against a benchmark debt instrument with SPPI cash flows, in each period and cumulatively over the life of the instrument. The Group applied a threshold of 10% to determine whether differences against a benchmark instruments are significantly different. In case of a scenario with cash flows that significantly differ from the benchmark, the assessed instrument's cash flows are not SPPI and the instrument is then carried at FVTPL.

The Group identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset's principal is the fair value at initial recognition less subsequent principal repayments, ie instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual amount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (iii) the fair value of the prepayment feature is immaterial at initial recognition.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Financial assets – reclassification. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Group changed its business model during the current period in relation to the portfolio of bonds carried at amortized cost and made respective reclassifications prospectively starting from 1 January 2021.

Financial assets impairment - expected credit loss (ECL) allowance. The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Group measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

The Group applies a three stage model for impairment, based on changes in credit quality since initial recognition:

- Stage 1: A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL");
- Stage 2: If the Group identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage2 and its ECL is measured based on ECL on a lifetime basis ("Lifetime ECL"). If a SICR is no longer observed, instrument will move back to Stage 1.Refer to Note 36 for a description of how the Group determines, on a forward-looking basis, when a SICR has occurred;
- Stage 3: Credit impaired assets are transferred to Stage 3 and allowance for Lifetime ECL is recognized. The Group's definition of credit impaired assets and definition of default is based on the occurrence of one or more loss events, described further in Note 36.

Change in ECL is recognized in the statement of profit or loss with a corresponding allowance reported as a decrease in carrying value of the financial asset on the statement of financial position. For financial guarantees and credit commitments, provision for ECL is reported as a liability in Provisions for Liabilities and Charges.

Gross carrying amount and write offs. Gross carrying amount of a financial asset is the amortised cost of a financial asset, before adjusting for any loss allowance. The Group directly reduces the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The latter includes penalties under the local regulation requirements. The loans are collectively assessed for write off based on overdue days criteria or are individually evaluated, depending on the loan segment and product type.

Financial assets- derecognition and modification. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale. The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: change in interest rate due to market environment changes, change in the currency denomination; consolidation of two or more loans into one new loan; change in counterparty; loan with no schedule is replaced with loan with schedule or vice versa; Based on below shown internally developed methodology there are certain qualitative triggers which lead to asset derecognition with no further quantitative testing required. These qualitative criteria are included in the list below:

- Change in contract currency;
- Consolidation of two or more loans into one new loan;
- Change in counterparty;

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

- Loan with no predetermined payment schedule is changed with loan with schedule or vice versa;
- Change in contractual interest rate due to market environment changes.

The Group compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. It should be assessed whether change in contractual cash flow is significant (significance defined as 10% change). If the test result is above 10% threshold, loan should be derecognized, whereas if the test is passed and result is below or equal to 10%, financial asset can be assessed as modified.

If the risks and rewards do not change, the modified asset will not be substantially different (exceed 10% test) from the original asset and the modification does not result in derecognition. The Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate or, when applicable, the revised effective interest rate and recognises a modification gain or loss in profit or loss. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Payment holidays granted by the Group in response to COVID-19 pandemic are treated as contractual modifications of the respective loans and advances, if they do not lead to derecognition as guided by the policy stated above. The impact of modifications on the gross carrying amount (net modification loss) is presented in profit or loss within losses from modifications of financial instruments.

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

Financial liabilities – derecognition and modification. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, amounts due from the National Bank of Georgia (NBG), excluding mandatory reserves, and all interbank placements and interbank receivables with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The payments or receipts presented in the statement of cash flows represent the Group's transfers of cash and cash equivalents, including amounts charged or credited to current accounts of the Group's counterparties held with the Group, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represent cash or cash equivalent from the customer's perspective.

Mandatory cash balances with the National Bank of Georgia. Mandatory cash balances with the NBG are carried at AC and represent mandatory reserve deposits that are not available to finance the Group's day to day operations. Hence they are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks. Amounts due from other banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at fair value through profit or loss (FVTPL). Otherwise they are carried at fair value (FV).

Investments in debt securities. Based on the business model and the cash flow characteristics, the Group classifies investments in debt securities as carried at AC, fair value through other comprehensive income (FVOCI) or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss. Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Group may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

Investments in equity securities. Financial assets that meet the definition of equity from the issuer's perspective, i.e. instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets, are considered as investments in equity securities by the Group. Investments in equity securities are measured at FVTPL, except where the Group elects at initial recognition to irrevocably designate an equity investments at FVOCI. The Group's policy is to designate equity investments as FVOCI when those investments are held for strategic purposes other than solely to generate investment returns. When the FVOCI election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses and their reversals, if any, are not measured separately from other changes in fair value. Dividends continue to be recognised in profit or loss when the Group's right to receive payments is established except when they represent a recovery of an investment rather than a return on such investment.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Group classifies loans and advances to customers into one of the following measurement categories: (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

Impairment allowances are determined based on the forward-looking ECL models. Note 36 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporates forward-looking information in the ECL models.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Repossessed collateral. Repossessed collateral represents non-financial assets acquired by the Group to settle overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, investment property or repossessed collateral within other assets depending on their nature and the Group's intention in respect of recovery of these assets and are subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets. Repossessed assets are recorded at the lower of cost or net realisable value.

Loan commitments. The Group issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability.

Financial guarantees. Financial guarantees require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts transfer non-financial performance risk in addition to credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Group has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as an asset upon transfer of the loss compensation to the guarantee's beneficiary. These fees are recognised within fee and commission income in profit or loss.

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. The lender provides funds to the borrower and receives security as collateral. Securities sold under such sale and repurchase agreements are not derecognized. The securities are not reclassified in the statement of financial position unless the transferee has, by contract, the right or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to credit institutions. The repurchase agreements are short-term in nature. Investment securities at fair value through other comprehensive income or bonds carried at amortised cost reclassified to repurchase receivables continue to be carried at fair value or amortised cost respectively in accordance with the accounting policies for these categories of assets.

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Group, are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Securities lent to counterparties for a fixed fee are retained in the consolidated financial statements in their original category in the statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in other borrowed funds. Based on classification of securities sold under the sale and repurchase agreements, the Group classifies repurchase receivables into one of the following measurement categories: AC, FVOCI, and FVTPL.

Net investments in leases. Where the Group is a lessor in a lease that substantially transfers all risks and rewards incidental to ownership to the lessee, the assets leased out are presented as net investments in leases and carried at the present value of the future lease payments. Net investments in leases are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the early date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the net investments in leases and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the profit or loss.

The ECL is determined in the same way as for loans and advances measured at AC and recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows discounted at the interest rates implicit in the lease investments. There is a 'three stage' approach which is based on the change in credit quality of financial lease receivables since initial recognition. Immediate loss that is equal to the 12-month ECL is recorded on initial recognition of financial leases that are not credit impaired. In case of a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

The Group normally structures its finance lease contracts so that the lessee makes a minimum prepayment of 20% of the equipment purchase price at the inception of the lease term. The Group holds title to the leased assets during the lease term. The title to the asset under the finance lease contract is transferred to the lessees at the end of the contracts terms, including full repayment of lease payments. Generally the lease terms are up to five years.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral obtained are:

- Leased assets (inventory and equipment);
- Down payment;
- Real estate properties;
- Third party guarantees.

The financial effect of collateral is presented by disclosing the collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed the assets' carrying value("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the assets' carrying value ("under-collateralised assets").

The Company classifies its portfolio into three stages:

- Stage 1 – assets for which no significant increase of credit risk since initial recognition is identified;
- Stage 2 – assets for which significant increase in credit risk since initial recognition is identified;
- Stage 3 – credit-impaired exposures.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

For stage 1 exposures the Company creates 12 months expected credit losses, whereas for stage 2 and stage 3 lifetime expected credit losses are created.

For the Stage 2 classification purposes the Company applies both quantitative and the qualitative criteria including, but not limited to:

- 30 days past due (DPD) overdue;
- Downgrade of the risk category of the borrower since initial recognition;

Default definition includes criteria such as: (i) 90 DPD overdue (ii) distressed restructuring and (iii) other criteria indicating the borrower's unlikeness to repay the liabilities.

The Group incorporates forward looking information (FLI) for both individual and collective assessment. For FLI purposes the Company defines three scenarios, which are:

- Baseline (most likely);
- Upside (better than most likely);
- Downside (worse than most likely).

The Group derives the baseline macro scenario and takes into account projections from various external sources – the National Bank of Georgia, Ministry of Finance, IMF as well as other IFIs - to ensure the alignment to the consensus market expectations. Refer to Note 36 for the description of how the Group incorporates FLI in ECL calculations. Upside and downside scenarios are defined based on the framework developed by the Bank's macroeconomic unit.

The Group calculates expected impairment losses for each scenario. In order to come up with the final expected credit loss figures the bank applies probability weighted average approach where probabilities of each scenario are used as weights.

In relation to COVID-19, payment holidays are accounted on the same basis as disclosed above within paragraph of financial assets- derecognition and modification.

Receivables from terminated leases. The company recognizes receivables from terminated contracts at the moment of lease contract termination. These receivables are recognized at amount comprising difference between fair value of repossessed assets and outstanding balance of net investments in leases. Receivables are accounted for at AC less ECL.

Prepayment for purchase of leasing assets. Prepayment for purchase of leasing assets comprises of advance payments made to purchase assets for transfer into leases. Such advances are accounted for as non-financial assets. On commencement of the leases, advances towards lease contracts are transferred into net investment in finance lease.

Due to credit institutions. Amount due to credit institutions are recorded when counterparty banks advance money or other assets to the Group. The non-derivative liability is carried at AC. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at AC.

Subordinated debt. Subordinated debt can only be paid in the event of a liquidation after the claims of other higher priority creditors have been met and is included in the Bank's "tier 2" capital. Subordinated debt is carried at AC.

Debt securities in issue. Debt securities in issue include promissory notes, bonds, certificates of deposit and debentures issued by the Group. Debt securities are stated at AC. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options are recognized at their fair value. The Group also enters into offsetting deposits with its counterparty banks to exchange currencies. Such deposits, while legally separate, are aggregated and accounted for as a single derivative financial instrument (currency swap) on a net basis where (i) the deposits are entered into at the same time and in contemplation of one another, (ii) they have the same counterparty, (iii) they relate to the same risk and (iv) there is no apparent business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Group does not apply hedge accounting. Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

When derivative instruments are entered into with a view to decrease cost of funding, respective interest effect is presented as a separate line of statement of comprehensive income, within net interest income.

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill, and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation. This is generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

Premises and equipment. Premises and equipment are stated at cost, less accumulated depreciation and provision for impairment, where required. Cost of premises and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Premises	30 – 100 years;
Furniture and fixtures	5 – 8 years;
Computers and office equipment	3 – 8 years;
Motor vehicles	4 – 5 years;
Other equipment	2 – 10 years;
Right-of-use assets	the term of the underlying lease; and
Leasehold improvements	the term of the underlying lease or if not defined, not more than 7 years.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of premises and equipment and right-of-use assets is calculated using the straight-line method to allocate their cost amounts to their residual values over their estimated useful lives as follows:
The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment property. Investment property is property that the Groups owns to earn rental income or for capital appreciation, or both, and that it does not occupy.
Investment property is stated at cost less accumulated depreciation and provision for impairment, where required. It is amortised on a straight line basis over an expected useful lives of 30 to 50 years. In case of any indication that the investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Land included in investment property is not depreciated. Depreciation on other items of investment properties is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives of 30 to 50 years. Residual values of investment properties are estimated to be nil.

Earned rental income is recorded in profit or loss for the year within other operating income.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment.

Intangible assets. The Group's intangible assets other than goodwill have definite useful lives and primarily include capitalised computer software. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 2 to 20 years.
Accounting for leases by the Group as a lessee from 1 January 2019. The Group leases office, branches and service centre premises. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is recognised at cost and depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

As an exception to the above, the Group accounts for short-term leases and leases of low value assets by recognising the lease payments as an operating expense on a straight line basis.

In determining the lease term, management of the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The Group applied the Amendment to IFRS 16 to COVID-19 related rent concessions granted by lessors for the period April - June 2020. These concessions were recorded as a reduction in the lease liability and variable rent in the period in which they were granted. The amount was not material to the financial statements.

Accounting for operating leases by the Group as a lessee prior to 1 January 2019. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.
Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

Accounting for operating leases by the Group as a lessor. When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Income taxes. Income taxes are provided in the consolidated financial statements in accordance with the legislation enacted or substantively enacted by the end of reporting period in the respective territories that the Bank and its subsidiaries operate. The income tax charge/credit comprises of current tax and deferred tax and is recognised in profit or loss except if it is recognised directly in other comprehensive income because it relates to transactions that are also recognised, in the same or a different period, directly in other comprehensive income.

Current tax is the amount expected-to-be-paid to or recovered from the tax authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if consolidated financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill that is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of reporting period that are expected to apply to the extent of time when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Deferred income tax is provided on post-acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by the management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by the management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of reporting period and any known Court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on the management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Material provisions include provision for performance guarantees, credit related commitments.

Share capital. Ordinary shares with discretionary dividends are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue, are disclosed in the subsequent events note.

Income and expense recognition. Interest income and expense are recorded for all debt instruments, other than those at FVTPL, using the effective interest method. As part of interest income or expense this method defers all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. The group does not have Interest income on debt instruments at FVTPL.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at FVTPL.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest income is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

All other fees, commissions and other income and expense items are generally recorded when earned by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Fee and commission income. Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Group's performance. Such income includes recurring fees for recurring fees for account maintenance, account servicing fees, account subscription fees, annual plastic card fees etc. Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Other fee and commission income is recognised at a point in time when the Group satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for arranging a sale or purchase of foreign currencies on behalf of a customer, fees for processing payment transactions, plastic card transactions, merchant fees, fees for cash settlements, collection or cash disbursements, etc..

Foreign currency translation. The Group's presentation currency is the Georgian Lari. TBCG's and the Bank's functional currency is the Georgian Lari. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the territories where the Bank and its subsidiaries operate, at the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. The effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

The results and financial position of each group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- Components of equity are translated at the historic rate; and
- All resulting exchange differences are recognised in other comprehensive income.

After losing control over a foreign operation, the exchange differences previously recognised in other comprehensive income are reclassified to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. At 31 December 2020 the closing rate of exchange used for translating foreign currency balances was GBP 1 = 4.4529 (2019: GBP 1 = GEL 3.7593; 2018: GBP 1 = GEL 3.3955); USD 1 = 3.2766 (2019: USD 1 = GEL 2.8677; 2018: USD 1 = GEL 2.6766); EUR 1 = 4.0233 (2019: EUR 1 = GEL 3.2095; 2018: EUR 1 = GEL 3.0701).

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Staff costs and related contributions. Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits as well as the cash settled part of the share based payment schemes are accrued in the year in which the associated services are rendered by the Group's employees.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Share based payments. A share-based payment arrangement is an agreement between the entity and an-

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

other party (including an employee) that entitles the other party to receive cash or other assets of the entity for amounts that are based on the price (or value) of equity instruments (including shares) of the entity or another group entity, or equity instruments (including shares or share options) of the entity or another group entity, provided the specified vesting conditions, if any, are met. Under the share-based compensation plan the Group receives services from the management as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by the reference to the fair value of the equity instruments granted, excluding the impact of any non-market service and performance vesting conditions. Non-market vesting conditions are included in the assumptions about the number of equity instruments that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates of the number of equity instruments that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to equity. Increase in equity on accrued shares resulting from the equity settled scheme is accounted for under share based payment reserve. The Bank pays recharge amount to the TBC Bank Group PLC and the share based reserve is debited correspondingly when treasury shares are purchased by employee benefit trust (EBT). When portions of a single grant vest on two or more dates the entity applies graded vesting for accounting of share based payment arrangement. Vesting period of each tranche of the grant ends when the employee owns the shares with no further service restrictions. Under graded vesting scheme the expense for earlier years is higher than for later years. Each tranche is expensed over its own service period with a credit entry being equity.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on the management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

ECL measurement. Measurement of ECLs is a significant estimate that involves forecasting future economic conditions, longer the term of forecasts more management judgment is applied and those judgements may be the source of uncertainty. Details of ECL measurement methodology are disclosed in Note 36. The following components have a major impact on credit loss allowance: definition of default, definition of significant increase in credit risk (SICR), probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. The Group regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

Significant increase in credit risk ("SICR"). The Bank applies both qualitative and quantitative indicators to determination of SICR considering all reasonable and supportable information available without undue cost and effort, on past events, current conditions and future behavioural aspects of particular portfolios. The Bank tries to identify indicators of increase in credit risk of individual instruments prior to delinquency and incorporates significant assumptions in the model in doing so. One of such judgement is determination of thresholds of significant increase in credit risk. The effects of respective sensitivity are described below:

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES CONTINUED

In thousands of GEL	2020	2019	2018
20% decrease in SICR thresholds	Increase credit loss allowance allowance on loans and advances by GEL 2,543. Change of the Bank's cost of credit risk ratio by 2 basis points.	Increase credit loss allowance allowance on loans and advances by GEL 1,954. Change of the Bank's cost of credit risk ratio by 2 basis points.	Increase credit loss allowance allowance on loans and advances by GEL 2,056. Change of the Bank's cost of credit risk ratio by 2 basis points.
10% increase in Stage 2 exposures	Increase credit loss allowance allowance on loans and advances by GEL 3,311.	Increase credit loss allowance allowance on loans and advances by GEL 2,380.	Increase credit loss allowance allowance on loans and advances by GEL 2,723.

Risk parameters: Probability of default (PD) and Loss given default (LGD) parameters are one of the key drivers of expected credit losses. The effects of respective sensitivity are described below:

In thousands of GEL	2020	2019	2018
10% increase (decrease) in PD estimates	Increase credit loss allowance allowance on loans and advances by GEL 2,543. Change of the Bank's cost of credit risk ratio by 2 basis points.	Increase credit loss allowance allowance on loans and advances by GEL 1,954. Change of the Bank's cost of credit risk ratio by 2 basis points.	Increase credit loss allowance allowance on loans and advances by GEL 2,056. Change of the Bank's cost of credit risk ratio by 2 basis points.
10% increase (decrease) in LGD estimates	Increase (decrease) credit loss allowance allowance on loans and advances by GEL 24,901 (GEL 26,013). Change of the Bank's cost of credit risk ratio by 18 (19) basis points.	Increase (decrease) credit loss allowance allowance on loans and advances by GEL 17,427 (GEL 17,547). Change of the Bank's cost of credit risk ratio by 16 (16) basis points.	Increase credit loss allowance allowance on loans and advances by GEL 18,876 (GEL 18,942). Change of the Bank's cost of credit risk ratio by 21 (21) basis points.

Macroeconomic scenarios: The Bank incorporates forward-looking information with three macro-economic scenarios to calculate unbiased and probability weighted ECL. They represent the Baseline scenario (most likely outcome) and two less likely scenarios, referred as the Upside (better than Baseline) and Downside (worse than Baseline).

Due to the prolongation and severity of the COVID-19 pandemic impact, the scenario probabilities were also adjusted to reflect the management's expectations regarding their future realisation. The baseline, upside and downside scenarios were assigned probability weighing of 60%, 10% and 30%, respectively (31 December 2019: 50%, 25% and 25%).

The following table describes the key macroeconomic variables under each scenario for future 3-year period as at 31 December 2020:

	Baseline			Upside			Downside		
Growth rates YoY, %	2021	2022	2023	2021	2022	2023	2021	2022	2023
GDP	4.2%	7.4%	5.3%	4.9%	8.3%	6.5%	2.7%	5.2%	2.6%
USD/GEL rate (EOP)	3.2	3.1	3.0	3.0	2.8	2.7	3.5	3.4	3.3
RE Price (in USD)	(3.5%)	5.2%	7.5%	(2.1%)	4.6%	6.9%	(5.7%)	6.3%	4.2%
Employment	2.6%	1.0%	1.0%	2.8%	1.3%	1.3%	2.4%	0.7%	0.6%

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES CONTINUED

The Bank assessed the impact of changes in GDP growth and unemployment variables on ECL. These two macroeconomic variables were identified as most critical economic factors in ECL assessment. The sensitivity analysis was performed separately for each of the variable to show their significant in ECL assessment, but changes in those variables may not happen in isolation as various economic factors tend to be correlated across the scenarios. The variables were adjusted in all three macroeconomic scenarios and the staging has been maintained unchanged. From the assessment of forward looking scenarios management is comfortable with the scenarios capturing the non-linearity of the losses.

The table below shows the impact of +/-20% change in GDP growth and unemployment variables across all scenarios on the Bank's ECL:

	Change in GDP growth		Change in unemployment	
in thousands of GEL	**20% increase**	**20% decrease**	**20% increase**	**20% decrease**
Impact on ECL	(6,973)	7,323	3,899	(3,083)

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following amended standards became effective from 1 January 2020, but did not have any material impact on the Group:

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets).

Definition of material – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the 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.

Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020). The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs'). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS
CONTINUED

COVID-19-Related Rent Concessions Amendment to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020). The amendment provides lessees with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease.

The application of the amendment did not have any impact on the right-of-use asset and no material effect on lease liabilities and income statement.

5. NEW ACCOUNTING PRONOUNCEMENTS

Minor amendments to IFRSs

The IASB has published a number of minor amendments some of which has not yet been endorsed for use in the EU. The Group has not early adopted any of the amendments effective after 31 December 2020 and it expects they will have an insignificant effect, when adopted, on the consolidated financial statements of the Group and the separate financial statements of TBC Bank Group PLC.

Major new IFRSs

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Group expects to apply the standard to performance guarantees that it issues and is currently assessing the impact of the new standard on its financial statements. Potential impact on insurance products embedded in loans and similar instruments is also under consideration.

Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023). The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:

- *Effective date:* The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.
- *Expected recovery of insurance acquisition cash flows:* An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.

5. NEW ACCOUNTING PRONOUNCEMENTS CONTINUED

- *Contractual service margin attributable to investment services:* Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.
- *Reinsurance contracts held – recovery of losses:* When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.
- *Other amendments:* Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows; and selected transition reliefs and other minor amendments.

The Group is currently assessing the impact of the amendments on its financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. The Group is currently assessing the impact of the amendments on its financial statements.

5. NEW ACCOUNTING PRONOUNCEMENTS CONTINUED

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance. The Group is currently assessing the impact of the amendments on its financial statements.

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022). The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

5. NEW ACCOUNTING PRONOUNCEMENTS CONTINUED

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis. The Group is currently assessing the impact of the amendments on its financial statements.

Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform: For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.
- End date for Phase 1 relief for non contractually specified risk components in hedging relationships: The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.
- Additional temporary exceptions from applying specific hedge accounting requirements: The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.
- Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

The Group is currently assessing the impact of the amendments on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures. The Group is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates. The Group is currently assessing the impact of the amendments on its financial statements.

6. CASH AND CASH EQUIVALENTS

in thousands of GEL	2020	2019	2018
Cash on hand	747,195	646,394	491,891
Cash balances with the National Bank of Georgia (other than mandatory reserve deposits)	102,289	35,133	118,749
Correspondent accounts and overnight placements with other banks	588,343	186,623	369,431
Placements with and receivables from other banks with original maturities of less than three months	163,851	126,359	184,429
Total gross amount of cash and cash equivalents	**1,601,678**	**994,509**	**1,164,500**
Less: credit loss allowance by stages	(79)	(30)	(97)
Stage 1	(79)	(28)	(97)
Stage 2	-	(2)	-
Stage 3	-	-	-
Total cash and cash equivalents	**1,601,599**	**994,479**	**1,164,403**

89% of the correspondent accounts and overnight placements with other banks are placed with OECD (The Organization for Economic Co-operation and Development) banking institutions (31 December 2019: 85%; 31 December 2018: 95%).

As at 31 December 2020 GEL 25,030 thousand was placed on interbank term deposits with one non-OECD bank and GEL 163,838 thousand with one OECD bank (2019: GEL 11,348 thousand with one non-OECD bank and GEL 115,012 thousand with one OECD bank; 2018: GEL 13,383 thousand with one non-OECD bank and GEL 171,046 thousand with two OECD banks). Interest rate analysis of cash and cash equivalents is disclosed in Note 36.

The credit-rating of correspondent accounts and overnight placements with other banks is as follows:

in thousands of GEL	**2020**	**2019**	**2018**
AA	–	–	5,883
AA-	1,891	–	–
A+	417,938	66,805	249,802
A	1,896	13,816	4,628
A-	35,753	–	–
BBB+	–	20,286	93,450
BBB	64,985	69,302	–
BBB-	897	–	872
BB+	–	733	241
BB	1,858	2,970	208
BB-	9,072	12,336	13,926
B+	53,684	375	395
B	15	–	26
Not rated	354	–	–
Total correspondent accounts and overnight placements with other banks	**588,343**	**186,623**	**369,431**

The credit rating of placements with and receivables from other banks with original maturities of less than three months stands as follows:

in thousands of GEL	**2020**	**2019**	**2018**
AAA	–	–	10,021
A-	–	115,012	161,025
BBB+	163,837	–	–
BB	–	1,718	–
B+	–	9,629	13,383
Not rated	14	–	–
Total placements with and receivables from other banks with original maturities of less than three months	**163,851**	**126,359**	**184,429**

6. CASH AND CASH EQUIVALENTS CONTINUED

The table illustrates the ratings by international agencies Standard & Poor's and Fitch Ratings. When different credit ratings are designated by the agencies, the highest designated rating for this asset is used, for those financial institutions which are not assigned credit ratings country ratings are used. As at 31 December 2020 there were no investment securities held as collateral against placements with other banks under the reverse repo agreements (2019: nil; 2018: nil).

7. DUE FROM OTHER BANKS

Amounts due from other banks include placements with original maturities of more than three months that are not collateralised and represent neither past due nor impaired amounts at the end of 2020, 2019 and 2018. Credit ratings of placements with other banks with original maturities of more than three months were as follows:

in thousands of GEL	2020	2019	2018
AA	–	–	8,913
AA-	31	–	–
A+	10,908	9,541	–
BBB+	98	–	80
BBB-	2,010	–	–
BBB	–	2,493	3,838
BB+	–	–	4,388
BB	5,943	1,388	–
BB-	–	–	19,500
B+	700	2,175	665
Total placements with other banks with original maturities of more than three months	**19,690**	**15,597**	**37,384**

As at 31 December 2020 the Group had no placements, with original maturities of more than three months and with aggregated amounts above GEL 5,000 thousand (2019: nil; 2018: placement with one bank). The total aggregated amount of these placement was GEL 2,012 thousand (2019: Nil; 2018: GEL 19,311 thousand) or 4.0% of the total amount due from other (2019: 40.8 %; 2018: 41%).

As at 31 December 2020 GEL 11,744 thousand, (2019: GEL 11,836 thousand; 2018: GEL 15,725 thousand) were kept on deposits as restricted cash under an arrangement with a credit card company or credit card related services with other banks. Refer to Note 41 for the estimated fair value of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 36.

For the purpose of ECL measurement due from other banks balances are included in Stage 1. The ECL for these balances as at 31 December 2020 is GEL 8 thousand (2019: GEL 9 thousand; 2018: GEL 39 thousand).

8. MANDATORY CASH BALANCES WITH THE NATIONAL BANK OF GEORGIA

Mandatory cash balances with the National Bank of Georgia ("NBG") represent amounts deposited with the NBG. Resident financial institutions are required to maintain an interest-earning obligatory reserve with the NBG, the amount of which depends on the level of funds attracted by the financial institutions. The Group earned up to 8.0%, (0.25%) and (0.7%) annual interest in GEL, USD and EUR respectively on mandatory reserves with NBG in 2020 (2019: 9.0%, 1.25% and (0.7%) in GEL, USD and EUR respectively; 2018: 6.0%, 0.8% and (0.6%) in GEL, USD and EUR respectively).

9. LOANS AND ADVANCES TO CUSTOMERS

in thousands of GEL	2020	2019	2018
Corporate loans	5,690,749	4,660,473	3,177,289
Consumer loans	2,011,585	1,884,006	1,989,516
Mortgage loans	3,942,102	3,169,197	2,709,183
Loans to micro, small and medium enterprises	3,556,079	2,948,279	2,496,594
Total gross loans	**15,200,515**	**12,661,955**	**10,372,582**
Less: credit loss allowance	(606,246)	(312,556)	(334,130)
Total loans and advances to customers	**14,594,269**	**12,349,399**	**10,038,452**

As of 31 December 2020 GEL 15,198,858 thousand of gross loans and advances to customers and GEL 587,654 thousand of credit loss allowance were attributable to the Bank (2019: GEL 12,720,562 thousand and GEL 303,577 thousand; 2018: GEL 10,405,780 thousand and GEL 325,936 thousand).

As at 31 December 2020 loans and advances to customers carried at GEL 889,353 thousand have been pledged to local banks or other financial institutions as collateral with respect to other borrowed funds (2019: GEL 474,480 thousand; 2018: GEL 228,454 thousand).

In 2020, the Group has reassessed its definition of segments as disclosed in Note 28. Some of the clients were reallocated to different segments. Comparative information has not been updated due to impracticability. However, recent period information per old segmentation is disclosed in Note 28.

The following tables disclose the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting period. Below main movements in the table are described:

- Transfers occur between Stage 1, 2 and 3, due to significant increases (or decreases) of credit risk or exposures becoming defaulted in the period, and the consequent “step up” (or “step down”) between 12-month and Lifetime ECL. It should be noted, that:
  - Movement does not include exposures, which were issued and repaid during the period;
  - For loans, which existed at the beginning of the period, opening exposures are disclosed as transfer amounts;
  - For newly issued loans, exposures at the beginning of the period are disclosed as transfer amounts;
  - For the exposures which changed stages multiple times during the period, only transfers between starting and ending stage is disclosed.
- New originated or purchased gives us information regarding gross loans issued and corresponding credit loss allowance created during the period (however, exposures which were issued and repaid during the period and issued to refinance existing loans are excluded);
- Derecognised during the period refers to the balance of loans and credit loss allowance at the beginning of the period, which were repaid during the period. Exposures which were issued and repaid during the period, written off or refinanced by other loans, are excluded;
- Net repayments refers to the net changes in gross carrying amounts, which is loan disbursements less repayment;
- Net write offs refer to write off of loans during the period, and net of written off and recoveries of already written off loans for ECL;
- Foreign exchange movements refers to the translation of assets denominated in foreign currencies and effect to translation in presentational currency for foreign subsidiary;
- Net remeasurement due to stage transfers and risk parameters changes refers to the movements in ECL as a result of transfer of exposure between stages or changes in risk parameters and forward looking expectations;
- Resegmentation refers to the transfer of loans from one reporting segment to another.

For presentation purposes, amounts are rounded to the nearest thousands of GEL, which in certain cases is disclosed as nil.

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Total loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 1 January 2020	**11,551,934**	**757,094**	**352,927**	**12,661,955**	**95,689**	**82,687**	**134,180**	**312,556**
Transfers								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(1,834,720)	1,871,883	(37,163)	–	(10,824)	23,099	(12,275)	–
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(456,347)	(195,488)	651,835	–	(53,437)	(27,314)	80,751	–
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	116,479	(115,394)	(1,085)	–	15,269	(14,677)	(592)	–
New originated or purchased	3,361,542	–	–	3,361,542	110,226	–	–	110,226
Derecognised during the period	(922,671)	(83,851)	(23,487)	(1,030,009)	12,225	789	(13,151)	(137)
Net repayments	(982,756)	(60,770)	(42,984)	(1,086,510)	(3)	–	–	(3)
Net Write-offs	–	–	(66,028)	(66,028)	–	–	(44,892)	(44,892)
Net remeasurement due to stage transfers and risk parameters changes	–	–	–	–	(45,956)	70,894	165,031	189,969
Foreign exchange movements	1,042,870	280,445	59,790	1,383,105	7,039	7,437	24,055	38,531
Modification	(15,773)	(5,793)	(1,974)	(23,541)	–	–	–	–
At 31 December 2020	**11,860,558**	**2,448,126**	**891,831**	**15,200,515**	**130,228**	**142,915**	**333,107**	**606,250**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Total loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 1 January 2019	**9,226,512**	**791,969**	**354,101**	**10,372,582**	**96,812**	**95,784**	**141,534**	**334,130**
Transfers								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(646,985)	682,879	(35,894)	–	(22,811)	34,649	(11,838)	–
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(151,728)	(138,204)	289,932	–	(11,259)	(24,668)	35,927	–
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	269,543	(264,141)	(5,402)	–	28,411	(26,682)	(1,729)	–
New originated or purchased	4,403,046	–	–	4,403,046	72,517	–	–	72,517
Derecognised during the period	(535,371)	(165,034)	(183,020)	(883,425)	(1,331)	(16,527)	(23,859)	(41,717)
Net repayments	(1,293,956)	(177,292)	56,480	(1,414,768)	–	–	–	–
Net Write-offs	–	–	(140,161)	(140,161)	–	–	(106,360)	(106,360)
Net remeasurement due to stage transfers and risk parameters changes	–	–	–	–	(67,845)	19,033	94,975	46,163
Foreign exchange movements	280,873	26,917	16,891	324,681	1,195	1,097	5,530	7,822
At 31 December 2019	**11,551,934**	**757,094**	**352,927**	**12,661,955**	**95,689**	**82,687**	**134,180**	**312,556**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Total loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 1 January 2018	**7,299,871**	**967,528**	**285,822**	**8,553,221**	**74,539**	**100,571**	**116,484**	**291,594**
Transfers								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(626,292)	662,877	(36,585)	–	(52,145)	61,498	(9,353)	–
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(199,046)	(191,153)	390,199	–	(36,294)	(27,861)	64,155	–
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	284,679	(278,844)	(5,835)	–	18,610	(17,041)	(1,569)	–
New originated or purchased	5,875,598	109	20	5,875,727	111,964	–	–	111,964
Derecognised during the period	(2,676,648)	(279,310)	(125,050)	(3,081,008)	(38,195)	(20,991)	(49,298)	(108,484)
Net repayments	(806,531)	(98,415)	(15,349)	(920,295)	–	–	–	–
Other movements	1,225	–	3,792	5,017	–	–	–	–
Net Write-offs	–	–	(147,996)	(147,996)	–	–	(101,317)	(101,317)
Net remeasurement due to stage transfers and risk parameters changes	–	–	–	–	18,306	(417)	122,332	140,221
Foreign exchange movements	73,656	9,177	5,083	87,916	27	25	100	152
At 31 December 2018	**9,226,512**	**791,969**	**354,101**	**10,372,582**	**96,812**	**95,784**	**141,534**	**334,130**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Corporate loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 1 January 2020	**4,434,685**	**104,409**	**121,379**	**4,660,473**	**39,153**	**1,969**	**39,628**	**80,750**
Transfers								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(750,779)	750,779	–	–	(7,395)	7,395	–	–
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(57,281)	(14,021)	71,302	–	(1,394)	(1,307)	2,701	–
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	20,142	(20,142)	–	–	227	(227)	–	–
New originated or purchased	854,820	–	–	854,820	14,830	–	–	14,830
Derecognised during the period	(285,949)	(20,839)	(7,919)	(314,707)	(3,328)	(1,915)	(3,800)	(9,043)
Net repayments	(145,390)	16,644	(32,056)	(160,802)	(3)	–	–	(3)
Resegmentation	21,785	–	–	21,785	76	–	–	76
Net Write-offs	–	–	(5,380)	(5,380)	–	–	(5,047)	(5,047)
Net remeasurement due to stage transfers and risk parameters changes	–	–	–	–	6,391	1,006	1,641	9,038
Foreign exchange movements	484,641	140,115	14,967	639,723	5,438	1,273	10,332	17,043
Modification	(2,541)	(1,758)	(864)	(5,163)	–	–	–	–
At 31 December 2020	**4,574,133**	**955,187**	**161,429**	**5,690,749**	**53,995**	**8,194**	**45,455**	**107,644**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Corporate loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 1 January 2019	**2,903,313**	**138,715**	**135,261**	**3,177,289**	**32,940**	**4,994**	**43,571**	**81,505**
Transfers								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(126,154)	137,126	(10,972)	–	(2,876)	5,184	(2,308)	–
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(27,531)	(5,261)	32,792	–	(2,914)	(192)	3,106	–
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	72,484	(71,151)	(1,333)	–	2,806	(2,806)	–	–
New originated or purchased	1,638,709	–	–	1,638,709	25,355	–	–	25,355
Derecognised during the period	1,988	(31,192)	(13,862)	(43,066)	(2,544)	(1,064)	(9,094)	(12,702)
Net repayments	(186,958)	(70,285)	(27,812)	(285,055)	–	–	–	–
Resegmentation	55,356	711	–	56,067	176	76	–	252
Net Write-offs	–	–	–	–	–	–	630	630
Net remeasurement due to stage transfers and risk parameters changes	–	–	–	–	(14,698)	(4,398)	991	(18,105)
Foreign exchange movements	103,478	5,746	7,305	116,529	908	175	2,732	3,815
At 31 December 2019	**4,434,685**	**104,409**	**121,379**	**4,660,473**	**39,153**	**1,969**	**39,628**	**80,750**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Corporate loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 1 January 2018	**2,041,538**	**325,919**	**107,935**	**2,475,392**	**21,208**	**15,036**	**31,719**	**67,963**
Transfers								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(93,957)	100,702	(6,745)	–	(1,811)	2,185	(374)	–
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(3,395)	(85,409)	88,804	–	(32)	(8,341)	8,373	–
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	129,019	(126,886)	(2,133)	–	3,908	(3,908)	–	–
New originated or purchased	1,787,999	–	–	1,787,999	22,031	–	–	22,031
Derecognised during the period	(873,776)	(53,958)	(14,720)	(942,454)	(9,217)	(3,140)	(21,293)	(33,650)
Net repayments	(145,691)	(25,028)	(39,857)	(210,576)	–	–	–	–
Other movements	2	–	–	2	–	–	–	–
Resegmentation	36,699	488	–	37,187	283	–	–	283
Net Write-offs	–	–	(321)	(321)	–	–	3,269	3,269
Net remeasurement due to stage transfers and risk parameters changes	–	–	–	–	(3,430)	3,162	21,877	21,609
Foreign exchange movements	24,875	2,887	2,298	30,060	–	–	–	–
At 31 December 2018	**2,903,313**	**138,715**	**135,261**	**3,177,289**	**32,940**	**4,994**	**43,571**	**81,505**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Loans to micro, small and medium enterprises Corporate loans	**Gross carrying amount**				**Credit loss allowance**			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 1 January 2020	**2,650,261**	**204,699**	**93,319**	**2,948,279**	**18,341**	**18,593**	**29,211**	**66,145**
Transfers								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(539,299)	546,322	(7,023)	–	(6,860)	8,580	(1,720)	–
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(103,564)	(83,981)	187,545	–	(8,258)	(9,097)	17,355	–
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	31,201	(30,770)	(431)	–	3,130	(2,954)	(176)	–
New originated or purchased	1,033,189	–	–	1,033,189	23,407	–	–	23,407
Derecognised during the period	(303,253)	(33,879)	(5,525)	(342,657)	(1,314)	(157)	(1,759)	(3,230)
Net repayments	(290,204)	(26,683)	(11,097)	(327,984)	–	–	–	–
Resegmentation	(22,888)	–	–	(22,888)	(76)	–	–	(76)
Net Write-offs	–	–	(15,696)	(15,696)	–	–	(8,623)	(8,623)
Net remeasurement due to stage transfers and risk parameters changes	–	–	–	–	(5,102)	29,155	48,679	72,732
Foreign exchange movements	209,565	57,071	22,178	288,814	1,222	2,733	5,600	9,555
Modification	(3,222)	(1,432)	(324)	(4,978)	–	–	–	–
At 31 December 2020	**2,661,786**	**631,347**	**262,946**	**3,556,079**	**24,490**	**46,853**	**88,567**	**159,910**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Loans to micro, small and medium enterprises Corporate loans	**Gross carrying amount**				**Credit loss allowance**			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 1 January 2019	**2,210,617**	**193,157**	**92,820**	**2,496,594**	**19,273**	**22,379**	**29,362**	**71,014**
Transfers								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(181,576)	186,581	(5,005)	–	(3,097)	5,142	(2,045)	–
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(51,354)	(42,338)	93,692	–	(2,568)	(6,711)	9,279	–
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	49,093	(48,292)	(801)	–	6,191	(5,872)	(319)	–
New originated or purchased	1,312,100	–	–	1,312,100	11,981	–	–	11,981
Derecognised during the period	(354,274)	(47,777)	(48,874)	(450,925)	(2,356)	(2,582)	(6,102)	(11,040)
Net repayments	(333,112)	(42,333)	(14,348)	(389,793)	–	–	–	–
Resegmentation	(55,356)	(786)	–	(56,142)	(176)	(78)	–	(254)
Net Write-offs	–	–	(28,963)	(28,963)	–	–	(12,946)	(12,946)
Net remeasurement due to stage transfers and risk parameters changes	–	–	–	–	(11,134)	6,047	10,948	5,861
Foreign exchange movements	54,123	6,487	4,798	65,408	227	268	1,034	1,529
At 31 December 2019	**2,650,261**	**204,699**	**93,319**	**2,948,279**	**18,341**	**18,593**	**29,211**	**66,145**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Loans to micro, small and medium enterprises Corporate loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 1 January 2018	**1,630,103**	**149,799**	**64,770**	**1,844,672**	**9,894**	**11,890**	**24,468**	**46,252**
Transfers								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(142,901)	152,463	(9,562)	–	(13,479)	15,630	(2,151)	–
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(83,887)	(21,578)	105,465	–	(6,489)	(2,130)	8,619	–
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	31,601	(30,683)	(918)	–	2,973	(2,552)	(421)	–
New originated or purchased	1,360,236	–	–	1,360,236	21,595	–	–	21,595
Derecognised during the period	(528,289)	(61,702)	(49,272)	(639,263)	(4,626)	(2,621)	(3,210)	(10,457)
Net repayments	(146,754)	(20,622)	788	(166,588)	–	–	–	–
Other movements	(21)	6	349	334	–	–	–	–
Resegmentation	75,069	23,747	1,725	100,541	4,615	8,399	1,611	14,625
Net Write-offs	–	–	(22,004)	(22,004)	–	–	(5,664)	(5,664)
Net remeasurement due to stage transfers and risk parameters changes	–	–	–	–	4,781	(6,245)	5,997	4,533
Foreign exchange movements	15,460	1,727	1,479	18,666	9	8	113	130
At 31 December 2018	**2,210,617**	**193,157**	**92,820**	**2,496,594**	**19,273**	**22,379**	**29,362**	**71,014**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Consumer loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 1 January 2020	**1,593,262**	**216,817**	**73,927**	**1,884,006**	**36,724**	**52,439**	**44,793**	**133,956**
Transfers								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(165,248)	178,014	(12,766)	–	(3,846)	9,861	(6,015)	–
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(114,927)	(58,650)	173,577	–	(24,678)	(14,790)	39,468	–
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	40,086	(39,544)	(542)	–	11,332	(10,945)	(387)	–
New originated or purchased	669,973	–	–	669,973	62,912	–	–	62,912
Derecognised during the period	(219,243)	(14,197)	(9,175)	(242,615)	11,426	220	(4,949)	6,697
Net repayments	(287,650)	(19,815)	3,789	(303,676)	–	–	–	–
Resegmentation	831	–	–	831	–	–	–	–
Net Write-offs	–	–	(44,356)	(44,356)	–	–	(31,240)	(31,240)
Net remeasurement due to stage transfers and risk parameters changes	–	–	–	–	(45,618)	29,130	83,373	66,885
Foreign exchange movements	45,456	6,440	4,034	55,930	120	437	2,059	2,616
Modification	(5,981)	(1,769)	(757)	(8,507)	–	–	–	–
At 31 December 2020	**1,556,559**	**267,296**	**187,730**	**2,011,585**	**48,372**	**66,352**	**127,102**	**241,826**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Consumer loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 1 January 2019	**1,641,978**	**265,687**	**81,851**	**1,989,516**	**42,903**	**59,245**	**54,575**	**156,723**
Transfers								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(166,459)	176,428	(9,969)	–	(16,454)	21,029	(4,575)	–
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(60,362)	(67,012)	127,374	–	(5,682)	(16,168)	21,850	–
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	81,453	(80,023)	(1,430)	–	16,851	(16,013)	(838)	–
New originated or purchased	641,207	–	–	641,207	34,363	–	–	34,363
Derecognised during the period	(101,437)	(39,416)	(125,004)	(265,857)	3,706	(11,085)	(7,972)	(15,351)
Net repayments	(460,554)	(42,061)	109,208	(393,407)	–	–	–	–
Resegmentation	2,583	1,092	572	4,247	15	97	184	296
Net Write-offs	–	–	(110,243)	(110,243)	–	–	(97,652)	(97,652)
Net remeasurement due to stage transfers and risk parameters changes	–	–	–	–	(38,995)	15,212	78,558	54,775
Foreign exchange movements	14,853	2,122	1,568	18,543	17	122	663	802
At 31 December 2019	**1,593,262**	**216,817**	**73,927**	**1,884,006**	**36,724**	**52,439**	**44,793**	**133,956**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Consumer loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 1 January 2018	**1,788,523**	**301,923**	**72,981**	**2,163,427**	**42,066**	**64,309**	**48,195**	**154,570**
Transfers								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(244,838)	253,057	(8,219)	–	(34,737)	38,429	(3,692)	–
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(97,030)	(64,020)	161,050	–	(28,073)	(16,142)	44,215	–
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	73,142	(71,235)	(1,907)	–	10,012	(9,115)	(897)	–
New originated or purchased	1,359,515	109	20	1,359,644	65,303	–	–	65,303
Derecognised during the period	(794,286)	(96,300)	(52,401)	(942,987)	(23,551)	(13,147)	(23,220)	(59,918)
Net repayments	(339,487)	(34,337)	32,155	(341,669)	–	–	–	–
Other movements	1,033	(77)	1,636	2,592	–	–	–	–
Resegmentation	(109,359)	(24,193)	(1,725)	(135,277)	(4,886)	(8,391)	(1,611)	(14,888)
Net Write-offs	–	–	(122,095)	(122,095)	–	–	(100,885)	(100,885)
Net remeasurement due to stage transfers and risk parameters changes	–	–	–	–	16,760	3,298	92,489	112,547
Foreign exchange movements	4,765	760	356	5,881	9	4	(19)	(6)
At 31 December 2018	**1,641,978**	**265,687**	**81,851**	**1,989,516**	**42,903**	**59,245**	**54,575**	**156,723**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Mortgage loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 1 January 2020	**2,873,726**	**231,169**	**64,302**	**3,169,197**	**1,471**	**9,686**	**20,548**	**31,705**
Transfers								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(379,394)	396,768	(17,374)	–	7,277	(2,737)	(4,540)	–
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(180,575)	(38,836)	219,411	–	(19,107)	(2,120)	21,227	–
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	25,050	(24,938)	(112)	–	580	(551)	(29)	–
New originated or purchased	803,560	–	–	803,560	9,077	–	–	9,077
Derecognised during the period	(114,226)	(14,936)	(868)	(130,030)	5,441	2,641	(2,643)	5,439
Net repayments	(259,512)	(30,916)	(3,620)	(294,048)	–	–	–	–
Resegmentation	273	–	–	273	–	–	–	–
Net Write-offs	–	–	(596)	(596)	–	–	18	18
Net remeasurement due to stage transfers and risk parameters changes	–	–	–	–	(1,627)	11,603	31,338	41,314
Foreign exchange movements	303,208	76,819	18,611	398,638	259	2,994	6,064	9,317
Modification	(4,030)	(834)	(28)	(4,892)	–	–	–	–
At 31 December 2020	**3,068,080**	**594,296**	**279,726**	**3,942,102**	**3,371**	**21,516**	**71,983**	**96,870**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Mortgage loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2019	**2,470,604**	**194,410**	**44,169**	**2,709,183**	**1,696**	**9,166**	**14,026**	**24,888**
Transfers								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(172,796)	182,744	(9,948)	–	(384)	3,294	(2,910)	–
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(12,481)	(23,593)	36,074	–	(95)	(1,597)	1,692	–
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	66,513	(64,675)	(1,838)	–	2,563	(1,991)	(572)	–
New originated or purchased	811,030	–	–	811,030	818	–	–	818
Derecognised during the period	(81,648)	(46,649)	4,720	(123,577)	(137)	(1,796)	(691)	(2,624)
Net repayments	(313,332)	(22,613)	(10,568)	(346,513)	–	–	–	–
Resegmentation	(2,583)	(1,017)	(572)	(4,172)	(15)	(94)	(184)	(293)
Net Write-offs	–	–	(955)	(955)	–	–	3,608	3,608
Net remeasurement due to stage transfers and risk parameters changes	–	–	–	–	(3,018)	2,172	4,478	3,632
Foreign exchange movements	108,419	12,562	3,220	124,201	43	532	1,101	1,676
At 31 December 2019	**2,873,726**	**231,169**	**64,302**	**3,169,197**	**1,471**	**9,686**	**20,548**	**31,705**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Mortgage loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2018	**1,839,707**	**189,887**	**40,136**	**2,069,730**	**1,371**	**9,336**	**12,102**	**22,809**
Transfers								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(144,596)	156,655	(12,059)	–	(2,118)	5,254	(3,136)	–
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(14,734)	(20,146)	34,880	–	(1,700)	(1,248)	2,948	–
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	50,917	(50,040)	(877)	–	1,717	(1,466)	(251)	–
New originated or purchased	1,367,848	–	–	1,367,848	3,035	–	–	3,035
Derecognised during the period	(480,297)	(67,350)	(8,657)	(556,304)	(801)	(2,083)	(1,575)	(4,459)
Net repayments	(174,599)	(18,428)	(8,435)	(201,462)	–	–	–	–
Other movements	211	71	1,807	2,089	–	–	–	–
Resegmentation	(2,409)	(42)	-	(2,451)	(12)	(8)	–	(20)
Net Write-offs	–	–	(3,576)	(3,576)	–	–	1,963	1,963
Net remeasurement due to stage transfers and risk parameters changes	–	–	–	–	195	(632)	1,969	1,532
Foreign exchange movements	28,556	3,803	950	33,309	9	13	6	28
At 31 December 2018	**2,470,604**	**194,410**	**44,169**	**2,709,183**	**1,696**	**9,166**	**14,026**	**24,888**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

The credit quality of loans to customers carried at amortised cost is as follows at 31 December 2020:

In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Corporate loans risk category				
- Very low	4,324,191	6,178	–	4,330,369
- Low	248,246	913,832	–	1,162,078
- Moderate	1,696	35,177	–	36,873
- Default	–	–	161,429	161,429
Gross carrying amount	**4,574,133**	**955,187**	**161,429**	**5,690,749**
Credit loss allowance	(53,995)	(8,194)	(45,455)	(107,644)
Carrying amount	**4,520,138**	**946,993**	**115,974**	**5,583,105**
Consumer loans risk category				
- Very low	1,010,723	20,041	–	1,030,764
- Low	453,899	64,950	–	518,849
- Moderate	91,937	159,726	–	251,663
- High	–	22,579	–	22,579
- Default	–	–	187,730	187,730
Gross carrying amount	**1,556,559**	**267,296**	**187,730**	**2,011,585**
Credit loss allowance	(48,372)	(66,352)	(127,102)	(241,826)
Carrying amount	**1,508,187**	**200,944**	**60,628**	**1,769,759**
Mortgage loans risk category				
- Very low	2,852,661	97,936	–	2,950,597
- Low	186,597	334,579	–	521,176
- Moderate	28,822	154,372	–	183,194
- High	–	7,409	–	7,409
- Default	–	–	279,726	279,726
Gross carrying amount	**3,068,080**	**594,296**	**279,726**	**3,942,102**
Credit loss allowance	(3,371)	(21,516)	(71,983)	(96,870)
Carrying amount	**3,064,709**	**572,780**	**207,743**	**3,845,232**
Loans to MSME risk category				
- Very low	2,252,448	145,445	–	2,397,893
- Low	395,733	348,147	–	743,880
- Moderate	13,605	121,925	–	135,530
- High	–	15,830	–	15,830
- Default	–	–	262,946	262,946
Gross carrying amount	**2,661,786**	**631,347**	**262,946**	**3,556,079**
Credit loss allowance	(24,490)	(46,853)	(88,567)	(159,910)
Carrying amount	**2,637,296**	**584,494**	**174,379**	**3,396,169**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

The credit quality of loans to customers carried at amortised cost is as follows at 31 December 2019:

In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Corporate loans risk category				
- Very low	4,094,403	7,882	–	4,102,285
- Low	339,960	75,872	–	415,832
- Moderate	322	19,827	–	20,149
- High	–	828	–	828
- Default	–	–	121,379	121,379
Gross carrying amount	**4,434,685**	**104,409**	**121,379**	**4,660,473**
Credit loss allowance	(39,153)	(1,969)	(39,628)	(80,750)
Carrying amount	**4,395,532**	**102,440**	**81,751**	**4,579,723**
Consumer loans risk category				
- Very low	1,107,490	5,436	–	1,112,926
- Low	330,361	17,620	–	347,981
- Moderate	155,411	176,815	–	332,226
- High	–	16,946	–	16,946
- Default	–	–	73,927	73,927
Gross carrying amount	**1,593,262**	**216,817**	**73,927**	**1,884,006**
Credit loss allowance	(36,724)	(52,439)	(44,793)	(133,956)
Carrying amount	**1,556,538**	**164,378**	**29,134**	**1,750,050**
Mortgage loans risk category				
- Very low	2,668,691	17,970	–	2,686,661
- Low	182,049	80,289	–	262,338
- Moderate	22,986	121,743	–	144,729
- High	–	11,167	–	11,167
- Default	–	–	64,302	64,302
Gross carrying amount	**2,873,726**	**231,169**	**64,302**	**3,169,197**
Credit loss allowance	(1,471)	(9,686)	(20,548)	(31,705)
Carrying amount	**2,872,255**	**221,483**	**43,754**	**3,137,492**
Loans to MSME risk category				
- Very low	2,223,262	23,114	–	2,246,376
- Low	407,106	87,244	–	494,350
- Moderate	19,893	80,947	–	100,840
- High	–	13,394	–	13,394
- Default	–	–	93,319	93,319
Gross carrying amount	**2,650,261**	**204,699**	**93,319**	**2,948,279**
Credit loss allowance	(18,341)	(18,593)	(29,211)	(66,145)
Carrying amount	**2,631,920**	**186,106**	**64,108**	**2,882,134**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Analysis by credit quality of loans outstanding as at 31 December 2018 is as follows:

In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Corporate loans risk category				
- Very low	2,712,885	6,417	–	2,719,302
- Low	189,086	130,798	–	319,884
- Moderate	1,344	1,238	–	2,582
- High	–	260	–	260
- Default	–	–	135,261	135,261
Gross carrying amount	**2,903,315**	**138,713**	**135,261**	**3,177,289**
Credit loss allowance	(32,940)	(4,994)	(43,571)	(81,505)
Carrying amount	**2,870,375**	**133,719**	**91,690**	**3,095,784**
Consumer loans risk category				
- Very low	1,118,057	3,373	–	1,121,430
- Low	349,406	19,874	–	369,280
- Moderate	174,530	212,707	–	387,237
- High	–	29,719	–	29,719
- Default	–	–	81,850	81,850
Gross carrying amount	**1,641,993**	**265,673**	**81,850**	**1,989,516**
Credit loss allowance	(42,903)	(59,245)	(54,575)	(156,723)
Carrying amount	**1,599,090**	**206,428**	**27,275**	**1,832,793**
Mortgage loans risk category				
- Very low	2,268,634	20,051	–	2,288,685
- Low	177,274	62,060	–	239,334
- Moderate	24,695	104,550	–	129,245
- High	–	7,749	–	7,749
- Default	–	–	44,170	44,170
Gross carrying amount	**2,470,603**	**194,410**	**44,170**	**2,709,183**
Credit loss allowance	(1,697)	(9,165)	(14,026)	(24,888)
Carrying amount	**2,468,906**	**185,245**	**30,144**	**2,684,295**
Loans to MSME risk category				
- Very low	1,865,077	16,285	–	1,881,362
- Low	324,306	72,742	–	397,048
- Moderate	21,342	84,520	–	105,862
- High	–	19,502	–	19,502
- Default	–	–	92,820	92,820
Gross carrying amount	**2,210,725**	**193,049**	**92,820**	**2,496,594**
Credit loss allowance	(19,301)	(22,379)	(29,334)	(71,014)
Carrying amount	**2,191,424**	**170,670**	**63,486**	**2,425,580**

The contractual amounts outstanding on loans to customers that have been written off partially or fully, but are still subject to enforcement activity was principal amount GEL 48 million (31 December 2019: GEL 110 million), accrued interest GEL 11 million (31 December 2019: GEL 28 million) and accrued off balance sheet penalty GEL 135 million (31 December 2019: GEL 114 million).

In 2020, grace periods were granted to customers due to the COVID-19 pandemic. There were 2 major three-month grace periods offering to eligible customers during 2020. First time the approach was of larger coverage, whereas at later stage holidays were granted to narrower focus groups. Payment holidays did not

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

lead to derecognition of financial assets, but rather resulted in total net modification loss of 41 million during the year, out of which GEL 37.1 million was related to losses incurred on loans and advances to customers, whilst GEL 3.9 million was related to losses incurred on investments in leases, reflecting the decrease in the present value of cash flows resulting from the grace periods granted to the borrowers. Furthermore, the COVID-19 effect led to the creation of an additional ECL charge for 2020. The implication of COVID-19 impact on ECL methodology is described in Note 36.

Economic sector risk concentrations within the customer loan portfolio are as follows:

	31 December 2020		31 December 2019		31 December 2018	
In thousands of GEL	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Individual	5,948,346	39%	5,046,804	40%	4,677,328	45%
Energy & Utilities	1,460,821	10%	1,076,102	8%	564,197	5%
Hospitality & Leisure	1,368,887	9%	988,467	8%	759,605	7%
Real Estate	1,078,504	7%	1,089,643	9%	776,204	7%
Food Industry	898,597	6%	785,539	6%	570,810	6%
Trade	841,850	6%	704,558	6%	483,672	5%
Construction	708,559	5%	616,475	5%	445,290	4%
Agriculture	667,904	4%	576,923	5%	359,549	3%
Healthcare	642,024	4%	498,783	4%	418,432	4%
Services	369,645	2%	305,152	2%	220,756	2%
Pawn Shops	268,982	2%	212,661	2%	180,045	2%
Automotive	263,276	2%	183,912	1%	156,241	2%
Transportation	229,368	2%	99,321	1%	100,855	1%
Metals and Mining	168,571	1%	203,633	2%	278,384	3%
Financial Services	159,857	1%	134,223	1%	80,075	1%
Communication	78,923	1%	96,430	1%	71,617	1%
Other	46,407	0%	43,329	0%	229,522	2%
Total loans and advances to customers (before impairment)	**15,200,520**	**100%**	**12,661,955**	**100%**	**10,372,582**	**100%**

As of 31 December 2020 the Group had 307 borrowers (2019: 239 borrowers; 2018: 170 borrowers) with aggregated gross loan amounts above GEL 5,000 thousand. The total aggregated amount of these loans was GEL 5,598,041 thousand (2019: GEL 4,443,036 thousand; 2018: GEL 3,054,314 thousand) or 36.8% of the gross loan portfolio (2019: 35.1%; 2018: 29.4%).

The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. There are three key types of collateral:

› Real estate;

› Movable property including fixed assets, inventory and precious metals;

› Financial assets including deposits, shares, and third party guarantees.

The financial effect of collateral is presented by disclosing the collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed the assets' carrying value ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the assets' carrying value ("under-collateralised assets").

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

The effect of collateral as at 31 December 2020:

	31 December 2020			
	Over-collateralised Assets		Under-collateralised assets	
In thousands of GEL	Carrying value of the assets	Fair Value of collateral	Carrying value of the assets	Fair Value of collateral
Corporate loans	4,603,143	9,630,768	1,087,606	477,701
Consumer loans	869,317	2,231,778	1,142,268	20,474
Mortgage loans	3,703,164	7,915,172	238,938	158,292
Loans to micro, small and medium enterprises	3,114,829	7,102,534	441,255	157,047
Total	**12,290,454**	**26,880,252**	**2,910,066**	**813,514**

The effect of collateral as at 31 December 2019:

	31 December 2019			
	Over-collateralised Assets		Under-collateralised assets	
In thousands of GEL	Carrying value of the assets	Fair Value of collateral	Carrying value of the assets	Fair Value of collateral
Corporate loans	3,682,456	8,481,849	978,017	310,419
Consumer loans	950,846	2,232,727	933,159	37,658
Mortgage loans	2,949,426	6,171,802	219,771	107,183
Loans to micro, small and medium enterprises	2,579,002	5,983,285	369,278	164,980
Total	**10,161,730**	**22,869,664**	**2,500,224**	**620,239**

The effect of collateral as at 31 December 2018:

	31 December 2018			
	Over-collateralised Assets		Under-collateralised assets	
In thousands of GEL	Carrying value of the assets	Fair Value of collateral	Carrying value of the assets	Fair Value of collateral
Corporate loans	2,857,207	6,516,492	320,082	47,249
Consumer loans	1,213,595	2,543,720	775,922	34,242
Mortgage loans	2,663,362	5,404,518	45,821	28,934
Loans to micro, small and medium enterprises	2,340,848	5,324,290	155,747	68,110
Total	**9,075,011**	**19,789,020**	**1,297,572**	**178,535**

The effect of collateral by classes as at 31 December 2020:

	31 December 2020			
	Over-collateralised Assets		Under-collateralised Assets	
in thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Cash Cover	332,438	358,847	12,937	39,109
Gold	115,139	158,008	37,856	37,946
Inventory	753,658	2,149,849	24,536	24,498
Other	137,749	849,249	7,960	20,313
Real Estate	10,697,040	23,217,956	428,092	395,398
Third party guarantees	254,429	146,343	310,272	296,250
Unsecured	-	-	2,088,409	-
Total	**12,290,453**	**26,880,252**	**2,910,062**	**813,514**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

The effect of collateral by classes as at 31 December 2019:

	31 December 2019			
	Over-collateralised Assets		Under-collateralised Assets	
in thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Cash Cover	309,228	333,329	25,299	35,507
Gold	140,627	174,531	49,118	66,943
Inventory	794,209	2,221,293	33,916	33,740
Other	146,762	1,256,843	8,558	11,361
Real Estate	8,435,227	18,547,991	225,511	212,902
Third party guarantees	335,677	335,677	259,786	259,786
Unsecured	-	-	1,898,037	-
Total	**10,161,730**	**22,869,664**	**2,500,225**	**620,239**

The effect of collateral by classes as at 31 December 2018:

	31 December 2018			
	Over-collateralised Assets		Under-collateralised Assets	
in thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Cash Cover	221,107	235,578	35,207	35,207
Gold	219,221	257,706	58,054	58,054
Inventory	1,002,308	2,477,727	14,711	14,718
Other	216,433	1,421,488	18	18
Real Estate	6,826,688	14,807,266	68,327	62,760
Third party guarantees	589,254	589,255	7,778	7,778
Unsecured	-	-	1,113,477	-
Total	**9,075,011**	**19,789,020**	**1,297,572**	**178,535**

The financial effect of collateral is determined by comparing the fair value of collateral to outstanding gross loans and advances in the reporting date.

Stage 3 loans presented by segments and collateral classes as at 31 December 2020 are the following:

	31 December 2020			
in thousands of GEL	Corporate	Consumer	Mortgage	Loans to micro, small and medium enterprises
Cash Cover	21	36	38	47
Gold	-	1,717	-	430
Inventory	15,991	8,909	185	4,250
Other	-	-	-	54
Real Estate	97,824	65,645	273,577	231,925
Third party guarantees	5,013	968	2,308	7,347
Unsecured	42,579	110,455	3,618	18,898
Total	**161,428**	**187,730**	**279,726**	**262,951**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Stage 3 loans presented by segments and collateral classes as at 31 December 2019 are the following:

	31 December 2019			
in thousands of GEL	**Corporate**	**Consumer**	**Mortgage**	**Loans to micro, small and medium enterprises**
Cash Cover	18	89	78	724
Gold	-	1,289	-	400
Inventory	9,675	4,819	13	1,702
Other	1,245	-	-	50
Real Estate	92,652	29,084	61,918	82,511
Third party guarantees	1,633	1,805	1,687	4,531
Unsecured	16,156	36,841	606	3,401
Total	**121,379**	**73,927**	**64,302**	**93,319**

Stage 3 loans presented by segments and collateral classes as at 31 December 2018 are the following:

	31 December 2018			
in thousands of GEL	**Corporate**	**Consumer**	**Mortgage**	**Loans to micro, small enterprises**
Cash Cover	614	20	-	313
Gold	-	1,391	-	18,119
Inventory	8,591	11,974	-	1,556
Other	1,043	-	-	-
Real Estate	114,803	23,738	43,279	60,130
Third party guarantees	1,687	4,457	402	8,842
Unsecured	8,523	40,271	488	3,860
Total	**135,261**	**81,851**	**44,169**	**92,820**

The gross carrying amount of loans by stages that have been modified since initial recognition at a time when the loss allowance was measured at an amount equal to lifetime expected credit losses and for which the loss allowance has changed during the reporting period to an amount equal to 12-month expected credit losses loans are the following:

in thousands of GEL	**2020**	**2019**	**2018**
Stage 1	737,197	119,637	169,545
Stage 2	1,602,759	82,754	62,542
Stage 3	293,205	25,513	67,567
Total	**2,633,161**	**227,904**	**299,654**

At the central level a specific unit manages collateral to ensure that they serve as an adequate mitigation for credit risk management purposes. In line with the Group's internal policies, collateral provided to loans are evaluated by the Internal Appraisal Group (external reviewers are used in case of loans to related parties or specific cases when complex objects are appraised). The Internal Appraisal Group is part of the collateral management unit and, in order to ensure adequate and objective appraisal procedures, it is independent from the loan granting process. Real estate collateral of significant value is re-evaluated annually by internal appraisers. Statistical methods are used to monitor the value of real estate collateral that are of non-significant value and other types of collateral such as movable assets and precious metals.

In some instances, where the discounted recovery from the liquidation of collateral (adjusted for the liquidity haircut and discounted for the period of expected workout time) is larger than the estimated exposure at default, no credit loss allowance is recognised.

Collateral values include the contractual price of third-party guarantees, which, due to their nature, are capped at the loan's carrying value. The values of third-party guarantees in the tables above amounted to GEL 564,701 thousand, GEL 595,464 thousand and GEL 625,719 thousand as of 31 December 2020, 2019 and 2018, respectively. These third-party guarantees are not taken into consideration when assessing the impairment allowance. Refer to Note 41 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 36. Information on related party balances is disclosed in Note 43. As of 31 December 2020 net (losses)/gains recognised in profit or loss on modifications of loans with lifetime ECL that did not lead to derecognition was GEL (15,523) thousand (31 December 2019: GEL 844 thousand; 31 December 2018: GEL 196 thousand).

10. INVESTMENT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

In thousands of GEL	2020	2019	2018
Corporate bonds	666,133	611,694	549,477
Ministry of Finance of Georgia Treasury Bills	839,839	330,096	373,447
Certificates of deposit of the National Bank of Georgia	21,687	40,346	14,985
Ministry of Finance of Uzbekistan Treasury Bills	1,951	–	–
Netherlands Government bonds	–	1,596	66,760
Less: Credit loss allowance by stages	(3,258)	(1,438)	(1,136)
Stage 1	(3,258)	(1,438)	(1,136)
Stage 2	-	-	-
Stage 3	-	-	-
Total debt securities	**1,526,352**	**982,294**	**1,003,533**
Corporate shares – unquoted	916	2,999	1,706
Total investment securities measured at fair value through other comprehensive income	**1,527,268**	**985,293**	**1,005,239**

All debt securities except for corporate bonds, Netherlands Government bonds and Uzbekistan Treasury Bills are issued by the Government of Georgia and National Bank of Georgia. Country rating for Georgia stands at BB with negative outlook (as assigned by international rating agencies in February 2021). Latest country ratings for Uzbekistan and Netherlands stands at BB- and AAA, respectively. 46.9% of corporate bonds are issued by triple A rated international financial institutions, 17.8% of corporate bonds are issued by A- rated international financial institutions and 30.7% of corporate bond are issued at BB- rating, and 4.6% of corporate bonds are issued by B+ and B- rated corporations. The investees have not published recent financial information about their operations, their shares are not quoted and recent trade prices are not publicly accessible. The Group designated investments in corporate shares disclosed in the above table as equity securities at FVOCI. The FVOCI designation was made because the investments are expected to be held for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term.

As at 31 December 2020 investment securities measured at fair value through other comprehensive income carried at GEL 699,483 thousand have been pledged with local banks or financial institutions as collateral with respect to other borrowed funds (2019: GEL 696,961 thousand; 2018: GEL 613,466 thousand). For more details please refer to Note 19.

As at 31 December 2020 the principal equity investment securities measured at fair value through other comprehensive income are as follows:

in thousands of GEL	Nature of business	Country of registration	2020	2019	2018
JSC GRDC	Property development	Netherlands Antilles	365	365	365
Georgian Stock Exchange	Stock exchange	Georgia	–	2,111	1,004
Other	Various	Various	551	523	337
Total corporate shares			**916**	**2,999**	**1,706**

The movements in investment securities measured at fair value through other comprehensive income are as follows:

In thousands of GEL	Note	2020	2019	2018
Carrying amount as of 1 January		**985,293**	**1,005,239**	**657,938**
Purchases		763,530	1,781,817	717,630
Disposals		(92,103)	(213,362)	(14,781)
Redemption at maturity		(165,633)	(1,598,534)	(370,571)
Revaluation		17,632	(15,156)	6,949
Interest income accrued	29	103,516	74,043	57,057
Interest income received		(93,493)	(58,539)	(48,442)
Effect of translation to presentation currency		11,826	10,087	595
Transfer to investment in associate		(1,481)	–	–
Change in credit loss allowance		(1,821)	(302)	(1,136)
Carrying amount as of 31 December	**30**	**1,527,268**	**985,293**	**1,005,239**

11. BONDS CARRIED AT AMORTISED COST

in thousands of GEL	2020	2019	2018
Ministry of Finance treasury bills	1,062,111	1,023,474	654,618
Total gross amount of bonds carried at amortised cost	**1,062,111**	**1,023,474**	**654,618**
Less: credit loss allowance by stages	(2,165)	(1,906)	(915)
Stage 1	(2,165)	(1,906)	(915)
Stage 2	-	-	-
Stage 3	-	-	-
Total bonds carried at amortised cost	**1,059,946**	**1,021,568**	**653,703**

All debt securities except for corporate bonds are issued by the Government of Georgia and National Bank of Georgia. Country rating for Georgia stands at BB with negative outlook (as per international rating agencies in February 2021).

The movements in bonds carried at amortised cost are as follows:

in thousands of GEL	2020	2019	2018
Carrying amount at 1 January	**1,021,568**	**653,703**	**449,538**
Disposal	(195,814)	(27,241)	–
Purchases	639,825	613,383	395,717
Redemption at maturity	(413,038)	(216,674)	(200,658)
Interest income accrual	95,888	58,597	40,625
Interest income received	(88,224)	(59,222)	(30,611)
Effect of translation to presentation currency	–	13	7
Change in credit loss allowance	(259)	(991)	(915)
Carrying amount as of 31 December	**1,059,946**	**1,021,568**	**653,703**

For the disclosure of bonds' fair value carried at amortised cost refer to Note 41. An analysis on interest rate for bonds carried at amortised cost is disclosed in Note 36.

As at 31 December 2020 bonds carried at amortised cost of GEL 843,303 thousand have been pledged to local banks or financial institutions as collateral with respect to other borrowed funds (2019: GEL 579,142 thousand; 2018: GEL 212,337 thousand). Refer to Note 19.

None of the bonds carried at amortised cost as at 31 December 2020, 2019 and 2018 were either overdue or defaulted.

12. OTHER FINANCIAL ASSETS

in thousands of GEL	2020	2019	2018
Receivables from sales of repossessed assets	19,962	32,844	43,671
Receivables on guarantees / letters of credit	1,943	1,695	36,869
Prepayments for purchase of leasing assets	2,266	3,866	32,293
Receivables on credit card services and money transfers	25,227	21,895	14,390
Receivable on terminated leases	23,207	21,837	12,651
Trade receivable	3,562	4,420	8,273
Rental income receivables	3,243	2,833	3,492
Foreign exchange forward contracts	30,783	2,087	–
Investment held at fair value through profit or loss	17,239	–	–
Advance to promotional service provider	15,766	14,055	–
Other	58,832	40,546	30,714
Total gross amount of other financial assets	**202,030**	**146,078**	**182,353**
Less: Credit loss allowance	(41,028)	(30,867)	(28,094)
Total other financial assets	**161,002**	**115,211**	**154,259**

12. OTHER FINANCIAL ASSETS CONTINUED

As at 31 December 2020, 2019 and 2018, presentation of other financial assets gross carrying amount and credit loss allowance by IFRS 9 stages is as follows:

	Gross carrying amount				Credit loss allowance			
in thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2020	**129,539**	**25**	**16,514**	**146,078**	**18,207**	**6**	**12,656**	**30,869**
Transfers								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(751)*	*751*	–	–	*(1)*	*1*	–	–
– *to credit-impaired (from Stage 1 and Stage 2 to Stage 3)*	*(484)*	–	*484*	–	*(4)*	–	*4*	–
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*60*	*(10)*	*(50)*	–	*5*	*(4)*	*(1)*	–
New originated or purchased	145,179	–	–	145,179	10,106	–	–	10,106
Derecognised during the period	(97,574)	(6)	(1,988)	(99,569)	(401)	(1)	(1,848)	(2,250)
Net repayments	7,747	(110)	1,936	9,573	845	(2)	1,204	2,047
Foreign exchange movements	525	(15)	259	769	–	–	–	–
Changes to ECL measurement model assumptions	–	–	–	–	103	–	153	256
At 31 December 2020	**184,241**	**634**	**17,155**	**202,030**	**28,860**	–	**12,168**	**41,028**

	Gross carrying amount				Credit loss allowance			
in thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2019	**134,977**	**74**	**47,302**	**182,353**	**13,145**	**14**	**14,935**	**28,094**
Transfers								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(21)*	*23*	*(2)*	–	*(4)*	*4*	–	–
– *to credit-impaired (from Stage 1 and Stage 2 to Stage 3)*	*(55)*	*(15)*	*70*	–	*(1)*	*(15)*	*16*	–
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*47*	*(47)*	–	–	*4*	*(4)*	–	–
New originated or purchased	105,754	–	–	105,754	21,675	–	–	21,675
Derecognised during the period	(115,851)	(11)	(30,852)	(146,714)	(16,644)	13	(2,255)	(18,886)
Net repayments	4,565	–	(1,134)	3,431	–	–	–	–
Net Write-offs	–	–	–	–	–	–	–	–
Foreign exchange movements	123	1	1,130	1,254	–	–	–	–
Changes to ECL measurement model assumptions	–	–	–	–	31	(6)	(41)	(16)
At 31 December 2019	**129,539**	**25**	**16,514**	**146,078**	**18,206**	**6**	**12,655**	**30,867**

12. OTHER FINANCIAL ASSETS CONTINUED

in thousands of GEL	Gross carrying amount				Credit loss allowance			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 1 January 2018	**118,882**	**174**	**33,099**	**152,155**	**9,895**	**32**	**9,112**	**19,039**
Transfers								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(48)*	*48*	–	–	*(3)*	*3*	–	–
– *to credit-impaired (from Stage 1 and Stage 2 to Stage 3)*	*(5,013)*	*(17)*	*5,030*	–	*(81)*	*(4)*	*85*	–
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*210*	*(86)*	*(124)*	–	*57*	*(20)*	*(37)*	–
New originated or purchased	54,802	13	35,855	90,670	4,439	1	5,596	10,036
Derecognised during the period	(26,786)	(44)	(1,243)	(28,073)	(510)	(6)	(1,342)	(1,858)
Net repayments	(6,070)	(14)	(130)	(6,214)	–	–	–	–
Net Write-offs	–	–	(16,772)	(16,772)	–	–	(6,404)	(6,404)
Foreign exchange movements	(1000)	–	(8,413)	(9,413)	–	–	219	219
Changes to ECL measurement model assumptions	–	–	–	–	(653)	8	7,707	7,062
At 31 December 2018	**134,977**	**74**	**47,302**	**182,353**	**13,145**	**14**	**14,935**	**28,094**

The credit quality of Other Financial Assets is as follows at 31 December 2020:

in thousands of GEL	31 December 2020			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime EC for credit impaired)**	**Total**
Other Financial Assets risk category				
– Very low	183,894	–	–	183,894
– Low	261	10	–	271
– Moderate	86	624	–	710
– Default	–	–	17,155	17,155
Gross carrying amount	**184,241**	**634**	**17,155**	**202,030**
Credit loss allowance	(28,860)	–	(12,168)	(41,028)
Carrying amount	**155,381**	**634**	**4,987**	**161,002**

12. OTHER FINANCIAL ASSETS CONTINUED

The credit quality of Other Financial Assets is as follows at 31 December 2019:

	31 December 2019			
in thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Other Financial Assets risk category				
– Very low	129,218	1	–	129,219
– Low	234	1	–	235
– Moderate	87	23	–	110
– Default	–	–	16,514	16,514
Gross carrying amount	**129,539**	**25**	**16,514**	**146,078**
Credit loss allowance	(18,206)	(6)	(12,655)	(30,867)
Carrying amount	**111,333**	**19**	**3,858**	**115,210**

The credit quality of Other Financial Assets is as follows at 31 December 2018:

	31 December 2018			
in thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Other Financial Assets risk category				
– Very low	134,716	18	–	134,734
– Low	254	39	–	293
– Moderate	7	17	–	24
– Default	–	–	47,302	47,302
Gross carrying amount	**134,977**	**74**	**47,302**	**182,353**
Credit loss allowance	(13,145)	(14)	(14,935)	(28,094)
Carrying amount	**121,832**	**60**	**32,367**	**154,259**

Impaired receivables include receivables on terminated leases and other receivables for which credit loss allowance was assessed individually. Receivable's overdue status is a primary factor for the Group to consider a receivable as impaired. Receivables on terminated leases individually determined to be impaired are under-collateralised and their estimated fair value of collateral amounts to nil (2019: GEL 1,531 thousand; 2018: GEL 1,484 thousand). The remaining assets are not collateralised.

As of 31 December 2020 GEL193,220 thousand of gross other financial assets and GEL 20,145 thousand of credit loss allowance were attributable to the Bank (2019: GEL 133,153 thousand and GEL 13,559 thousand; 2018: GEL 137,682 thousand and GEL 16,329 thousand).

13. NET INVESTMENTS IN LEASES

As at 31 December 2020 net investments in leases of GEL 271,660 thousand (2019: GEL 256,660 thousand; 2018: GEL 203,802 thousand) are represented by leases of fixed assets excluding land and buildings. Finance lease payments receivable (gross investment in the leases) and their present values are as follows:

13. NET INVESTMENTS IN LEASES CONTINUED

in thousands of GEL	Due in 1 year	Due between 1 and 2 year	Due between 2 and 3 year	Due between 3 and 4 year	Due between 4 and 5 year	Due in 5 year or more	Total
Lease payments receivable as at 2020	132,984	102,136	65,085	31,307	13,922	7,662	353,096
Unearned finance income	(32,916)	(20,745)	(10,906)	(4,656)	(1,712)	(986)	(71,921)
Credit loss allowance	(4,794)	(1,829)	(1,886)	(928)	(425)	(335)	(10,197)
Present value of lease payments receivable as at 31 December 2020	**95,274**	**79,562**	**52,293**	**25,723**	**11,785**	**6,341**	**270,978**
Lease payments receivable as at 2019	147,959	97,959	55,978	25,236	9,333	4,637	341,102
Unearned finance income	(41,969)	(23,467)	(10,470)	(3,914)	(1,089)	(748)	(81,657)
Credit loss allowance	(1,430)	(492)	(475)	(222)	(86)	(80)	(2,785)
Present value of lease payments receivable as at 31 December 2019	**104,560**	**74,000**	**45,033**	**21,100**	**8,158**	**3,809**	**256,660**
Lease payments receivable as at 2018	122,056	76,117	42,651	18,647	7,370	3,838	270,679
Unearned finance income	(32,981)	(18,276)	(8,126)	(3,075)	(1,088)	271	(63,275)
Credit loss allowance	(1,789)	(364)	(681)	(307)	(124)	(337)	(3,602)
Present value of lease payments receivable as at 31 December 2018	**87,286**	**57,477**	**33,844**	**15,265**	**6,158**	**3,772**	**203,802**

*For fair values refer to Note 42.

The table below illustrates the movements in the credit loss allowance of net investments in leases:

in thousands of GEL	2020	2019	2018
Credit loss allowance at the beginning of the year	**2,785**	**3,602**	**2,237**
Amounts written off during the year as uncollectible	(347)	(235)	(400)
Credit loss allowance/ (recovery of allowance) during the year	7,759	(582)	1,765
Credit loss allowance at the end of the year	**10,197**	**2,785**	**3,602**

The following table discloses the changes in the credit loss allowance and gross carrying amount for net investments in leases between the beginning and the end of the reporting period:

	Gross carrying amount				Credit loss allowance			
in thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2020	**205,532**	**23,799**	**30,031**	**259,362**	**1,999**	**96**	**690**	**2,785**
Transfers								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	5,615	(4,945)	(669)	-	14	(13)	-	-
– *to credit-impaired (from Stage 1 and Stage 2 to Stage 3)*	(41,908)	44,590	(2,290)	391	(121)	415	(85)	209
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	(26,117)	(1,642)	28,035	276	(472)	(23)	646	152
New originated or purchased	85,964	18,654	10,101	114,719	1,258	509	432	2,199
Derecognised during the period	(40,360)	(13,560)	(11,171)	(65,091)	(331)	(63)	(323)	(717)
Net repayments	-	-	-	-	1,007	2,417	2,160	5,584
Foreign exchange movements	6,723	3,405	3,558	13,685	(357)	22	348	13
Other movements	(1,436)	43	135	(1,257)	(83)	59	(4)	(28)
Partial repayment	(22,860)	(9,575)	(8,476)	(40,911)	-	-	-	-
At 31 December 2020	**174,716**	**64,210**	**43,575**	**282,502**	**3,103**	**3,787**	**3,956**	**10,845**

13. NET INVESTMENTS IN LEASES CONTINUED

in thousands of GEL	Gross carrying amount				Credit loss allowance			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2019	**178,171**	**10,861**	**18,372**	**207,404**	**2,045**	**205**	**1,352**	**3,602**
Transfers								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	(5,951)	6,598	(647)	–	(14)	14	–	–
– *to credit-impaired (from Stage 1 and Stage 2 to Stage 3)*	(22,099)	*(2,941)*	*25,040*	–	(27)	(65)	92	–
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*4,968*	(2,972)	(1,996)	–	1	(1)	–	–
New originated or purchased	138,634	18,663	5,836	163,133	1,319	89	81	1,489
Derecognised during the period	(55,562)	(4,849)	(10,407)	(70,818)	(858)	(154)	(1,536)	(2,548)
Net repayments	–	–	–	–	(467)	8	701	242
Foreign exchange move-ments	2,622	170	1,022	3,814	–	–	–	–
Other movements	3,660	522	2,259	6,441	–	–	–	–
Partial repayment	(38,828)	(2,253)	(9,448)	(50,529)	–	–	–	–
At 31 December 2019	**205,615**	**23,799**	**30,031**	**259,445**	**1,999**	**96**	**690**	**2,785**

in thousands of GEL	Gross carrying amount				Credit loss allowance			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2018	**128,500**	**11,610**	**5,224**	**145,334**	**864**	**445**	**928**	**2,237**
Transfers								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	(3,996)	4,078	(82)	–	(9)	9	–	–
– *to credit-impaired (from Stage 1 and Stage 2 to Stage 3)*	(10,605)	*(4,533)*	15,138	–	(367)	(20)	387	–
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	1,052	(1,033)	(19)	–	357	(357)	–	–
New originated or purchased	120,992	7,208	5,165	133,365	1,350	108	256	1,714
Derecognised during the period	(36,040)	(5,372)	(3,541)	(44,953)	(103)	(81)	(717)	(901)
Net repayments	–	–	–	–	(47)	101	498	552
Foreign exchange move-ments	1,250	94	289	1,633	–	–	–	–
Other movements	2,003	277	1,085	3,365	–	–	–	–
Partial repayment	(24,985)	(1,468)	(4,887)	(31,340)	–	–	–	–
At 31 December 2018	**178,171**	**10,861**	**18,372**	**207,404**	**2,045**	**205**	**1,352**	**3,602**

13. NET INVESTMENTS IN LEASES CONTINUED

All clients from Covid-19 affected sectors, which is in turn determined by TBC Leasing's credit risk department, using sector forecasts derived by Group's macro economists' team, where these sectors show significant declines, are moved to stage 2 unless obviously they fall in stage 3. Also restructurings that where categorized as good before grace period, are not removed from stage 2 pool because of application of grace period. As at 31 December 2020, credit quality of net investments in leases is analysed below:

As at 31 December 2020, credit quality of net investments in lease is analysed below:

	31 December 2020			
in thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Net investments in leases risk category				
– Very low	152,660	423	–	153,083
– Low	18,492	55,260	–	73,752
– Moderate	–	4,737	–	4,737
– High	–	349	–	349
– Default	–	–	49,254	49,254
Gross carrying amount	**171,152**	**60,769**	**49,254**	**281,175**
Credit loss allowance	(2,9123)	(3,420)	(3,865)	(10,197)
Carrying amount	**168,240**	**57,349**	**45,389**	**270,978**

As at 31 December 2019, credit quality of net investments in lease is analysed below:

	31 December 2019			
in thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Net investments in leases risk category				
– Very low	175,468	–	–	175,468
– Low	30,147	13,688	–	43,835
– Moderate	–	6,361	–	6,361
– High	–	3,750	–	3,750
– Default	–	–	30,031	30,031
Gross carrying amount	**205,615**	**23,799**	**30,031**	**259,445**
Credit loss allowance	(1,999)	(96)	(690)	(2,785)
Carrying amount	**203,616**	**23,703**	**29,341**	**256,660**

13. NET INVESTMENTS IN LEASES CONTINUED

As at 31 December 2018, credit quality of net investments in lease is analysed below:

	31 December 2018			
in thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Net investments in leases risk category				
– *Very low*	145,220	–	–	145,220
– *Low*	32,951	2,350	–	35,301
– *Moderate*	–	6,712	–	6,712
– *High*	–	1,799	–	1,799
– *Default*	–	–	18,372	18,372
Gross carrying amount	**178,171**	**10,861**	**18,372**	**207,404**
Credit loss allowance	(2,045)	(205)	(1,352)	(3,602)
Carrying amount	**176,126**	**10,656**	**17,020**	**203,802**

The effect of collateral as at 31 December 2020:

	31 December 2020			
	Over-collateralised Assets		Under-collateralised Assets	
in thousands of GEL	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Investment in leases	218,272	362,426	62,903	51,783
Total	**218,272**	**362,426**	**62,903**	**51,783**

The effect of collateral as at 31 December 2019:

	31 December 2019			
	Over-collateralised Assets		Under-collateralised Assets	
in thousands of GEL	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Investment in leases	228,651	365,934	30,794	22,292
Total	**228,651**	**365,934**	**30,794**	**22,292**

The effect of collateral as at 31 December 2018:

	31 December 2018			
	Over-collateralised Assets		Under-collateralised Assets	
in thousands of GEL	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Investment in leases	166,362	253,582	41,042	34,527
Total	**166,362**	**253,582**	**41,042**	**34,527**

14. OTHER ASSETS

in thousands of GEL	2020	2019	2018
Current other assets			
Repossessed collateral	174,197	152,134	120,663
Prepayments for other assets	39,970	33,106	27,923
Prepayments for purchase of leasing assets	11,450	31,417	–
Other inventories	7,103	5,016	3,979
Prepaid taxes other than income tax	2,412	2,880	772
Total current other assets	**235,132**	**224,553**	**153,337**
Non-current other assets			
Assets repossessed from terminated leases	8,619	6,321	10,819
Prepayments for construction in progress	7,525	10,248	2,260
Prepaid insurance of leasing assets	3,461	3,287	2,330
Assets purchased for leasing purposes	157	190	6,985
Other	1,752	2,602	2,192
Total non-current other assets	**21,514**	**22,648**	**24,586**
Total other assets	**256,646**	**247,201**	**177,923**

Repossessed collateral represents real estate assets acquired by the Group in settlement of overdue loans. The Group expects to dispose of the assets in the foreseeable future. The assets do not meet the definition of non-current assets held for sale and are classified as inventories in accordance with IAS 2 “Inventories”. The assets were initially recognised at fair value when acquired. In 2020, collateral repossessed for settlement of impaired loans amounted to GEL 51.0 million (2019: GEL 78.9million; 2018: GEL 30 million).

With regards to certain repossessed collateral, the Group has granted previous owners a right to repurchase the repossessed collateral at prices equal to or higher than the carrying value of the loan at the date of repossession. This right is usually effective for a period of 6 to 24 months from the repossession date, during this time the repossessed collateral may not be disposed to third parties. As at 31 December 2020, the carrying value of the repossessed collateral subjected to the repurchase agreement was GEL 26,309 thousand (2019: GEL 62,578 thousand; 2018: GEL 44,024 thousand).

15. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS

in thousands of GEL	Land, premises and leasehold improvements	Office and other equipment	Construc-tion in progress	Total premises andequip-ment	Intangible assets	Total
Cost or valuation as at 1 January 2018	232,557	191,157	90,456	514,170	123,253	637,423
Accumulated depreciation/amortisation including accumulated impairment loss	(34,996)	(113,109)	-	(148,105)	(40,181)	(188,286)
Carrying amount as of 1 January 2018	**197,561**	**78,048**	**90,456**	**366,065**	**83,072**	**449,137**
Accounting policy change effect on gross amount	(41,082)	-	(1,299)	(42,381)	-	(42,381)
Accounting policy change effect on Accumulated depreciation	1,128	-	-	1,128	-	1,128
Cost as at 1 January 2018 (as restated)	191,475	191,157	89,157	471,789	123,253	595,042
Accumulated depreciation/amortisation including accumulated impairment loss (as restated)	(33,868)	(113,109)	-	(146,977)	(40,181)	(187,158)
Carrying amount as of 1 January 2018 (as restated)	**157,607**	**78,048**	**89,157**	**324,812**	**83,072**	**407,884**
Additions	8,395	46,118	8,538	63,051	41,958	105,009
Business combination	3,607	301	-	3,908	-	3,908
Transfers within premises and equipment	2,661	-	(2,661)	-	-	-
Transfers from investment property	-	-	1,317	1,317	-	1,317
Transfer to investment property	-	-	(32,628)	(32,628)		(32,628)
Disposals	(3,948)	(23,062)	-	(27,010)	(517)	(27,527)
Effect of translation to presentation currency - cost	23	23	-	46	11	57
Effect of translation to presentation currency - accumulated depreciation	(22)	35	-	13	(8)	5
Impairment charge	(474)	(21)	(4)	(499)	-	(499)
Depreciation/amortisation charge	(5,575)	(22,422)	-	(27,997)	(16,100)	(44,097)
Elimination of accumulated depreciation/ amortisation on disposals	155	8,901	-	9,056	89	9,145
Carrying amount as of 31 December 2018 (as restated)	**162,429**	**87,921**	**63,719**	**314,069**	**108,505**	**422,574**
Cost as at 31 December 2018 (as restated)	201,740	214,516	63,719	479,975	164,705	644,680
Accumulated depreciation/amortisation including accumulated impairment loss (as restated)	(39,311)	(126,595)	-	(165,906)	(56,200)	(222,106)
Additions	3,897	25,061	24,945	53,903	66,799	120,702
Transfers within premises and equipment	3,597	36	(3,633)	-	-	-
Transfers from investment property	-	-	1,817	1,817	-	1,817
Transfer to investment property	-	(1,439)	-	(1,439)	-	(1,439)
Disposals	(5,498)	(11,345)	(4,647)	(21,490)	(479)	(21,969)
Effect of translation to presentation currency - cost	48	75	-	123	23	146
Effect of translation to presentation currency - accumulated depreciation	(48)	(45)	-	(93)	(25)	(118)
Impairment charge	-	43	(6)	37	-	37
Depreciation/amortisation charge	(5,399)	(22,352)	-	(27,751)	(16,281)	(44,032)
Elimination of accumulated depreciation/ amortisation on disposals	1,956	8,397	-	10,353	567	10,920
Carrying amount as of 31 December 2019 (as restated)	**160,982**	**86,352**	**82,195**	**329,529**	**159,109**	**488,638**

15. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS CONTINUED

in thousands of GEL	**Land, Premises and leasehold improvements**	**Office and other equipment**	**Construc-tion in progress**	**Total Premise and equip-ment**	**Intangible assets**	**Total**
Cost as at 31 December 2019 (as restated)	203,784	226,947	82,195	512,926	231,048	743,974
Accumulated depreciation/amortisation including accumulated impairment loss (as restated)	(42,802)	(140,595)	-	(183,397)	(71,939)	(255,336)
Additions	8,889	32,094	26,934	67,917	87,885	155,802
Transfers within premises and equipment	5,365	- -	(5,365)	-	-	-
Disposals	(2,901)	(4,668)	(95)	(7,664)	(3)	(7,667)
Effect of translation to presentation currency - cost	150	170	-	320	49	369
Effect of translation to presentation currency - accumulated depreciation	(139)	(94)	-	(233)	(48)	(281)
Impairment charge	(2,016)	(1,204)	-	(3,220)	(676)	(3,896)
Depreciation/amortisation charge	(5,159)	(20,669)	-	(25,828)	(22,742)	(48,570)
Elimination of accumulated depreciation/ amortisation on disposals	406	5,222	-	5,628	3	5,631
Transfer to inventory	(395)	(39)	-	(434)	-	(434)
Transfer to right of use assets	(2,842)	(310)	-	(3,152)	-	(3,152)
Carrying amount as of 31 December 2020	**162,340**	**96,854**	**103,669**	**362,863**	**223,577**	**586,440**
Cost as at 31 December 2020	210,034	252,990	103,669	566,693	318,303	884,996
Accumulated depreciation/amortisation including accumulated impairment loss	(47,694)	(156,136)	-	(203,830)	(94,726)	(298,556)

*Certain amounts do not correspond to the 2019 consolidated financial statements as they reflect the adjustments made due to the change in accounting policy as described in Note 2.

**Office and other equipment include furniture and fixtures, computer and office equipment, motor vehicles as well as other equipment.

As of 31 December 2020 GEL 335,124 thousand of premises and equipment and GEL 210,602 thousand of intangible assets were attributable to the Bank (2019: 302,190 thousand and GEL 152,393 thousand; 2018: GEL 283,284 thousand and GEL 104,066 thousand).

The depreciation and amortisation charge presented on the face of the statement of profit or loss and other comprehensive income include depreciation and amortisation charge of premises and equipment, investment properties and intangible assets.

Construction in progress consists of construction and refurbishment of branch premises and the Bank's new headquarters. Upon completion, assets are to be transferred to premises.

16. RIGHT OF USE ASSETS AND LEASE LIABILITIES

The Group leases offices, branches and service centres. Rental contracts are typically made for fixed periods of 1 to 15 years.

Until 31 December 2018 leases of premises were classified as operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Group.

The right of use assets by class of underlying items is analysed as follows:

16. RIGHT OF USE ASSETS AND LEASE LIABILITIES CONTINUED

	2020	2019
in thousands of GEL	**Premises**	**Premises**
Carrying amount at 1 January	**59,316**	**60,232**
Additions of new contracts	-	18,801
Increases in value from substantial changes in contractual terms	5,950	-
Disposals	(955)	(7,340)
Depreciation charge	(14,565)	(12,377)
Carrying amount at 31 December	**49,746**	**59,316**

Expenses relating to short-term leases and to leases of low-value assets that are not classified as short-term leases are included in in administrative and other operating expenses:

in thousands of GEL	2020	2019
Expense relating to short-term leases	5,760	7,388
Expense relating to leases of low-value assets	6,990	6,154

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets cannot be used as collateral for borrowings.

Extension and termination options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

17. INVESTMENT PROPERTIES

in thousands of GEL	Note	2020	2019	2018
Cost as of 1 January		76,521	86,884	83,871
Accumulated depreciation and impairment as of 1 January		(3,854)	(2,588)	(4,639)
Carrying amount as of 1 January		**72,667**	**84,296**	**79,232**
Transfer to premises and equipment	15	–	(1,817)	(1,317)
Transfer from repossessed collateral		10,368	4,914	4,625
Acquisition through business combination		–	–	3,157
Addition from foreclosure		–	47	–
Disposals		(13,012)	(13,507)	(36,080)
Depreciation charge		(928)	(933)	(1,181)
Elimination of depreciation on disposal		158	717	3,232
Impairment charge		(564)	(1,050)	–
Transfer from premises and equipment		–	–	32,628
Cost as of 31 December		73,877	76,521	86,884
Accumulated depreciation and impairment as of 31 December		(5,188)	(3,854)	(2,588)
Carrying amount of Investment properties as of 31 December		**68,689**	**72,667**	**84,297**

17. INVESTMENT PROPERTIES CONTINUED

As of 31 December 2020, investment properties comprised of 58 lots (2019: 63 lots; 2018: 73 lots) of land and 111 buildings (2019: 111 buildings; 2018: 127 buildings) located in Tbilisi and other regions of Georgia with the fair value amounting to GEL 120,959 thousand (2019: GEL 123,325 thousand; 2018: GEL 97,425 thousand).

For disclosure purposes a latest fair valuation exercise was carried out for investment properties as of 31 December 2020. The valuation was carried out by external valuators who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. In the process of comparison, they have used three comparative analogues (registered sale and/or offer for sale), in which prices were applied adjustments based on the difference between subject assets and analogues. Most of the assets have been estimated by using the market approach due to the market situation, particularly based on a sufficient number of registered sales and proposals by the date of valuation.

In thousands of GEL (except for range of inputs)	**Fair value as of 31 December 2020 (valuation date)**	**Valuation technique**	**Unobservable inputs**	**Range of unobservable inputs (weighted average)**
Land	59,171	Sales comparison approach	Price per square meter	0.45 – 6,245 (217)
Buildings	61,788	Sales comparison approach	Price per square meter	8 – 9,502 (1,242)

Sensitivity of the input to fair value – increase/(decrease) in the price per square metre by 20% would result in increase/(decrease) in fair value by GEL 698 thousand/ (GEL 2,113 thousand).

Where the Group is the lessor, the future minimum lease payments receivable under non-cancellable operating leases, were as follows. Future operating lease payments receivable for later than 5 years was nil as at 31 December 2020, 2019 and 2018.

in thousands of GEL	**2020**	**2019**	**2018**
Not later than 1 year	82	207	185
Later than 1 year and not later than 5 years	–	230	–
Total operating lease payments receivable	**82**	**437**	**185**

18. GOODWILL

Movements in goodwill arising on the acquisition of subsidiaries are:

in thousands of GEL	**2020**	**2019**	**2018**
Carrying amount as of 1 January	**29,459**	**29,459**	**26,892**
Acquisition of subsidiaries	-	-	2,567
Impairment loss	(1,262)	-	-
Carrying amount as of 31 December	**28,197**	**29,459**	**29,459**

Goodwill Impairment Test

Goodwill is allocated to cash-generating units (CGUs, which represent the lowest level within the Group at which the goodwill is monitored by Management and which are not larger than a segment) as follows:

18. GOODWILL CONTINUED

in thousands of GEL	2020	2019	2018
JSC Bank Republic*	**24,166**	**24,166**	**24,166**
– *Bank Republic Retail*	*11,088*	*11,088*	*11,088*
– *Bank Republic Corporate*	*7,491*	*7,491*	*7,491*
– *Bank Republic MSME*	*4,791*	*4,791*	*4,791*
– *Bank Republic Other*	*796*	*796*	*796*
LLC Bonaco	2,567	2,567	2,567
CGU Micro	769	769	769
JSC United Financial Corporation	695	695	695
LLC TBC Kredit	–	1,262	1,262
Total carrying amount of goodwill	**28,197**	**29,459**	**29,459**

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

The pre-tax discount rate applied to the discounted cash flows of LLC TBC Kredit had been 16.25%, in terms of cash flow projection based on financial budged approved by management, the Group impaired the carrying value of goodwill by 1,262,261 GEL.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

in thousands of GEL	12/31/2020	12/31/2019	12/31/2018
JSC Bank Republic**			
Growth rate beyond five years of free cash flow to equity	5.20% p.a.	4.64% p.a.	5.54% p.a.
Pre-tax discount rate	24.56% p.a.	16.51% p.a.	20.27% p.a.
CGU SME / JSC Bank Constanta			
Growth rate beyond five years of free cash flow to equity	5.20% p.a.	4.64% p.a.	5.54% p.a.
Pre-tax discount rate	19.70% p.a.	10.36% p.a.	13.06% p.a.
JSC United Financial Corporation			
Growth rate beyond five years of free cash flow to equity	5.20% p.a.	4.64% p.a.	5.54% p.a.
Pre-tax discount rate	15.05% p.a.	15.51% p.a.	18.31% p.a.
LLC TBC Kredit			
Growth rate beyond five years of free cash flow to equity	N/A	2.70% p.a.	1.30% p.a.
Pre-tax discount rate	N/A	16.37% p.a.	24.57% p.a.
LLC Bonaco			
Growth rate beyond five years of free cash flow to equity	5.20% p.a.	4.64% p.a.	N/A
Pre-tax discount rate	11.43% p.a.	10.17% p.a.	N/A

*p.a. means per annum.

*Assumptions related to JSC Bank Republic are similar for all related CGU's.

18. GOODWILL CONTINUED

The management determined the budgeted gross margin based on past performance and its market expectations. The weighted average long term growth rates used are consistent with the forecasts included in the industry reports. The discount rates reflect specific risks related to the relevant CGUs.

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Bank Republic Retail had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of goodwill or carrying value of net assets of the CGU. Recoverable amount of Bank Republic Retail CGU exceeds its carrying amount by GEL 619,250 thousand (2019: GEL 3,068,466 thousand; 2018: GEL 84,111 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 35.49% p.a. (2019: 39.87% p.a.; 2018: 21.77% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Bank Republic Corporate had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of Bank Republic Retail CGU exceeds its carrying amount by GEL 410,824 thousand (2019: GEL 2,316,056 thousand; 2018: GEL 850,072 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 30.87% p.a. (2019: 36.34% p.a.; 2018: 38.86% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Bank Republic MSME had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of Bank Republic Retail CGU exceeds its carrying amount by GEL 389,641 thousand (2019: GEL 1,210,045 thousand; 2018: GEL 461,500 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 35.87% p.a. (2019: 36.52% p.a.; 2018: 35.83% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Micro/JSC Bank Constanta had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU Recoverable amount of CGU Micro/JSC Bank Constanta CGU exceeds its carrying amount by GEL 370,815 thousand (2019: GEL 732,567 thousand; 2018: GEL 913,325 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 45.25% p.a. (2019: 29.74% p.a.; 2018: 48.53% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of JSC United Financial Corporation had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of goodwill or carrying value of net assets of the CGU. Recoverable amount of JSC United Financial Corporation CGU exceeds its carrying amount by GEL 23,116 thousand (2019: GEL 8,222 thousand; 2018: GEL 13,458 thousand). The CGUs' carrying amount would equal its value in use at a discount rate of 24.23% p.a. (2019: 19.53% p.a.; 2018: 29.8% p.a.)

If the revised estimated pre-tax discount rate applied to the discounted cash flows of LLC Bonaco had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of LLC Bonaco CGU exceeds its carrying amount by GEL 116,174 thousand. The CGU's carrying amount would equal its value in use at a discount rate of 25.75% p.a.

19. DUE TO CREDIT INSTITUTIONS

in thousands of GEL	2020	2019	2018
Due to other banks			
Correspondent accounts and overnight placements	97,496	139,267	136,161
Deposits from banks	43,298	27,747	23,273
Total due to other banks	**140,794**	**167,014**	**159,434**
Other borrowed funds			
Borrowings from foreign banks and international financial institutions	2,370,656	2,005,900	2,065,560
National Bank of Georgia	1,883,290	1,316,079	706,579
Borrowings from other financial institutions	58,948	41,456	35,080
Borrowings from other local banks and financial institutions	32,185	62,916	63,332
Borrowing from Ministry of Finance	–	536	1,520
Total other borrowed funds	**4,345,079**	**3,426,887**	**2,872,071**
Total amounts due to credit institutions	**4,485,873**	**3,593,901**	**3,031,505**

As of 31 December 2020 for the purposes of maturity analysis of financial liabilities (Note 37) the above-mentioned loans are included within the amounts for which repayment is expected within 3 months.

20. CUSTOMER ACCOUNTS

in thousands of GEL	2020	2019	2018
State and public organisations			
Current/settlement accounts	504,019	616,397	667,553
Term deposits	590,426	298,177	538,311
Other legal entities			
Current/settlement accounts	3,512,078	3,161,526	2,797,214
Term deposits	763,035	363,217	337,697
Individuals			
Current/settlement accounts	3,487,017	2,712,910	2,426,597
Term deposits	3,777,720	2,959,775	2,677,374
Total customer accounts	**12,634,295**	**10,112,002**	**9,444,746**

20. CUSTOMER ACCOUNTS CONTINUED

State and public organisations include government owned profit orientated businesses. Economic sector concentrations within customer accounts are as follows:

	31 December 2020		31 December 2019		31 December 2018	
Individuals	7,264,737	58%	5,672,684	56%	5,103,971	55%
Trade	873,995	7%	741,385	7%	550,527	6%
Financial services	771,510	6%	351,537	3%	397,653	4%
Government sector	647,856	5%	505,494	5%	531,964	6%
Construction	610,321	5%	596,703	6%	613,973	7%
Services	526,227	4%	446,876	4%	360,084	4%
Energy & utilities	332,850	3%	322,331	3%	417,037	4%
Transportation	384,660	3%	308,268	3%	486,939	5%
Real estate	323,547	3%	322,416	3%	207,227	2%
Healthcare	131,936	1%	98,294	1%	76,464	1%
Hospitality & leisure	99,770	1%	110,816	1%	102,529	1%
Agriculture	58,005	0%	50,915	1%	35,884	0%
Metals and mining	18,458	0%	12,264	0%	12,479	0%
Other	590,423	4%	572,018	6%	548,015	6%
Total customer accounts	**12,634,295**	**100%**	**10,112,002**	**100%**	**9,444,746**	**100%**

As of 31 December 2020 the Group had 454 customers (2019: 361 customers; 2018: 310 customers) with balances above GEL 3,000 thousand. Their aggregate balance was GEL 5,630,143 thousand (2019: GEL 4,327,035 thousand; 2018: GEL 4,389,710 thousand) or 45%of total customer accounts (2019: 43%; 2018: 45%).

As of 31 December 2020 included in customer accounts are deposits of GEL 4,903 thousand and GEL 94,348 thousand (2019: GEL 9,555 thousand and GEL 101,615 thousand; 2018: GEL 6,766 thousand and GEL 158,306 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees issued, respectively. The latter is discussed in Note 36. As of 31 December 2020, deposits held as collateral for loans to customers amounted to GEL 512,637 thousand (2019: GEL 469,205 thousand; 2018: 270,787 thousand).

Refer to Note 41 for the disclosure of the fair value of each class of customer accounts. Information on related party balances is disclosed in Note 43.

21. DEBT SECURITIES IN ISSUE

in thousands of GEL	Currency	Carrying amount as of 31 December 2020	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Irish Stock Exchange	USD	966,793	6/19/2024	5.8%	6.4%
Bonds issued on Irish Stock Exchange	USD	414,216	10/3/2024	10.8%	11.4%
Bonds issued on Georgian Stock Exchange	GEL	38,504	3/20/2023	TIBR 3M+3.25%	12.5%
Total debt securities in issue		**1,419,513**			

in thousands of GEL	Currency	Carrying amount as of 31 December 2019	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Irish Stock Exchange	USD	371,127	10/3/2024	10.8%	11.4%
Bonds issued on Irish Stock Exchange	USD	842,471	6/19/2024	5.8%	6.4%
Total debt securities in issue		**1,213,598**			

21. DEBT SECURITIES IN ISSUE CONTINUED

in thousands of GEL	Currency	Carrying amount as of 31 December 2019	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Irish Stock Exchange	USD	7,927	7/22/2019	7.3%	8.1%
Bonds issued on Irish Stock Exchange	USD	5,416	5/16/2019	8.0%	8.7%
Total debt securities in issue		**13,343**			

On 20 March 2020, TBC Leasing with the help of TBC Capital placed senior secured bonds of amount GEL 58.4 million on the Georgian Stock Exchange. The percentage of securities is variable, 3.25% added to the 3-month Tbilisi Interbank Interest rate. Fitch rates the bonds 'BB-'.

On 3 July 2019 the Bank completed the transaction of a debut inaugural USD 125 million 10.75% yield Additional Tier 1 Capital Perpetual Subordinated Notes issue ("AT1 Notes"). The AT1 Notes are listed on the regulated market of Euronext Dublin and are rated B- by Fitch. The AT1 Notes have been simultaneously listed on JSC Georgian Stock Exchange, making it the first dual-listed international offering of additional Tier 1 Capital Notes from Georgia.

On 19 June 2019 the Bank completed the transaction of a debut USD 300 million 5-year 5.75% (6% yield) senior unsecured bonds issue. The Notes are listed on the regulated market of Euronext Dublin and are rated Ba2 by Moody's and BB- by Fitch. The Notes have been simultaneously listed on JSC Georgian Stock Exchange, making it the first dual-listed international offering of senior unsecured Notes from Georgia.

22. PROVISION FOR PERFORMANCE GUARANTEES, CREDIT RELATED COMMITMENTS AND LIABILITIES AND CHARGES

Movements in credit loss allowance for performance guarantees, credit related commitment and liabilities and charges are as follows:

in thousands of GEL	Performance guarantees	Credit related commitments	Other	Total
Carrying amount as of 1 January 2018	**2,751**	**3,578**	**-**	**6,329**
Charges less releases recorded in profit or loss	1,640	1,846	4,000	7,486
Effect of translation to presentation currency	2	–	–	2
Carrying amount as of 31 December 2018	**4,393**	**5,424**	**4,000**	**13,817**
Charges less releases recorded in profit or loss	3,069	(913)	2,106	4,262
Utilization of provision	–	–	(1,104)	(1,104)
Effect of translation to presentation currency	4	–	–	4
Carrying amount as of 31 December 2019	**7,466**	**4,511**	**5,002**	**16,979**
Charges less releases recorded in profit or loss	(2,643)	(597)	2,600	(640)
Effect of translation to presentation currency	780	332	–	1,112
Carrying amount as of 31 December 2020	**5,603**	**4,246**	**7,602**	**17,451**

Credit related commitments and performance guarantees: Impairment allowance estimation methods differ for (i) letter of credits and guarantees and (ii) undrawn credit lines.

For letter of credits and guarantees allowance estimation purposes the Bank applies the staged approach and classifies them in stage 1, stage 2 or stage 3. Significant stage 3 guarantees are assessed individually. Non-significant stage 3 as well as all stage 1 and stage 2 guarantees and letter of credits are assessed collectively using exposure, marginal probability of conversion, loss given default and discount factor. Amount of the expected allowance differs based on the classification of the facility in the respective stage.

22. PROVISION FOR PERFORMANCE GUARANTEES, CREDIT RELATED COMMITMENTS AND LIABILITIES AND CHARGES CONTINUED

For impairment allowance assessment purposes for undrawn exposures the Bank distinguishes between revocable and irrevocable loan commitments. For revocable commitments the Bank does not create impairment allowance. As for the irrevocable undisbursed exposures the Bank estimates utilization parameter (which represents expected limit utilization percentage conditional on the default event) in order to convert off-balance part of the exposure to on-balance.

Once the respective on balance exposure is estimated, the Bank applies the same impairment framework approach as the one used for the respective type of on balance exposures.

23. OTHER FINANCIAL LIABILITIES

Other financial liabilities comprise the following:

in thousands of GEL	Note	2020	2019	2018
Derivative financial liabilities	40	126,453	20,335	2,064
Trade payables		31,598	21,223	24,270
Liabilities related to co-financing of hotels and restaurants sectors		13,771	315	-
Liabilities to asset and service providers of finance leases		10,851	25,923	21,691
Debit or credit card payables		6,408	13,259	19,146
Pre payments related to guarantees		1,152	879	413
Payable to deposit insurance agency		930	549	498
Security deposits for net investments in leases		91	1,171	409
Other accrued liabilities		19,988	11,989	9,714
Total other financial liabilities		**211,242**	**95,643**	**78,205**

Refer to Note 41 for disclosure of the fair value of other financial liabilities.

As of 31 December 2020 GEL 186,487 thousand of other financial liabilities were attributable to the Bank (2019: GEL 58,809 thousand; 2018: GEL 45,347 thousand).

24. OTHER LIABILITIES

Other liabilities comprise the following:

in thousands of GEL	2020	2019	2018
Accrued employee benefit costs	28,957	42,017	48,116
Taxes payable other than on income	12,370	11,669	19,624
Advances received	10,390	11,161	10,867
Other	8,252	5,519	7,689
Total other liabilities	**59,969**	**70,366**	**86,296**

All of the above liabilities are expected to be settled within twelve months after the year-end.

25. SUBORDINATED DEBT

As of 31 December 2020, subordinated debt comprised of:

in thousands of GEL	Grant Date	Maturity Date	Currency	Outstanding amount in original currency	Outstanding amount in GEL
KfW	6/10/2014	5/8/2021	GEL	6,161	6,161
KfW	5/4/2015	5/8/2021	GEL	6,737	6,737
Green for Growth Fund	12/18/2015	12/18/2025	USD	15,244	49,950
European Fund for Southeast Europe	12/21/2018	12/21/2028	USD	20,079	65,789
European Fund for Southeast Europe	12/18/2015	12/18/2025	USD	7,633	25,010
European Fund for Southeast Europe	3/15/2016	3/15/2026	USD	7,631	25,004
Private Lenders	6/8/2017	12/19/2024	USD	25,217	82,627
Subordinated Bond (Private lender)	8/31/2018	1/25/2023	USD	10,102	33,099
BlueOrchard Microfinance Fund	12/14/2018	12/14/2025	USD	14,949	48,983
BlueOrchard Microfinance Fund	12/14/2018	12/14/2028	USD	14,941	48,956
Asian Developement Bank	10/18/2016	12/31/2026	USD	50,438	165,266
ResponsAbility SICAV (Lux) Micro and SME Finance Fund	11/30/2018	11/30/2028	USD	5,930	19,430
Micro and SME Finance Leaders	11/30/2018	11/30/2028	USD	1,005	3,292
Global Climate Partnership Fund	11/20/2018	11/20/2028	USD	25,096	82,230
Responsability SICAV (Lux) - Financial Inclusion Fund	11/30/2018	11/30/2028	USD	3,115	10,206
Total subordinated debt					**672,740**

As of 31 December 2019, subordinated debt comprised of:

in thousands of GEL	Grant Date	Maturity Date	Currency	Outstanding amount in original currency	Outstanding amount in GEL
KfW	6/10/2014	5/8/2021	GEL	6,162	6,162
KfW	5/4/2015	5/8/2021	GEL	6,739	6,739
Green for Growth Fund	12/18/2015	12/18/2025	USD	15,305	43,890
European Fund for Southeast Europe	12/18/2015	12/18/2025	USD	7,663	21,975
European Fund for Southeast Europe	3/15/2016	3/15/2026	USD	7,662	21,971
Private Lenders	6/8/2017	12/19/2024	USD	25,218	72,317
Subordinated Bond (Private lender)	8/31/2018	1/25/2023	USD	10,101	28,975
BlueOrchard Microfinance Fund	12/14/2018	12/14/2025	USD	14,924	42,798
BlueOrchard Microfinance Fund	12/14/2018	12/14/2028	USD	14,920	42,786
European Fund for Southeast Europe	12/21/2018	12/21/2028	USD	20,074	57,565
Asian Developement Bank	10/18/2016	12/31/2026	USD	50,585	145,064
ResponsAbility SICAV (Lux) Micro and SME Finance Fund	11/30/2018	11/30/2028	USD	5,935	17,020
Micro and SME Finance Leaders	11/30/2018	11/30/2028	USD	1,006	2,884
Global Climate Partnership Fund	11/20/2018	11/20/2028	USD	25,089	71,948
ResponsAbility SICAV (Lux) - Financial Inclusion Fund	11/30/2018	11/30/2028	USD	3,117	8,940
Total subordinated debt					**591,034**

25. SUBORDINATED DEBT CONTINUED

As of 31 December 2018, subordinated debt comprised of:

in thousands of GEL	Grant Date	Maturity Date	Currency	Outstanding amount in original currency	Outstanding amount in GEL
Deutsche Investitions und Entwicklungsgesellschaft MBH	6/26/2013	6/15/2020	USD	7,509	20,100
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	12/19/2013	4/15/2023	USD	29,213	78,191
KfW	6/10/2014	5/8/2021	GEL	6,161	6,161
KfW	5/4/2015	5/8/2021	GEL	6,737	6,737
Green for Growth Fund	12/18/2015	12/18/2025	USD	15,312	40,983
European Fund for Southeast Europe	12/18/2015	12/18/2025	USD	7,666	20,520
European Fund for Southeast Europe	3/15/2016	3/15/2026	USD	7,665	20,516
Asian Development Bank	10/18/2016	12/31/2026	USD	50,617	135,482
Private Lenders	6/30/2017	12/19/2024	USD	25,218	67,497
Subordinated Bond	8/31/2018	1/25/2023	USD	10,109	27,057
Global Climate Partnership Fund	11/20/2018	11/20/2028	USD	25,111	67,211
Micro and SME Finance Leaders	11/30/2018	11/30/2028	USD	1,007	2,695
ResponsAbility SICAV (Lux) Financial Inclusion Fund	11/30/2018	11/30/2028	USD	3,121	8,354
ResponsAbility Micro and SME Finance Fund	11/30/2018	11/30/2028	USD	5,943	15,906
BlueOrchard Microfinance Fund	12/14/2018	12/14/2025	USD	14,916	39,923
BlueOrchard Microfinance Fund	12/14/2018	12/14/2028	USD	14,915	39,923
European Fund for Southeast Europe	12/21/2018	12/21/2028	USD	20,049	53,663
Total subordinated debt					**650,919**

The debt ranks after all other creditors in case of liquidation.

Refer to Note 41 for the disclosure of the fair value of subordinated debt. Information on related party balances is disclosed in Note 43.

In the event of any liquidation and/or significant financial distress with respect to the Borrower, the Lender agrees that the claims of the Lender in respect of the principal of, and interest on, the Loan and all other amounts payable under this Agreement shall be subordinated and subject in right of payment to the prior payment of claims of depositors and unsecured creditors of the Borrower, except for claims which are themselves so subordinated.

Unless otherwise agreed with the Regulatory Authority, any voluntary or mandatory prepayment of the Loan or cancellation of this Agreement (except in the case of Clause 9.2 (Voluntary Prepayment)) can be made no earlier than five calendar years after the Disbursement Date of the Loan and shall require the prior written consent of the Regulatory Authority.

The purpose of the Facility is to provide the Borrower with funding to be used by the Borrower as an instrument that qualifies as Tier 2 Capital to increase its lending capacity and to provide a capital cushion for the Borrower in accordance with the provisions of this Agreement.

26. SHARE CAPITAL

in thousands of GEL	Number of ordinary shares	Share Capital
As of 1 January 2019	52,539,769	21,014
As of 31 December 2019	52,539,769	21,014
As of 31 December 2020	52,539,769	21,014

Each share has a nominal value of GEL 0.4 (31 December 2019: GEL 0.4 per share, 31 December 2018: GEL 0.4 per share). All issued ordinary shares are fully paid and entitled to dividends.

26. SHARE CAPITAL CONTINUED

In 2020, taking into consideration the unprecedented uncertainty triggered by the COVID-19 outbreak, the Board of Directors has decided not to recommend a dividend. The decision was approved by shareholders of TBCG.

On 19 April 2019, at the annual general meeting JSC TBC Bank's shareholders agreed on a dividend of GEL 1.54 per share, based on the 2018 audited financial statements. The dividend was recorded on 28 May 2019 and on 12 July 2019 shareholders received the payment of the total GEL 80,911 thousand dividends.

On 21 May 2018, at the annual general meeting JSC TBC Bank's shareholders agreed on a dividend of GEL 1.64 per share, based on the 2017 audited financial statements. The dividend was recorded on 12 June 2018 and on 14 June 2018 shareholders received the payment of the total GEL 95,626 thousand dividends.

27. SHARE BASED PAYMENTS

June 2015 arrangement:

In June 2015, the Bank's Supervisory Board approved new management compensation scheme for the top and middle management and it accordingly authorised the issue of a maximum 3,115,890 new shares. The system was enforced from 2015 through 2018. According to the scheme, each year, subject to predefined performance conditions, a certain number of shares were awarded to the Group's top managers and most of the middle ones. The performance features key performance indicators (KPIs) divided into (i) corporate and (ii) individual. The corporate KPIs are mainly related to achieving profitability, efficiency, and portfolio quality metrics set by the Board as well as non-financial indicators with regards to customers' experience and employees' engagement. The individual performance indicators are set on an individual basis and are used to calculate the number of shares to be awarded to each employee. According to the scheme, members of top management also received the fixed number of shares. Once awarded, all shares carry service conditions and, before those conditions are met, are eligible to dividends; however they cannot be sold or transferred to third parties.

Service conditions foresee continuous employment until the gradual transfer of the full title to the scheme participants is complete. Shares for each of the 2015, 2016, 2017 and 2018 tranche gradually ran over on the second, third and fourth year following the performance appraisal. Eighty percent of the shares are vested in 3 years after being awarded. Under this compensation system the total vesting period extends to March 2022.

In 2015 the Group considered 17 June as the grant date. Based on the management's estimate of reached targets, as of 31 December 2015 1,908,960 shares were granted. The shares were gradually awarded to the members as per the described scheme. At the grant date the fair value amounted to GEL 24.64 per share, as quoted on the London Stock Exchange.

Following the listing on the Premium segment of the London Stock Exchange, the share-based payment scheme remained conceptually the same and was only updated to reflect the Group's new structure, whereby TBC Bank Group PLC distributes its shares to the scheme's participants, instead of JSC TBC Bank. The respective shares' value is recharged to JSC TBC Bank. As a result, the accounting of the scheme did not change in the consolidated financial statements.

The Bank also paid personal income tax on behalf of equity settled scheme beneficiaries, which was accounted as cash settled part.

The share based payment scheme for middle management and other eligible employees continues under existing terms for 2019-2020 except for vesting conditions that changed from 10%, 10%, 80% to 33%, 33%, 34% for the 3 year period.

December 2018 arrangements:

A new compensation system was approved by shareholders at the AGM on 21 May 2018 and came into effect on 1 January 2019 and it covers the period 2019-2021 inclusive. On 28 December 2018, the Board of Directors approved the following details for this new compensation schemes for the top management and the Group considers that as a grant date. All the top management schemes are equity settled and accounted respectively.

27. SHARE BASED PAYMENTS CONTINUED

Deferred share salary plan

Part of the top management salary is paid with shares with the objective of closely promoting the long-term success of the Group and aligning senior executive directors' and shareholders' interests. Shares are usually delivered during the first quarter of the second year (i.e. the year after the performance year) and the exact date is determined by the Board. 50% of the shares have 1 year deferral period and the remaining 50% is deferred for 2 years from the delivery date. The shares are registered in the trustees name as nominee for the participants and the participants are entitled to receive dividends.

Where applicable, deferred share salary is paid in part under the executive director's service contract with TBC JSC and in part under his service contract with TBC PLC, to reflect the executive director's duties to each. Initial salaries are set and approved by the Supervisory Board and Board of Directors. The Remuneration Committee assists both Boards in compensation related matters and makes respective recommendations. Deferred compensation is subject to the Group's malus and clawback policies until the shares are vested and during the holding period. If at any time after making the deferred compensation there is a material misstatement in the financial results for the year in respect of which the compensation was formally granted, the Remuneration Committee has the right to cause some or all of the deferred compensation for that year or any subsequent financial year that is unvested (or unpaid) to lapse (or not be paid).

The number of shares is calculated based on the average share price of the last 10 days preceding the committee decision date.

Deferred Bonus plan

The annual bonus for the top management is determined as to the extent that the annual KPIs have been met. Shares are usually delivered during the first quarter of the second year (i.e. the year after the performance year): and the exact date is determined by the Board. 50% of the shares have 1 year deferral period and the remaining 50% is deferred for 2 years from the delivery date. The shares are registered in the trustees name as nominee for the participants and the participants are entitled to receive dividends.

Annual KPIs are set by the Remuneration Committee at the beginning of each year in relation to that year and approved by the Board. To the extent that the KPIs are achieved, the Remuneration Committee may recommend to the Board whether an award may be made and the amount of such award. The Group does not pay guaranteed bonuses to executive directors. The nature of the KPIs with their specific weightings and targets is disclosed in the published annual report. Awards are subject to the Group's malus and clawback policies until the shares are vested and during the holding period. If at any time after making the award there is a material misstatement in the financial results for the year in respect of which the award was formally granted, the Remuneration Committee can recommend to the Board that some or all of the award for that year or any subsequent financial year that is unvested (or unpaid) to lapse (or not be paid).

The number of shares is calculated based on the average share price of the last 10 days preceding the committee decision date.

Long Term Incentive Plan (LTIP)

Long term incentive plan is used to provide a strong motivational tool to achieve long term performance conditions and to provide rewards to the extent those performance conditions are achieved. Performance conditions are chosen to align the Group's and the Bank's executive directors' interests with strategic

objectives of the Group over multi-year periods and encourage a long-term view. In order for the shares to be delivered, the executive directors need to meet rolling performance conditions over the 3 year performance period.

More details about the LTIP and share based payments are given in Annual report 2020, Remuneration Committee report of TBC Bank Group PLC.

During 2020 the Executive Directors of TBC Bank Group PLC and Management of JSC TBC Bank has forfeited their rights to deferred share bonuses and long-term incentive plan grants attributable to 2020.The above mentioned decision had no effect on the incentive schemes for 2019 and 2021 years. Decision has

27. SHARE BASED PAYMENTS CONTINUED

been agreed with remuneration committee details of which are given in remuneration report above.Tabular information on the schemes is given below:

in thousands of GEL	31 December 2020	31 December 2019	31 December 2018
Number of unvested shares at the beginning of the period	**3,141,541**	**2,121,129**	**2,284,773**
Number of shares granted			
Number of shares granted - Deferred salary	–	285,047	–
Number of shares granted - Deferred bonus	–	471,778	–
Number of shares granted - LTIP	–	459,751	–
Number of shares granted - Middle management, subsidiaries' management and other eligible employees	528,325	396,525	–
Number of shares granted	**528,325**	**1,613,101**	**–**
Change in estimates of number of shares expected to be granted**			
Change in estimates for 2019-2021 all awards	–	(57,058)	–
Change in estimates for 2020 award for Deferred salary, 2021 awards for Deferred bonus and LTIP	479,580	–	–
Management forfeiture of rights for 2020 bonus	(428,451)	–	–
Change in estimates of number of shares expected to be granted**	**51,129**	**(57,058)**	**–**
Change in estimate of number of shares expected to vest based on performance conditions - 2019 performance	(71,847)	–	–
Change in estimate of number of shares expected to vest based on performance conditions - 2018 performance	–	(16,501)	–
Change in estimate of number of shares expected to vest based on performance conditions - 2017 performance	–	–	166,377
Number of shares vested:			
2014 year award – 80% vesting	–	–	(227,631)
2015 year award – 80% vesting	–	(405,573)	–
2015 year award – 10% vesting	–	–	(50,697)
2016 year award – 80% vesting	(413,544)	–	–
2016 year award – 10% vesting	–	(51,693)	(51,693)
2017 year award – 10% vesting	(105,527)	(61,864)	–
2018 year award – 10% vesting	(101,258)	–	–
Number of shares vested	**(620,329)**	**(519,130)**	**(330,021)**
Number of unvested shares at the end of the period	**3,028,819**	**3,141,541**	**2,121,129**
Value at grant date per share according to June 2015 scheme (GEL)	25	25	25
Value at grant date per share (GEL) middle management and other eligible employees plan	50	50	–
Value at grant date per share (GEL) Deferred share salary plan	50	50	–
Value at grant date per share (GEL) Deferred bonus plan	50	50	–
Value at grant date per share (GEL) LTIP*	50	50	–
Expense on equity-settled part (GEL thousand)	17,472	33,798	11,668
Expense on cash-settled part (GEL thousand)	(950)	59	8,424
Expense recognised as staff cost during the period (GEL thousand)	**16,522**	**33,857**	**20,092**

*Grant date for LTIP plan has been determined for the first award tranche only, which is planned to be awarded in 2022. For remaining tranches expense is accrued based on estimated fair value during the future grant date.

** The maximum amount is fixed for deferred share compensations for top management, the exact number will be calculated as per policy.

*** Represents shares granted to subsidiaries' management.

27. SHARE BASED PAYMENTS CONTINUED

Liability in respect of the cash-settled part of the award amounted to GEL 2,000 thousand as 31 December 2020 (31 December 2019: GEL 3,160 thousand; 31 December 2018: 11,001). Tax part of the new bonus system for the top management is accounted under equity settled basis.

Staff costs related to equity settled part of the share based payment schemes are recognised in the income statement on a straight line basis over the vesting period of each relevant tranche and corresponding entry is credited to share based payment reserve in equity.

On 31 December 2020 based on level of achievement of key performance indicators the management has reassessed the number of shares that will have to be issued to the participants of the share based payment system by decreasing estimated number of shares to vest by 71,847 (31 December 2019: decreased estimated number of shares to vest by 16,501).

In 2019 the Group established employee benefit trust (EBT) set up Executive Equity Compensation Trustee – Sanne Fiduciary Services Limited (the "Trustee") which acts as the trustee of the Group's share based payments plan. It purchases Group's shares from the open market and holds them before they are awarded to participants and vesting date is due. The number of shares to be purchased and held are instructed by the Group. As at 31 December 2020 the share number held by Trustee was 778,183 (31 December 2019: 595,380), which represents 1.4% of total outstanding shares (31 December 2019: 1.1%).

28. SEGMENT ANALYSIS

The Management Board is the chief operating decision maker and it reviews the Group's internal reporting in order to assess the performance and to allocate resources. In 2020 the Group made the re-segmentation after which some of the clients were reallocated to different segments – GEL 127 million of loans and customers amount was transferred from MSME to Corporate segment. While GEL 5 million amounts were transferred from Corporate to MSME segment. In the tables below is disclosed the information as of 31 December 2020 both with and without re-segmentation effect.

The operating segments are determined as follows:

- Corporate – legal entity/group of affiliated entities with an annual revenue exceeding GEL 12.0 million or who have been granted facilities with more than GEL 5.0 million. Some other business customers may also be assigned to the corporate segment or transferred to MSME on a discretionary basis;
- Retail – non-business individual customers; all individual customers are included in retail deposits;
- MSME – Business customers who are not included in either corporate or legal entities who have been granted a pawn shop loan; or individual customers of the newly-launched fully-digital bank, Space;
- Corporate centre and other operations - comprises of the treasury, other support and back office functions, and non-banking subsidiaries of the Group.

The Board of Directors assesses the performance of the operating segments based on a measure of profit before income tax.

The reportable segments are the same as the operating segments.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2020, 2019 or 2018.

The vast majority of the Group's revenues are attributable to Georgia. A geographic analysis of origination of the Group's assets and liabilities is given in Note 36.

Allocation is performed based on drivers identified for each type of cost if possible. If there is no identifiable driver for any type of expense/overhead cost, those expenses are allocated between segments based on the same logic as applied for the expenses with similar nature (e.g. other operating expenses would follow the pattern of closest category of operating expenses).

Intersegment transfer pricing methodology is internally created tool, which is based on matched maturity logics. It is used to manage liquidity and interest rate risks.

28. SEGMENT ANALYSIS CONTINUED

Corporate centre borrows monetary amounts (deposits) from business segments, therefore, each of segment is compensated on each deposit based on its currency, duration, type and liquidity requirements. Business segments then borrow money from corporate centre, to fund loans, on which each segment pays agreed price to corporate centre, based on each loans currency, type (fixed or floating), duration, capital requirement.

Segment disclosure below is prepared with the effect of 2020 re-segmentation as described above.

in thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2020					
– Interest income	462,203	617,125	335,161	246,349	**1,660,838**
– Interest expense	(208,556)	(184,738)	(12,020)	(448,775)	**(854,089)**
– Net interest gains on currency swaps	-	-	-	20,950	**20,950**
– Inter-segment interest (expense)/income	34,456	(59,379)	(125,599)	150,522	**-**
Net interest income	**288,103**	**373,008**	**197,542**	**(30,954)**	**827,699**
– Fee and commission income	57,949	214,377	26,405	(235)	**298,496**
– Fee and commission expense	(8,698)	(109,887)	(11,001)	(131)	**(129,717)**
Net fee and commission income	**49,251**	**104,490**	**15,404**	**(366)**	**168,779**
– Net gains/(loss) from currency derivatives, foreign currency operations and translation	51,443	31,561	27,187	(4,336)	**105,855**
– Gains less losses from disposal of investment securities measured at FVOCI	-	-	-	(624)	**(624)**
– Other operating income	1,855	6,901	429	4,169	**13,354**
Other operating non-interest income	**53,298**	**38,462**	**27,616**	**(791)**	**118,585**
– Credit loss allowance for loans to customers	(29,089)	(201,652)	(100,070)	-	**(330,811)**
– Credit loss allowance reversal/(credit loss allowance) for performance guarantees and credit related commitments	3,546	(241)	(67)	-	**3,238**
– Credit loss allowance for net investments in leases	-	-	-	(7,760)	**(7,760)**
– Credit loss allowance for other financial assets	(5,600)	(1,476)	-	(6,332)	**(13,408)**
– Credit loss allowance for financial assets measured at FVOCI	(876)	-	-	(934)	**(1,810)**
Operating income after expected credit losses	**358,633**	**312,591**	**140,425**	**(47,137)**	**764,512**
Losses from modifications of financial instruments	(6,345)	(23,633)	(7,153)	(3,884)	**(41,015)**
– Staff costs	(34,068)	(109,492)	(47,835)	(15,492)	**(206,887)**
– Depreciation and amortisation	(4,296)	(45,256)	(11,187)	(3,329)	**(64,068)**
– Provision for liabilities and charges	(400)	(2,200)	-	-	**(2,600)**
– Administrative and other operating expenses	(11,973)	(68,309)	(22,466)	(14,996)	**(117,744)**
Operating expenses	**(50,737)**	**(225,257)**	**(81,488)**	**(33,817)**	**(391,299)**
Profit/(loss) before tax	**301,551**	**63,701**	**51,784**	**(84,838)**	**332,198**
– Income tax (expense)/recovery	(18,695)	21,360	3,568	(1,171)	**5,062**
Profit for the year	**282,856**	**85,061**	**55,352**	**(86,009)**	**337,260**
Total gross loans and advances to customers reported	5,690,749	5,953,687	3,556,079	–	**15,200,515**
Total customer accounts reported	4,001,068	7,255,020	1,378,207	–	**12,634,295**
Total credit related commitments and performance guarantees	3,125,279	189,288	317,790	–	**3,632,357**

28. SEGMENT ANALYSIS CONTINUED

For comparison purposes segment disclosure for 2020 below is prepared without the effect of 2020 re-segmentation as described above.

in thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2020					
– Interest income	454,184	617,125	343,180	246,349	**1,660,838**
– Interest expense	(208,331)	(184,738)	(12,245)	(448,775)	**(854,089)**
– Net interest gains on currency swaps	-	-	-	20,950	**20,950**
– Intersegment interest income/(expense)	34,456	(59,379)	(125,599)	150,522	**-**
Net interest income	**280,309**	**373,008**	**205,336**	**(30,954)**	**827,699**
– Fee and commission income	57,949	214,377	26,405	(235)	**298,496**
– Fee and commission expense	(8,698)	(109,887)	(11,001)	(131)	**(129,717)**
Net fee and commission income	**49,251**	**104,490**	**15,404**	**(366)**	**168,779**
– Net gains/(losses) from trading in foreign currencies	51,443	31,561	27,187	(4,336)	**105,855**
– Gains less losses from disposal of investment securities measured at FVOCI	–	–	–	(624)	**(624)**
– Other operating income	1,855	6,901	429	4,169	**13,354**
Other operating non-interest income	**53,298**	**38,462**	**27,616**	**(791)**	**118,585**
– Credit loss allowance for loans to customers	(29,089)	(201,652)	(100,070)	-	**(330,811)**
– Credit loss allowance for performance guarantees and credit related commitments	3,546	(241)	(67)	-	**3,238**
– Credit loss allowance for net investments in leases	-	-	-	(7,760)	**(7,760)**
– Credit loss allowance for other financial assets	(5,600)	(1,476)	-	(6,332)	**(13,408)**
– Credit loss allowance for financial assets measured at fair value through OCI	(876)	-	-	(934)	**(1,810)**
Operating income after expected credit losses	**350,839**	**312,591**	**148,219**	**(47,137)**	**764,512**
Losses from modifications of financial instruments	(6,345)	(23,633)	(7,153)	(3,884)	**(41,015)**
– Staff costs	(34,068)	(109,492)	(47,835)	(15,492)	**(206,887)**
– Depreciation and amortisation	(4,296)	(45,256)	(11,187)	(3,329)	**(64,068)**
– Provision for liabilities and charges	(400)	(2,200)	-	-	**(2,600)**
– Administrative and other operating expenses	(11,973)	(68,309)	(22,466)	(14,996)	**(117,744)**
Operating expenses	**(50,737)**	**(225,257)**	**(81,488)**	**(33,817)**	**(391,299)**
Profit/(loss) before tax	**293,757**	**63,701**	**59,578**	**(84,838)**	**332,198**
– Income tax (expense)/recovery	(18,096)	21,360	2,969	(1,171)	**5,062**
Profit for the year	**275,661**	**85,061**	**62,547**	**(86,009)**	**337,260**
– Total gross loans and advances to customers reported	5,690,749	5,953,687	3,556,079	–	**15,200,515**
– Total customer accounts reported	4,001,068	7,255,020	1,378,207	–	**12,634,295**
– Total credit related commitments and performance guarantees	3,125,279	189,288	317,790	–	**3,632,357**

28. SEGMENT ANALYSIS CONTINUED

Segment disclosure below is prepared without the effect of 2020 re-segmentation as described above.

in thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2019					
– Interest income	356,654	582,788	299,451	196,213	**1,435,106**
– Interest expense	(166,857)	(152,566)	(10,153)	(340,846)	**(670,422)**
– Net interest gains on currency swaps	–	–	–	28,556	**28,556**
– Inter-segment interest income/(expense)	31,352	(66,951)	(101,423)	137,022	**–**
Net interest income	**221,149**	**363,271**	**187,875**	**20,945**	**793,240**
– Fee and commission income	49,387	207,258	26,271	1,512	**284,428**
– Fee and commission expense	(7,059)	(88,680)	(9,081)	(482)	**(105,302)**
Net fee and commission income	**42,328**	**118,578**	**17,190**	**1,030**	**179,126**
– Net gains/(loss) from currency derivatives, foreign currency operations and translation	49,852	30,726	24,220	(2,363)	**102,435**
– Gains less losses from disposal of investment securities measured at FVOCI	–	–	–	169	**169**
– Other operating income	2,952	9,563	1,093	3,968	**17,576**
– Share of profit of associates	–	–	–	632	**632**
Other operating non-interest income	**52,804**	**40,289**	**25,313**	**2,406**	**120,812**
– Credit loss allowance reversal/(credit loss allowance) for loans to customers	3,262	(77,324)	(7,968)	–	**(82,030)**
– Credit loss allowance))/ credit loss allowance reversal for performance guarantees and credit related commitments	(2,691)	411	124	–	**(2,156)**
– Credit loss allowance for net investments in leases	–	–	–	582	**582**
– Credit loss allowance for other financial assets	2,211	(3,545)	(11)	(6,372)	**(7,717)**
– Credit loss allowance for financial assets measured at FVOCI	(142)	–	–	(149)	**(291)**
Operating income after expected credit losses	**318,921**	**441,680**	**222,523**	**18,442**	**1,001,566**
– Staff costs	(36,630)	(131,583)	(46,912)	(10,883)	**(226,008)**
– Depreciation and amortisation	(2,509)	(45,429)	(7,170)	(2,211)	**(57,319)**
– Provision for liabilities and charges	–	–	–	(2,105)	**(2,105)**
– Administrative and other operating expenses	(14,043)	(72,998)	(19,122)	(20,764)	**(126,927)**
Operating expenses	**(53,182)**	**(250,010)**	**(73,204)**	**(35,963)**	**(412,359)**
Profit/(loss) before tax	**265,739**	**191,670**	**149,319**	**(17,521)**	**589,207**
– Income tax (expense)/recovery	(29,048)	(18,101)	(14,825)	18,452	(43,522)
Profit for the year	**236,691**	**173,569**	**134,494**	**931**	**545,685**
Total gross loans and advances to customers reported	4,660,473	5,053,203	2,948,279	–	**12,661,955**
Total customer accounts reported	3,250,046	5,672,685	1,189,271	–	**10,112,002**
Total credit related commitments and performance guarantees	2,451,769	205,433	302,649	–	**2,959,851**

28. SEGMENT ANALYSIS CONTINUED

Segment disclosure below is prepared without the effect of 2020 re-segmentation as described above.

in thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2018					
– Interest income	264,559	609,989	255,833	152,832	**1,283,213**
– Interest expense	(138,840)	(123,729)	(9,710)	(240,376)	**(512,655)**
– Intersegment interest income/(expense)	35,531	(78,453)	(83,475)	126,397	**-**
Net interest income	**161,250**	**407,807**	**162,648**	**38,853**	**770,558**
– Fee and commission income	40,663	170,082	22,498	1,383	**234,626**
– Fee and commission expense	(6,624)	(64,270)	(6,861)	(379)	**(78,134)**
Net fee and commission income	**34,039**	**105,812**	**15,637**	**1,004**	**156,492**
– Net gains from currency derivatives, foreign currency operation and trsanlsation	44,629	28,588	22,002	11,758	**106,977**
– Net losses from disposal of investment securities measured at fair value through other comprehensive income	-	-	-	2	**2**
– Other operating income	19,691	8,658	748	1,809	**30,906**
– Share of profit of associates	-	-	-	1,154	**1,154**
Other operating non-interest income	**64,320**	**37,246**	**22,750**	**14,723**	**139,039**
– Credit loss allowance for loans to customers	(9,826)	(118,043)	(15,854)	-	**(143,723)**
– Credit loss allowance for performance guarantees and credit related commitments	(2,826)	(412)	(248)	-	**(3,486)**
– Credit loss allowance for net investments in leases	-	-	-	(1,765)	**(1,765)**
– Credit loss allowance for other financial assets	(8,634)	(3,959)	(2)	(3,851)	**(16,446)**
– Credit loss allowance for financial assets measured at fair value through OCI	(95)	-	-	9	**(86)**
Operating income after expected credit losses	**238,228**	**428,451**	**184,931**	**48,973**	**900,583**
– Staff costs	(29,145)	(127,299)	(42,669)	(13,356)	**(212,469)**
– Depreciation and amortisation	(2,226)	(36,745)	(4,981)	(1,326)	**(45,278)**
– Provision for liabilities and charges	-	-	-	(4,000)	**(4,000)**
– Administrative and other operating expenses	(10,939)	(87,846)	(20,110)	(15,290)	**(134,185)**
Operating expenses	**(42,310)**	**(251,890)**	**(67,760)**	**(33,972)**	**(395,932)**
Profit before tax	**195,918**	**176,561**	**117,171**	**15,001**	**504,651**
– Income tax expense	(29,907)	(22,898)	(17,249)	(1,297)	**(71,351)**
Profit for the year	**166,011**	**153,663**	**99,922**	**13,704**	**433,300**
– Total gross loans and advances to customers reported	3,177,289	4,698,699	2,496,594	-	**10,372,582**
– Total customer accounts reported	3,323,257	5,103,971	1,017,518	-	**9,444,746**
– Total credit related commitments and performance guarantees	1,578,218	246,639	246,825	-	**2,071,682**

28. SEGMENT ANALYSIS CONTINUED

in thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2020					
– Fee and commission income	57,949	214,377	26,405	(235)	**298,496**
– Other operating income	1,855	6,901	429	4,169	**13,354**
Total	**59,804**	**221,278**	**26,834**	**3,934**	**311,850**
Timing of revenue recognition:					
– At point in time	59,804	218,986	26,834	3,934	**309,558**
– Over a period of time	-	2,292	-	-	**2,292**

in thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2019					
– Fee and commission income	49,387	207,258	26,271	1,512	**284,428**
– Other operating income	2,952	9,563	1,093	3,968	**17,576**
Total	**52,339**	**216,821**	**27,364**	**5,480**	**302,004**
Timing of revenue recognition:					
– At point in time	52,311	215,341	27,359	5,480	**300,491**
– Over a period of time	28	1,480	5	-	**1,513**

in thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2018					
– Fee and commission income	40,663	170,082	22,498	1,383	**234,626**
– Other operating income	19,691	8,658	748	1,809	**30,906**
Total	**60,354**	**178,740**	**23,246**	**3,192**	**265,532**
Timing of revenue recognition:					
– At point in time	56,393	160,555	22,950	3,187	**243,085**
– Over a period of time	3,961	18,185	296	5	**22,447**

28. SEGMENT ANALYSIS CONTINUED

Reportable segments' assets were reconciled to total assets as follows:

in thousands of GEL	31 December 2020	31 December 2019	31 December 2018
Total segment assets (gross loans and advances to customers)	15,200,515	12,661,955	10,372,582
Credit loss allowance	(606,246)	(312,556)	(334,130)
Cash and cash equivalents	1,601,599	994,479	1,164,403
Mandatory cash balances with National Bank of Georgia	2,098,506	1,591,829	1,422,809
Due from other banks	19,690	15,597	37,384
Investment securities measured at fair value through other comprehensive income	1,527,268	985,293	1,005,239
Bonds carried at amortised cost	1,059,946	1,021,568	653,703
Current income tax prepayment	69,762	25,695	2,159
Deferred income tax asset	2,134	2,173	1,992
Other financial assets	161,002	115,211	154,259
Net investments in leases	270,978	256,660	203,802
Other assets	256,646	247,201	177,923
Premises and equipment	362,863	329,529	314,069
Intangible assets	223,577	159,109	108,505
Investment properties	68,689	72,667	84,296
Goodwill	28,197	29,459	29,459
Right of use assets	49,746	57,086	-
Investments in associates	4,090	2,655	2,432
Total assets per statement of financial position	**22,398,962**	**18,255,610**	**15,400,886**

Reportable segments' liabilities are reconciled to total liabilities as follows:

in thousands of GEL	31 December 2020	31 December 2019	31 December 2018
Total segment liabilities (customer accounts)	12,634,295	10,112,002	9,444,746
Due to credit institutions	4,485,873	3,593,901	3,031,505
Debt securities in issue	1,419,513	1,213,598	13,343
Current income tax liability	27	818	63
Deferred income tax liability	13,084	18,806	19,793
Provisions for liabilities and charges	17,451	16,979	13,817
Other financial liabilities	211,242	95,643	78,205
Other liabilities	59,969	70,366	86,296
Subordinated debt	672,740	591,035	650,919
Lease Liabilities	54,588	59,316	–
Total liabilities per statement of financial position	**19,568,782**	**15,772,464**	**13,338,687**

29. INTEREST INCOME AND EXPENSE

in thousands of GEL	2020	2019	2018
Interest income calculated using effective interest method			
Loans and advances to customers	1,393,856	1,225,201	1,123,972
Bonds carried at amortised cost	95,888	58,597	40,625
Investment securities measured at fair value through OCI	103,516	74,043	57,057
Due from other banks	13,870	27,915	22,722
Other financial assets	1,621	1,416	–
Other interest income			
Investments in leases	52,087	47,934	38,837
Total interest income	**1,660,838**	**1,435,106**	**1,283,213**
Interest expense			
Customer accounts	(402,728)	(327,154)	(272,279)
Due to credit institutions	(288,857)	(226,899)	(197,403)
Subordinated debt	(55,716)	(63,693)	(41,571)
Debt securities in issue	(104,182)	(50,248)	(1,402)
Other interest expense			
Lease Liabilities	(2,606)	(2,428)	–
Total interest expense	**(854,089)**	**(670,422)**	**(512,655)**
Net interest gains on currency swaps	20,950	28,556	–
Net interest income	**827,699**	**793,240**	**770,558**

As of 31 December 2020 GEL 1,630,741 thousand of interest income and GEL 839,830 thousand of interest expense were attributable to the Bank (2019: GEL 1,416,276 thousand of interest income and GEL 657,579 thousand of interest expense; 2018: GEL 1,244,451 thousand and GEL 502,331 thousand).

During 2020 interest accrued on defaulted loans amounted to GEL 69,285 thousand (2019: GEL 14,372 thousand; 2018: GEL 41,373 thousand).

During 2020 capitalized interest expense in the amount of GEL 1,403 thousand (2019: nil, 2018: nil), was attributable to the development of the Group's headquarters. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is weighted average of interest bearing liabilities by currencies: 7.7% in GEL, 3.6% in USD and 1.1% in EUR. (2019: nil, 2018: nil)

In 2019, the Group entered into swap agreements denominated in foreign currencies in order to decrease its cost of funding. As the contracts reached significant volume, the Group revisited the presentation of effects in the consolidated statement of profit or loss and presented respective interest effect within net interest income. 2018 information has not been restated due to immateriality of amounts.

30. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense of the Group are as follows:

in thousands of GEL	2020	2019	2018
Fee and commission income in respect of financial instruments not at fair value through profit or loss:			
– Card operations	147,000	138,825	106,067
– Settlement transactions	84,366	81,933	70,718
– Guarantees issued	35,761	28,738	19,814
– Cash transactions	8,305	13,212	17,147
– Issuance of letters of credit	6,200	5,215	6,463
– Foreign exchange operations	1,952	2,841	2,183
– Other	14,912	13,637	12,234
Total fee and commission income	**298,496**	**284,401**	**234,626**
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:			
– Card operations	101,597	82,562	55,893
– Settlement transactions	13,041	13,729	8,654
– Cash transactions	6,618	4,731	5,180
– Guarantees and letters of credit received	4,148	3,628	2,863
– Other	4,313	652	5,544
Total fee and commission expense	**129,717**	**105,302**	**78,134**
Net fee and commission income	**168,779**	**179,099**	**156,492**

Fee and commission income and expense of the Bank are as follows:

in thousands of GEL	2020	2019	2018
Fee and commission income in respect of financial instruments not at fair value through profit or loss:			
– Card operations	145,011	135,729	102,802
– Settlement transactions	59,746	56,257	45,676
– Guarantees issued	35,761	28,738	19,815
– Cash transactions	11,105	14,884	18,585
– Issuance of letters of credit	6,388	5,703	6,497
– Foreign exchange operations	1,959	2,842	2,186
– Other	12,012	10,585	10,994
Total fee and commission income	**271,981**	**254,738**	**206,555**
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:			
– Card operations	109,065	89,368	63,190
– Settlement transactions	11,427	11,406	8,312
– Cash transactions	19,225	14,395	13,724
– Guarantees and letters of credit received	4,148	3,628	2,863
– Other	3,718	174	680
Total fee and commission expense	**147,583**	**118,971**	**88,769**
Net fee and commission income	**124,399**	**135,767**	**117,786**

31. OTHER OPERATING INCOME

in thousands of GEL	2020	2019	2018
Revenues from operational leasing	3,172	3,046	6,544
Gain from sale of inventories of repossessed collateral	1,559	2,755	2,577
Gain from sale of investment properties	1,003	938	9,781
Gain on disposal of premises and equipment	496	2,115	352
Revenues from sale of cash-in terminals	477	926	1,715
Other	6,647	7,797	9,937
Total other operating income	**13,354**	**17,576**	**30,906**

Revenue from operational leasing is wholly attributable to investment properties. The carrying value of the repossessed collateral disposed in the year ended 31 December 2020 was GEL 22,423 thousand (2019: GEL 32,306 thousand; 2018: GEL 33,295 thousand).

32. STAFF COSTS

Staff costs of the Group are as follows:

in thousands of GEL	2020	2019	2018
Salaries and bonuses	181,200	180,856	183,822
Share based compensation	16,522	33,624	20,092
Other compensation cost	9,165	11,528	8,555
Salaries and other employee benefits	**206,887**	**226,008**	**212,469**

Staff costs of the Bank are as follows:

in thousands of GEL	2020	2019	2018
Salaries and bonuses	161,833	160,941	166,356
Share based compensation	16,522	33,624	19,973
Other compensation cost	8,039	10,460	7,687
Salaries and other employee benefits	**186,395**	**205,025**	**194,016**

Share based compensation represents remuneration paid in shares and is excluded as non-cash in the consolidated and separate statements of cash flows.

Breakdown of number of employees of the Group by categories is as follows:

Position		2020	2019	2018
Top Management	*Temporary*	-	-	-
	Permanent	6	7	10
Middle Management	*Temporary*	-	5	5
	Permanent	301	231	244
Other Employees	*Temporary*	1,193	1,341	1,541
	Permanent	5,869	5,396	5,213
Total		**7,369**	**6,980**	**7,013**

32. STAFF COSTS CONTINUED

Breakdown of number of employees of the Bank by categories is as follows:

Position		2020	2019	2018
Top Management	*Temporary*	-	-	-
	Permanent	6	7	10
Middle Management	*Temporary*	-	3	3
	Permanent	225	216	229
Other Employees	*Temporary*	1,062	1,140	1,405
	Permanent	5,366	4,935	4,795
Total		**6,659**	**6,301**	**6,442**

33. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

Administrative and other operating expenses of the Group are as follows:

in thousands of GEL	2020	2019	2018
Advertising and marketing services	17,046	18,344	28,770
Occupancy and rent	12,750	13,076	23,738
Professional services	16,229	19,027	10,585
Intangible asset maintenance	15,504	12,885	11,366
Taxes other than on income	8,217	6,851	6,686
Utilities services	6,518	6,800	6,486
Premises and equipment maintenance	5,509	9,208	5,773
Communications and supply	5,203	5,555	5,030
Stationery and other office expenses	5,322	4,638	4,636
Insurance	7,640	6,083	7,659
Business trip expenses	507	2,163	2,005
Transportation and vehicle maintenance	1,610	2,027	1,988
Security services	1,822	2,001	2,040
Personnel training and recruitment	1,447	2,904	1,809
Charity	1,530	1,990	1,074
Loss on disposal of premises and equipment	93	937	860
Loss on disposal of repossessed collateral	181	1,310	137
Impairment of intangible assets	676	–	–
Reversal of previously written-down current assets to fair value less costs to sell	(1)	1,730	(1,026)
Other	9,941	9,398	14,569
Total administrative and other operating expenses	**117,744**	**126,927**	**134,185**

33. ADMINISTRATIVE AND OTHER OPERATING EXPENSES CONTINUED

Administrative and other operating expenses of the Bank are as follows:

in thousands of GEL	2020	2019	2018
Advertising and marketing services	16,358	17,491	27,885
Occupancy and rent	10,372	9,412	19,822
Professional services	14,968	17,323	9,203
Intangible asset maintenance	13,590	11,307	9,932
Taxes other than on income	5,148	3,669	3,757
Utilities services	6,308	6,576	6,280
Premises and equipment maintenance	5,640	8,586	6,891
Communications and supply	4,226	4,682	4,312
Stationery and other office expenses	5,012	4,353	4,403
Insurance	1,778	1,292	3,884
Business trip expenses	449	2,024	1,878
Transportation and vehicle maintenance	442	640	770
Security services	1,647	1,875	1,916
Personnel training and recruitment	1,345	2,760	1,710
Charity	1,488	1,975	1,012
Loss on disposal of premises and equipment	85	938	806
Loss on disposal of repossessed collateral	23	1,270	108
Impairment of intangible assets	676	-	-
Reversal of previously written-down other assets to fair value less costs to sell	(1)	912	(1,593)
Other	5,089	5,854	9,484
Total administrative and other operating expenses	**94,643**	**102,939**	**112,460**

*2020 and 2019 information within occupancy and rent is reported under IFRS 16 and is not comparable with information presented for 2018 which is reported under IAS 17.

Auditors' remuneration is included within professional services expenses above and comprises:

in thousands of GEL	Audit	Audit Related	Other Services	Total
31 December 2020				
Audit of TBC Bank Group and subsidiaries annual financial statements	1,557	–	–	1,557
Review of TBC Bank Group and subsidiaries interim financial statements	–	215	–	215
Other assurance services	–	–	25	25
Total auditors' remuneration	**1,557**	**215**	**25**	**1,797**
31 December 2019				
Audit of TBC Bank Group and subsidiaries annual financial statements	1,165	–	–	1,165
Review of TBC Bank Group and subsidiaries interim financial statements	–	463	–	463
Other assurance services	–	–	864	864
Total auditors' remuneration	**1,165**	**463**	**864**	**2,492**
31 December 2018				
Audit of TBC Bank Group and subsidiaries annual financial statements	1,256	–	–	1,256
Review of TBC Bank Group and subsidiaries interim financial statements	–	220	–	220
Other assurance services	–	–	97	97
Total auditors' remuneration	**1,256**	**220**	**97**	**1,573**

Fees presented in the tables above are exclusive of taxes. As of 31 December 2019, GEL 1,125 thousands (included in the table above in other assurance services and audit related assurance services) is attributable to reporting accountant fees related to listing of debt securities on the Irish Stock Exchange.

34. INCOME TAXES

Income tax (credit)/expenses comprises of the following:

in thousands of GEL	2020	2019	2018
Current tax charge	622	44,690	51,500
Deferred tax (credit)/charge	(5,684)	(1,168)	19,851
Total Income tax expense for the year	**(5,062)**	**43,522**	**71,351**

The income tax rate applicable to the majority of the Group's income was 15% (2019: 15%; 2018: 15%). The income tax rate applicable to the majority of subsidiaries income ranged from 15% to 20% (2019: 15% - 20%; 2018: 15% - 20%).

Reconciliation between the expected and the actual taxation (credit)/charge is provided below.

in thousands of GEL	2020	2019	2018
Statutory rate	**15% – 20%**	**15% – 20%**	**15% – 20%**
Profit before tax	**332,198**	**545,154**	**504,651**
Theoretical tax charge at statutory rate	50,230	88,419	75,828
Tax effect of items which are not deductible or assessable for taxation purposes:			
– Income which is exempt from taxation	(26,877)	(22,002)	(17,611)
– Nondeductible expenses	(2,322)	(2,083)	(746)
– Expected effects of change in tax legislation	(23,226)	(55)	13,833
– Other differences	(2,867)	(20,757)	47
Total Income tax (credit)/expense for the year	**(5,062)**	**43,522**	**71,351**

Differences between IFRS and statutory taxation regulations in Georgia and Azerbaijan give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 15% (2019: 15%; 2018: 15%) for Georgia and 20% for Azerbaijan (2019: 20%; 2018: 20%).

Income which is exempt from taxation includes interest income from placements in NBG, Georgian government Treasury bills and IFI securities. Revaluation of investment securities held at FVOCI does not result in recognition of deferred tax assets/liabilities (since majority of securities are either tax exempt or are not supposed to be sold before Estonian model transition date discussed below) and its tax effect is not recognised in OCI. Non-deductible expenses include penalties paid and charity expenses towards beneficiary which are not registered charity organizations.

On 13 May 2016 the Government of Georgia enacted the changes in the Tax Code of Georgia effective from 1 January 2019, for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops and from 1 January 2017 for other entities. However, during 2018 Georgian Government changed transition date to 1 January 2023 for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops. The new code impacts the recognition and measurement principles of the Group's income tax and it also affects the Group's deferred income tax assets/liabilities. Companies do not have to pay income tax on their profit before tax (earned since 1 January 2017 or 1 January 2023 for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops) until that profit is distributed in a form of dividend or other forms of profit distributions. Once dividend is paid, 15% income tax is payable at the moment of the dividend payment, regardless of whether in monetary or non-monetary form, to the foreign non-resident legal entities and foreign and domestic individuals. The dividends paid out to the resident legal entities are tax exempted. Apart from dividends' distribution, the tax is still payable on expenses or other payments incurred not related to economic activities, free delivery of goods/services and/or transfer of funds and representation costs that exceed the maximum amount determined by the Income Tax Code of Georgia, in the same month they are incurred.

34. INCOME TAXES CONTINUED

in thousands of GEL	1 January 2020	(Credited)/ Charged to profit or loss	31 December 2020
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards			
Premises and equipment	(11,363)	7,582	(3,781)
Loan to customers	(8,822)	(9,795)	(18,617)
Other financial assets	4,802	(2,194)	2,608
Due to credit institutions	(2,486)	803	(1,683)
Other financial liabilities	792	(1,253)	(461)
Other liabilities	(1,800)	(533)	(2,333)
Share based payment	2,253	(885)	1,368
Tax loss carried forward	–	11,950	11,950
Net deferred tax (liability)/asset	**(16,624)**	**5,675**	**(10,949)**
Recognised deferred tax asset	2,173	(40)	2,134
Recognised deferred tax liability	(18,797)	5,715	(13,083)
Net deferred tax (liability)/asset	**(16,624)**	**5,675**	**(10,949)**

Deferred tax assets/liabilities are re-measured to the amounts that are estimated to be utilized in the period from 1 January 2020 to 31 December 2022.

in thousands of GEL	1 January 2019	(Credited)/ Charged to profit or loss	31 December 2019
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards			
Premises and equipment	(20,748)	9,385	(11,363)
Loan to customers	2,864	(11,686)	(8,822)
Other financial assets	2,317	2,485	4,802
Due to credit institutions	(3,641)	1,155	(2,486)
Subordinated debt	(70)	70	–
Other financial liabilities	(41)	833	792
Other liabilities	864	(2,664)	(1,800)
Share based payment	663	1,590	2,253
Net deferred tax (liability)/asset	**(17,792)**	**1,168**	**(16,624)**
Recognised deferred tax asset	1,992	181	2,173
Recognised deferred tax liability	(19,784)	987	(18,797)
Net deferred tax (liability)/asset	**(17,792)**	**1,168**	**(16,624)**

*Certain amounts do not correspond to the 2019 consolidated financial statements as they reflect the adjustments made due to the change in accounting policy as described in Note 2.

34. INCOME TAXES CONTINUED

In thousands of GEL	1 January 2018	(Charged)/ credited to profit or loss	31 December 2018*
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards			
Premises and equipment	(4,288)	(16,460)	(20,748)
Loans to customers	2,447	417	2,864
Other financial assets	2,015	302	2,317
Other assets	29	(29)	-
Investment property	(342)	342	-
Due to credit institutions	(816)	(2,825)	(3,641)
Subordinated debt	(23)	(47)	(70)
Other financial liabilities	(72)	31	(41)
Other liabilities	1,652	(788)	864
Share based payment	1,486	(823)	663
Tax loss carry forwards	(29)	29	-
Net deferred tax asset/(liability)	**2,059**	**(19,851)**	**(17,792)**
Recognised deferred tax asset	2,651	(659)	1,992
Recognised deferred tax liability	(592)	(19,192)	(19,784)
Net deferred tax asset/(liability)	**2,059**	**(19,850)**	**(17,792)**

*Certain amounts do not correspond to the 2019 consolidated financial statements as they reflect the adjustments made due to the change in accounting policy as described in Note 2

In the context of the Group's current structure and Georgian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below sets out movements in the Group's liabilities from financing activities for each of the periods presented. The items of these liabilities are those that are reported as financing activities in the statement of cash flows.

in thousands of GEL	Other borrowed funds	Debt securities in Issue	Subordinated debt	Lease liabilities	Total
Liabilities from financing activities at 1 January 2018	**2,558,496**	**20,695**	**426,788**	**–**	**3,005,979**
Cash flows	54,486	(9,308)	171,781	–	216,959
Foreign exchange adjustments	70,883	554	9,958	–	81,395
Other non-cash movements	188,206	1,402	42,392	–	232,000
Liabilities from financing activities at 31 December 2018	**2,872,071**	**13,343**	**650,919**	**–**	**3,536,333**
Adoption of IFRS 16, Leases	–	–	–	60,232	60,232
Liabilities from financing activities at 1 January 2019	**2,872,071**	**13,343**	**650,919**	**60,232**	**3,596,565**
Cash flows	222,395	1,160,729	(167,847)	(21,416)	1,193,861
Foreign exchange adjustments	122,589	37,362	45,533	4,336	209,820
Other non-cash movements	209,832	2,164	62,430	16,164	290,590
Liabilities from financing activities at 31 December 2019	**3,426,887**	**1,213,598**	**591,035**	**59,316**	**5,290,836**
Cash flows	432,690	36,933	(56,985)	(3,386)	409,252
Foreign exchange adjustments	198,956	161,947	82,517	6,340	449,760
Other non-cash movements	286,546	7,035	56,173	(7,682)	342,072
Liabilities from financing activities at 31 December 2020	**4,345,079**	**1,419,513**	**672,740**	**54,588**	**6,491,920**

36. FINANCIAL AND OTHER RISK MANAGEMENT

Credit Quality

Depending on the type of financial asset the Group may utilize different sources of asset credit quality information including credit ratings assigned by the international rating agencies (Standard & Poor's, Fitch), credit scoring information from credit bureau and internally developed credit ratings. Financial assets are classified in an internally developed credit quality grades by taking into account the internal and external credit quality information in combination with other indicators specific to the particular exposure (e.g. delinquency). The Group defines following credit quality grades:

- Very low risk – exposures demonstrate strong ability to meet financial obligations;
- Low risk – exposures demonstrate adequate ability to meet financial obligations;
- Moderate risk – exposures demonstrate satisfactory ability to meet financial obligations;
- High risk – exposures that require closer monitoring, and
- Default – exposures in default, with observed credit impairment.

The internal credit ratings are estimated by the Group by statistical models with the limited involvement of credit officers. Statistical models include qualitative and quantitative information that shows the best predictive power based on historical data on defaults.

The rating models are regularly reviewed and back tested on actual default data. The Group regularly validates the accuracy of ratings estimates and appraises the predictive power of the models.

Expected credit loss (ECL) measurement

ECL is a probability-weighted estimate of the present value of future cash shortfalls. An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Group: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate. The estimates consider forward looking information, that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk.

The Bank uses is a three-stage model for ECL measurement and classifies its borrowers across three stages: The Bank classifies its exposures as Stage 1 if no significant deterioration in credit quality occurred since initial recognition and the instrument was not defaulted when initially recognized. The exposure is classified to Stage 2 if the significant deterioration in credit quality was identified since initial recognition but the financial instrument is not considered defaulted. The exposures for which the defaulted indicators have been identified are classified as Stage 3 instruments. The Expected Credit Loss (ECL) amount differs depending on exposure allocation to one of the Stages. In the case of Stage 1 instruments, the ECL represents that portion of the lifetime ECL that can be attributed to default events potentially occurring within the next 12 months from the reporting date. In case of Stage 2 instruments, the ECL represents the lifetime ECL, i.e. credit losses that can be attributed to possible default events during the whole lifetime of a financial instrument. Generally, lifetime is set equal to the remaining contractual maturity of the financial instrument. Factors such as existence of contractual repayment schedules, options for extension of repayment maturity and monitoring processes held by the Bank affect the lifetime determination. In case of Stage 3 instruments, default event has already incurred and the lifetime ECL is estimated based on the expected recoveries.

Definition of default

Financial assets for which the Group observed occurrence of one or more loss events are classified in Stage 3. The Group's definition of default for the purpose of ECL measurement, is in accordance with the Capital Requirements Regulation (EU).

The Group uses both quantitative and qualitative criteria for the definition of default. The borrower is classified as defaulted if at least one of the following occurred:

- Any amount of contractual repayments is past due more than 90 days;
- Factors indicating the borrower's unlikeliness-to-pay.

In case of individually significant borrowers the Bank additionally applies criteria including but not limited to: bankruptcy proceedings, significant fraud in the borrower's business that significantly affected its finan-

36. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

cial condition, breach of the contract terms etc. For SME and corporate borrowers default is identified on the counterparty level, meaning that all the claims against the borrower are treated as defaulted. As for retail and micro exposures, facility level default definition is applied considering additional pulling effect criteria. If the amount of defaulted exposure exceeds predefined threshold, all the claims against the borrower are classified as defaulted. Once financial instrument is classified as defaulted, it remains as such until it no longer meets any of the default criteria for a consecutive period of six months, in which case exposure is considered to no longer be in default (i.e. to have cured). Grace period of six months has been determined on analysis of likelihood of a financial instrument returning to default status after curing. Exposures which are moved to stage 2 from default state are kept there for certain period before transferring to Stage 1 and classified as fully performing instruments again.

As a result of COVID-19, the Group applied additional default criteria to exposures particularly impacted by the pandemic-related restrictions. The criteria include lower days past due threshold and deterioration in debt coverage ratios for the compromised borrowers to facilitate the early identification of impaired exposures.

Significant increase in credit risk ("SICR")

Financial assets for which the Group identifies significant increase in credit risk since its origination are classified in Stage 2. SICR indicators are recognized at financial instrument level even though some of them refer to the borrower's characteristics. The Group uses both quantitative and qualitative indicators of SICR.

Quantitative criteria

On a quantitative basis the Bank assess change in probability of default parameter for each particular exposure since initial recognition and compares it to the predefined threshold. When absolute change in probability of default exceeds the applicable threshold, SICR is deemed to have occurred and exposure is transferred to Stage 2. Quantitative indicator of SICR is applied to retail and micro segments, where the Group has sufficient number of observations.

Qualitative criteria

Financial asset is transferred to Stage 2 and lifetime ECLs is measured if at least one of the following SICR qualitative criteria is observed:

- delinquency period of more than 30 days on contractual repayments;
- exposure is restructured, but is not defaulted;
- borrower is classified as "watch".

The Group has not rebutted the presumption that there has been significant increase in credit risk since origination when financial asset becomes more than 30 days past due. This qualitative indicator of SICR together with debt restructuring is applied to all segments. Particularly for corporate and SME segment the Group uses downgrade of risk category since origination of the financial instrument as a qualitative indicator of SICR. Based on the results of the monitoring borrowers are classified across different risk categories. In case there are certain weaknesses present, which if materialized may lead to loan repayment problems, borrowers are classified as "watch" category. Although watch borrowers' financial standing is sufficient to repay obligations, these borrowers are closely monitored and specific actions are undertaken to mitigate potential weaknesses. Once the borrower is classified as "watch" category it is transferred to Stage 2. If any of the SICR indicators described above occur financial instrument is transferred to Stage 2. Financial asset may be moved back to Stage 1, if SICR indicators are no longer observed.

As a result of COVID-19, the Group applied additional SICR criteria to compromised borrowers, facilitating the early identification of increased risk exposures. The criteria is based on the repayment history of the exposures after the second stage grace period and availability of the recent financial monitoring information for the vulnerable business borrowers.

36. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

ECL measurement

The Group utilizes two approaches for ECL measurement – individual assessment and collective assessment. Individual assessment is mainly used for stage 2 and stage 3 individually significant borrowers. Additionally, the Bank may arbitrarily designate selected exposures to individual measurement of ECL based on the Bank's credit risk management or underwriting departments' decision.

The Bank uses the discounted cash flow (DCF) method for the determination of recovery amount under individual assessment. In order to ensure the accurate estimation of recoverable amount the Bank may utilize scenario analysis approach. Scenarios may be defined considering the specifics and future outlook of individual borrower, sector the borrower operates in or changes in values of collateral. In case of scenario analysis the Bank forecasts recoverable amount for each scenario and estimates respective losses. Ultimate ECL is calculated as the weighted average of losses expected in each scenario, weighted by the probability of scenario occurring.

As a result of COVID-19 pandemic, the Bank performed individual assessment for the majority of individually significant borrowers operating in vulnerable sectors, such as Hospitality & Leisure and Real Estate. Under an individual assessment, the Bank considered the financial prospects of the borrowers by taking into account the future macroeconomic conditions and analyzing the implications of COVID-19 pandemic on their business and operations.

As for the non-significant and non-impaired significant borrowers the Bank estimates expected credit losses collectively. For the collective assessment and risk parameters estimation purposes the exposures are grouped into a homogenous risk pools based on similar credit risk characteristics. Common credit risk characteristics of the group include but are not limited to: Stage (Stage 1, Stage 2 or Stage 3), type of counterparty (individual vs business), type of product, rating (external or internal), overdue status, restructuring status, months in default category or any other characteristics that may differentiate certain sub-segments for risk parameter's estimation purposes. Number of pools differs for different products/ segments considering specifics of portfolio and availability of data within each pool. Collective ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained below, and discounted to present value using the instrument's effective interest rate.

The key principles of calculating the credit risk parameters:

Exposure at default (EAD)

The EAD represents estimation of exposure to credit risk at the time of default occurring during the life of financial instrument. The EAD parameter used for the purpose of the ECL calculation is time-dependent, i.e. the Bank allows for various values of the parameter to be applied to subsequent time periods during the lifetime of an exposure. Such structure of the EAD is applied to all Stage 1 and Stage 2 financial instruments. In case of Stage 3 financial instruments and defaulted POCI assets, the EAD vector is one-element with current EAD as the only value. EAD is determined differently for amortising financial instruments with contractual repayment schedules and for revolving facilities. For amortising products EAD is calculated considering the contractual repayments of principal and interest over the 12-month period for facilities classified in Stage 1 and over lifetime period for remaining instruments. It is additionally adjusted to include effect of reduction in exposure due to prepayments. In light of the COVID-19 pandemic, the Group expects that prepayment rates will be lower compared to the pre-pandemic levels. In order to reflect this expectation in the EAD modelling, downward adjustment was applied to the prepayment rates for future one-year period. For revolving products, the Group estimates the EAD based on the expected limit utilisation percentage conditional on the default event.

Probability of default (PD)

Probability of default parameter describes the likelihood of a default of a facility over a particular time horizon. It provides an estimate of the likelihood that a borrower will be unable to meet its contractual debt obligations. The PD parameter is time-dependent (i.e. has a specific term structure) and is applied to all non-defaulted contracts. Taking into account specific nature of different segments of clients for which the PD is estimated as well as unique characteristics that drive their default propensity, the PD is modelled

36. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

differently for Retail and Micro segments and Corporate and SME segments. PD assessment approach is also differentiated for different time horizons and is further adjusted due to expected influence of macroeconomic variables as forecasted for the period (see 'Forward Looking Information" section for further details on incorporation of macroeconomic expectations in ECL calculation). Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months marginal PDs over the life of the instrument. The Group uses different statistical approaches such as the extrapolation of 12-month PDs based on migration matrixes, developing lifetime PD curves based on the historical default data and gradual convergence of long-term PD with the long-term default rate.

Loss given default (LGD)

The LGD parameter represents the share of an exposure that would be irretrievably lost if a borrower defaults. For Stage 1 and Stage 2 financial instruments, the LGD is estimated for each period in the instrument's lifetime and reflects the share of the expected EAD for that period that will not be recovered over the remaining lifetime of the instrument after the default date. For Stage 3 financial instruments, the LGD represents the share of the EAD as of reporting date that will not be recovered over the remaining life of that instrument. Assessment of LGD varies by the type of counterparty, segment, type of product, securitization level and availability of historical observations. The general LGD estimation process employed by the Bank is based on the assumption that after the default of the exposure, two mutually exclusive scenarios are possible. The exposure either leaves the default state (cure scenario) or does not leave the default state and will be subject to recovery process (non-cure scenario). The probability that an exposure defaults again in the cure scenario is involved in the estimation process. Risk parameters applicable to both scenarios, i.e. cure rates and recovery rates, are estimated by means of migration matrices approach, where risk groups are defined by consecutive months-in-default. For certain portfolios based on the limitations of observations alternative versions of the general approach may be applied. In light of the COVID-19 pandemic, the Group applied an additional downward adjustment to the collateral values for stage 3 exposures were applicable to capture the expected real estate price drop. Further, the Bank reduced the recovery rates of retail and micro exposures in stage 3 to reflect the expected impact of the pandemic-related restrictions.

Forward-looking information

The measurement of unbiased, probability weighted ECL requires inclusion of forward looking information obtainable without undue cost or effort. For forward-looking information purposes the Bank defines three macro scenarios. The scenarios are defined as baseline (most likely), upside (better than most likely) and downside (worse than most likely) scenarios of the state of the Georgian economy.

To derive the baseline macro-economic scenario, the Group takes into account forecasts from various external sources – the National Bank of Georgia, Ministry of Finance, International Monetary Fund ("IMF") as well as other International Financial Institutions ("IFI"'s) – in order to ensure the to the consensus market expectations. Upside and downside scenarios are defined based on the framework developed by the Bank's macroeconomic unit.

The Bank uses statistical models and historical relationship between the various macroeconomic factors and default observations to derive forward-looking adjustments. In case these models do not provide reasonable results either from statistical or business perspective, the Bank may apply expert judgment or use alternative approach. As at 31 December 2020, the Bank used statistical models to derive forward looking adjustment in all segments except for corporate. In corporate segment, due to the availability of comprehensive borrower-level financial information and insignificance of the statistical models, the Bank used stress test approach instead.

Due to the prolongation and severity of the COVID-19 pandemic impact, the scenario probabilities were also adjusted to reflect the management's expectations regarding their future realisation. The baseline, upside and downside scenarios were assigned probability weighing of 60%, 10% and 30%, respectively (31 December 2019: 50%, 25% and 25%).

36. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The forward looking information is incorporated in both individual and collective assessment of expected credit losses.

Model maintenance and validation

The Group regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual credit loss. Such back-testing is performed at least once a year. As part of the back-testing process, the Group evaluates actual realization of the risk parameters and their consistency with the model estimates. Additionally staging criteria are also analysed within the back-testing process. The results of back-testing the ECL measurement methodology are communicated to the Group Management and further actions for tuning the models and assumptions are defined after discussions between authorised persons.

Geographical risk concentrations. Assets, liabilities, credit related commitments and performance guarantees have generally been attributed to geographic regions based on the country in which the counterparty is located. Balances legally outstanding to/from off-shore companies which are closely related to Georgian counterparties are allocated to the caption "Georgia". Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

The geographical concentration of the Group's assets and liabilities as of 31 December 2020 is set out below by country of incorporation:

in thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	906,270	686,110	9,219	**1,601,599**
Due from other banks	6,638	13,052	–	**19,690**
Mandatory cash balances with National Bank of Georgia	2,098,506	–	–	**2,098,506**
Loans and advances to customers	14,111,683	131,066	351,520	**14,594,269**
Investment securities measured at fair value through OCI	1,206,673	318,682	1,913	**1,527,268**
Bonds carried at amortised cost	1,059,946	–	–	**1,059,946**
Investments in leases	270,632	–	346	**270,978**
Other financial assets	156,866	3,976	160	**161,002**
Total financial assets	**19,817,214**	**1,152,886**	**363,158**	**21,333,258**
Non-financial assets	**1,060,212**	**433**	**5,059**	**1,065,704**
Total assets	**20,877,426**	**1,153,319**	**368,217**	**22,398,962**
Liabilities				
Due to credit institutions	2,362,648	2,110,307	12,918	**4,485,873**
Customer accounts	10,709,378	911,146	1,013,771	**12,634,295**
Debt securities in issue	1,419,513	–	–	**1,419,513**
Other financial liabilities	210,887	340	15	**211,242**
Lease liabilities	52,923	–	1,665	**54,588**
Subordinated debt	115,394	390,941	166,405	**672,740**
Total financial liabilities	**14,870,743**	**3,412,735**	**1,194,770**	**19,478,248**
Non-financial liabilities	**86,100**	**59**	**4,375**	**90,534**
Total liabilities	**14,956,843**	**3,412,793**	**1,199,146**	**19,568,782**
Net balance sheet position	**5,920,583**	**(2,259,474)**	**(830,929)**	**2,830,180**
Performance guarantees	745,511	746,871	258,659	**1,751,041**
Credit related commitments	1,868,011	4,678	8,628	**1,881,317**

36. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The geographical concentration of the Group's assets and liabilities as at 31 December 2019 is set out below by country of incorporation:

in thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	692,905	287,063	14,511	**994,479**
Due from other banks	3,530	12,067	–	**15,597**
Mandatory cash balances with National Bank of Georgia	1,591,829	–	–	**1,591,829**
Loans and advances to customers	11,775,027	166,155	408,217	**12,349,399**
Investment securities measured at fair value through OCI	985,293	–	–	**985,293**
Bonds carried at amortised cost	1,021,568	–	–	**1,021,568**
Investments in leases	255,596	–	1,064	**256,660**
Other financial assets	113,535	1,431	245	**115,211**
Total financial assets	**16,439,283**	**466,716**	**424,037**	**17,330,036**
Non-financial assets	**921,821**	**27**	**3,726**	**925,574**
Total assets	**17,361,104**	**466,743**	**427,763**	**18,255,610**
Liabilities				
Due to credit institutions	1,813,684	1,744,130	36,087	**3,593,901**
Customer accounts	8,469,206	733,778	909,018	**10,112,002**
Debt securities in issue	1,213,598	–	–	**1,213,598**
Other financial liabilities	96,081	316	9	**96,406**
Lease liabilities	59,316	–	–	**59,316**
Subordinated debt	100,993	343,861	146,181	**591,035**
Total financial liabilities	**11,752,878**	**2,822,085**	**1,091,295**	**15,666,258**
Non-financial liabilities	**100,081**	**829**	**5,296**	**106,206**
Total liabilities	**11,852,959**	**2,822,914**	**1,096,591**	**15,772,464**
Net balance sheet position	**5,508,145**	**(2,356,171)**	**(668,828)**	**2,483,146**
Performance guarantees	603,910	232,328	622,646	**1,458,884**
Credit related commitments	1,485,032	4,476	11,459	**1,500,967**

36. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The geographical concentration of the Group's assets and liabilities as at 31 December 2018 is set out below by country of incorporation:

in thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	648,068	515,159	1,176	**1,164,403**
Due from other banks	18,485	12,852	6,047	**37,384**
Mandatory cash balances with National Bank of Georgia	1,422,809	–	–	**1,422,809**
Loans and advances to customers	9,526,936	121,712	389,804	**10,038,452**
Investment securities measured at fair value through OCI	1,004,564	–	675	**1,005,239**
Bonds carried at amortised cost	653,703	–	–	**653,703**
Investments in leases	202,850	–	952	**203,802**
Other financial assets	153,640	329	290	**154,259**
Total financial assets	**13,631,055**	**650,052**	**398,944**	**14,680,051**
Non-financial assets	**717,137**	**56**	**3,642**	**720,835**
Total assets	**14,348,192**	**650,108**	**402,586**	**15,400,886**
Liabilities				
Due to credit institutions	1,154,329	1,811,299	65,877	**3,031,505**
Customer accounts	7,882,839	697,753	864,154	**9,444,746**
Debt securities in issue	7,927	–	5,416	**13,343**
Other financial liabilities	77,870	296	39	**78,205**
Subordinated debt	94,264	420,031	136,624	**650,919**
Total financial liabilities	**9,217,229**	**2,929,379**	**1,072,110**	**13,218,718**
Non-financial liabilities	**118,951**	**525**	**493**	**119,969**
Total liabilities	**9,336,180**	**2,929,904**	**1,072,603**	**13,338,687**
Net balance sheet position	**5,012,012**	**(2,279,796)**	**(670,017)**	**2,062,199**
Performance guarantees	684,810	291,795	219,207	**1,195,812**
Credit related commitments	870,446	3,751	1,638	**875,835**

Market risk. The Bank follows the Basel Committee's definition of market risk as the risk of losses in on- and off-balance sheet positions arising from movements in market prices. This risk is principally made up of (a) risks pertaining to interest rate instruments and equities in the trading book and (b) foreign exchange rate risk (or currency risk) and commodities risk throughout the Bank. The Bank's strategy is not to be involved in trading book activity or investments in commodities. Accordingly, the Bank's exposure to market risk is primarily limited to foreign exchange rate risk in the structural book.

Currency risk. Foreign exchange rate risk arises from the potential change in foreign currency exchange rates, which can affect the value of a financial instrument. This risk stems from the open currency positions created due to mismatches in foreign currency assets and liabilities. The NBG requires the Bank to monitor both balance-sheet and total aggregate (including off-balance sheet) open currency positions and to maintain the later one within 20% of the Bank's regulatory capital. As at 31 December 2020, the Bank maintained an aggregate open currency position of 3.4% of regulatory capital (2019: 0.5%; 2018: 7.6%). The Asset-Liability Management Committee ("ALCO") has set limits on the level of exposure by currency as well as on aggregate exposure positions which are more conservative than those set by the NBG. The Bank's compliance with such limits is monitored daily by the heads of the Treasury and Financial Risk Management Departments.

On 13 August 2018 the NBG introduced new regulation on changes to OCP ("open currency position") calculation method, according to this regulation, from March 2019 special reserves assigned to FC balance-sheet assets would be deductible gradually for OCP calculation purposes. As a result of COVID-19 pandemic, the NBG implemented countercyclical measure in relation to OCP requirements: suspended the phasing in of special reserved planned to be fully implemented by July 2022.

36. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

Currency risk management framework is governed through the Market Risk Management Policy, market risk management procedure and relevant methodologies. The Bank has in place the methodology developed for allocating capital charges for FX risk following Basel guidelines. The table below summarises the Group's exposure to foreign currency exchange rate risk at the balance sheet date. While managing open currency position the Group considers part of the provisions to be denominated in the USD, Euro and other currencies. Gross amount of currency swap deposits is included in Derivatives. Therefore total financial assets and liabilities below are not traceable with either balance sheet or liquidity risk management tables, where net amount of gross currency swaps is presented.

As of 31 Decemebr 2020

in thousands of GEL	**Monetaryfinancial assets**	**Monetary financial liabilities**	**Derivatives**	**Net position**
Georgian Lari	8,730,317	7,166,701	224,700	1,788,316
US Dollar	7,990,323	10,872,233	2,861,675	(20,235)
Euro	4,555,906	1,316,382	(3,237,938)	1,586
Other	56,712	122,932	61,163	(5,057)
Total	**21,333,258**	**19,478,248**	**(90,400)**	**1,764,610**

As of 31 Decemebr 2019

in thousands of GEL	**Monetaryfinancial assets**	**Monetary financial liabilities**	**Derivatives**	**Net position**
Georgian Lari	7,479,851	5,760,987	(96,378)	1,622,486
US Dollar	6,827,012	8,765,374	1,950,510	12,148
Euro	2,968,554	1,036,267	(1,924,856)	7,431
Other	54,619	103,630	56,133	7,122
Total	**17,330,036**	**15,666,258**	**(14,591)**	**1,649,187**

As of 31 Decemebr 2018

in thousands of GEL	**Monetaryfinancial assets**	**Monetary financial liabilities**	**Derivatives**	**Net position**
Georgian Lari	5,915,034	4,751,326	89,764	1,253,472
US Dollar	7,289,483	7,431,595	328,117	186,005
Euro	1,374,805	948,620	(418,078)	8,107
Other	100,729	87,177	(463)	13,089
Total	**14,680,051**	**13,218,718**	**(660)**	**1,460,673**

US Dollar strengthening by 20% (weakening 20%) would decrease Group's profit or loss and equity in 2020 by GEL 4,047 thousand (increase by GEL 4,047 thousand). Euro strengthening by 20% (weakening 20%) would increase Group's profit or loss and equity in 2020 by GEL 317 thousand (decrease by GEL 317 thousand).

US Dollar strengthening by 20% (weakening 20%) would increase Group's profit or loss and equity in 2019 by GEL 2,430 thousand (decrease by GEL 2,430 thousand). Euro strengthening by 20% (weakening 20%) would increase Group's profit or loss and equity in 2019 by GEL 1,486 thousand (decrease by GEL 1,486 thousand)

US Dollar strengthening by 20% (weakening 20%) would decrease Group's profit or loss and equity in 2018 by GEL 37,201 thousand (increase by GEL 37,201 thousand). Euro strengthening by 20% (weakening 20%) would increase Group's profit or loss and equity in 2018 by GEL 1,621 thousand (decrease by GEL 1,621 thousand).

Interest rate risk. Interest rate risk arises from potential changes in the market interest rates that can adversely affect the fair value or future cash flows of the financial instrument. This risk can arise from maturity mismatches of assets and liabilities, as well as from the re-pricing characteristics of such assets and liabilities.

36. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The Bank's deposits and the part of the loans are at fixed interest rates, while a portion of the Bank's borrowings is at a floating interest rate. In case of need, the Bank also applies for interest rate risk hedging instruments in order to mitigate interest rate risk. Furthermore, many of the Bank's loans to customers contain a clause allowing it to adjust the interest rate on the loan in case of adverse interest rate movements, thereby limiting the Bank's exposure to interest rate risk. The management also believes that the Bank's interest rate margins provide a reasonable buffer to mitigate the effect of possible adverse interest rate movements.

The Group employs an advanced framework for the management of interest rate risk by establishing appropriate Risk Appetite limits, monitoring compliance with them and preparing forecasts. From September, 2020 the NBG introduced regulation on interest rate risk and set the limit for Economic Value of Equity (EVE) sensitivity at 15% of NBG Tier 1 Capital. The main principles and assumptions of NBG IRR methodology are in line with Basel standards and EBA guidelines developed for IRR management purposes. As of 31 December 2020 the Bank was in compliance with the regulatory requirement with EVE=3.5%. According to NBG guidelines the net interest income sensitivity under parallel shifts of interest rate scenarios are maintained for monitoring purposes, while EVE sensitivity is calculated under 6 predefined stress scenarios of interest rate changes and the limit is applied for the worst case scenario result.

Interest rate risk is managed by the financial risk management department and is monitored by the ALCO, which decides on actions that are necessary for effective interest rate risk management and follows up on their implementation. The major aspects of interest rate risk management development and the respective reporting are periodically provided to the Management Board, the Supervisory Board and the Risk Committee.

The table below summarises the Group's exposure to interest rate risks internal approaches before introduction of NBG regulation. It illustrates the aggregated amounts of the Group's financial assets and liabilities at the amounts monitored by the management and categorised by the earlier of contractual interest re-pricing or maturity dates. Cross-Currency swaps were not netted when assessing the Group's exposure to interest rate risks. Therefore, total financial assets and liabilities below were not traceable with either balance sheet or other financial risk management tables. The tables considered both reserves placed with NBG and Interest bearing Nostro accounts. Income on NBG reserves and Nostros were calculated as benchmark minus margin whereby for benchmark Federal funds rate and ECB rates were considered in case of USD and EUR respectively. Therefore, they had impact on the TBC's net interest income in case of both upward and downward shift of interest rates.

in thousands of GEL	**Less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total**
Total financial assets	6,640,548	5,014,385	1,013,935	5,350,249	18,019,117
Total financial liabilities	(6,025,604)	(3,075,630)	(1,078,228)	(6,183,671)	(16,363,133)
Net interest sensitivity gap as of 31 December 2019	**614,944**	**1,938,755**	**(64,293)**	**(833,422)**	**1,655,984**
Total financial assets	4,776,646	3,596,006	1,009,348	5,298,973	14,680,973
Total financial liabilities	(4,565,789)	(3,327,654)	(1,026,112)	(4,300,095)	(13,219,650)
Net interest sensitivity gap as of 31 December 2018	**210,857**	**268,352**	**(16,764)**	**998,878**	**1,461,323**

Following main assumptions under NBG IRR Regulation and EBA 2018 guidelines, at 31 December, 2020, if interest rates had been 200 basis points higher, with all other variables held constant, profit would have been GEL 95 million higher, mainly as a result of higher interest income on variable interest assets (2019: GEL 40 million; 2018: GEL 10 million). If interest rates at 31 December, 2020 had been 200 basis points lower with all other variables held constant, profit for the year would have been GEL 31 million lower, mainly as a result of lower interest income on variable interest assets (2019: GEL 39 million; 2018 GEL 10 million).

At 31 December, 2020, if interest rates had been 200 basis points lower, with all other variables held constant, other comprehensive income would have been GEL 24 million higher (2019: GEL 9.4 million; 2018: GEL 8.6 million), as a result of an increase in the fair value of fixed rate financial assets measured at fair value through other comprehensive income and repurchase receivables. If interest rates at 31 December, 2020

36. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

had been 200 basis points higher with all other variables held constant, Other comprehensive income would have been GEL 35 million lower (2019: GEL 9.1 million; 2018: GEL 8.2 million), as a result of decrease in the fair value of fixed rate financial assets measured at fair value through other comprehensive income.

The Bank calculates the impact of changes in interest rates using both Net Interest Income and Economic Value sensitivity. Net Interest Income sensitivity measures the impact of a change of interest rates along the various maturities on the yield curve on the net interest revenue for the nearest year. Economic Value measures the impact of a change of interest rates along the various maturities on the yield curve on the present value of the Group's assets, liabilities and off-balance sheet instruments. When performing Net Interest Income and Economic Value sensitivity analysis, the Bank uses parallel shifts in interest rates as well as number of different scenarios. TBC Bank closely monitors the adverse effect of possible parallel yield curve shift scenarios on net interest income over a one-year period to ensure compliance with the predefined risk appetite of the Bank.

In order to manage interest rate risk the Bank establishes appropriate limits. The Bank monitors compliance with the limits and prepares forecasts. ALCO decides on actions that are necessary for effective interest rate risk management and follows up on the implementation. Periodic reporting is done to Management Board and the Board's Risk, Ethics and Compliance Committee.

Liquidity Risk. The liquidity risk is the risk that TBC Bank either does not have sufficient financial resources available to meet all of its obligations and commitments as they fall due, or can access those resources only at a high cost. The risk is managed by the Financial Risk Management and Treasury Departments and is monitored by the ALCO.

The principal objectives of the TBC Bank's liquidity risk management policy are to: (i) ensure the availability of funds in order to meet claims arising from total liabilities and off-balance sheet commitments, both actual and contingent, at an economic price; (ii) recognise any structural mismatch existing within TBC Bank's statement of financial position and set monitoring ratios to manage funding in line with well-balanced growth; and (iii) monitor liquidity and funding on an on-going basis to ensure that approved business targets are met without compromising the risk profile of the Bank.

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

Funding liquidity risk is the risk that TBC will not be able to efficiently meet both expected and unexpected current and future cash flow and collateral needs without affecting either its daily operations or its financial condition. To manage funding liquidity risk TBC Bank uses theLiquidity Coverage ratio and the Net Stable Funding ratioset, forth under Basel III, and defined further by the NBG. In addition the Bank performs stress tests and "what-if" scenario analysis. In 2017, for liquidity risk management purposes National Bank of Georgia introduced Liquidity Coverage Ratio ("NBG LCR"), where in addition to Basel III guidelines conservative approaches are applied to the deposits' withdrawal rates depending on the clients group's concentration. From September, 2017 the Bank also monitors compliance with NBG LCR limits. In 2019, for long-term liquidity risk management purposes NBG introduced Net Stable Funding Ratio ("”NBG NSFR"). From September, 2019, on a monthly basis the Bank monitors compliance with the set limit for NBG NSFR.

The Liquidity Coverage Ratio is used to help manage short-term liquidity risks. The Bank's liquidity risk management framework is designed to comprehensively project cash flows arising from assets, liabilities and off-balance sheet items over certain time buckets and ensure that NBG LCR limits, are met on a daily basis. TBC Bank also stress tests the results of liquidity through large shock scenarios provided by the NBG.

The Net Stable Funding ratio is used for long-term liquidity risk management to promote resilience over a longer time horizon by creating additional incentives for TBC Bank to rely on more stable sources of funding on a continuous basis. The Bank also monitors deposit concentration for large deposits and set limits for non-Georgian residents deposits share in total deposit portfolio.

The management believes, that a strong and diversified funding structure is one of TBC Bank's differentiators. The Bank relies on relatively stable deposits from Georgia as the main source of funding. In order to maintain and further enhance the liability structure TBC Bank sets the targets for deposits and IFI funding within the Bank's risk appetite.

36. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The loan to deposit and IFI funding ratio (defined as total value of net loans divided by total value of deposits and funds received from International financial institutions) stood at 100.7%, 104.8% and 89.9%, at the 31 December 2020, 2019 and 2018 respectively.

Maturity analysis. The table below summarizes the maturity analysis of the Group's financial liabilities, based on remaining undiscounted contractual obligations as of 31 December 2019 subject-to-notice repayments are treated as if notice were to be given immediately. However, the Group expects, that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

The maturity analysis of financial liabilities as of 31 December 2020 is as follows:

in thousands of GEL	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Due to credit institutions	2,138,399	1,156,117	2,678,130	146,206	6,118,852
Customer accounts – individuals	4,275,412	1,828,748	1,282,427	53,444	7,440,031
Customer accounts – other	4,077,900	502,224	619,298	492,887	5,692,309
Other financial liabilities	204,218	6,486	537	–	211,241
Lease liabilities	3,098	9,029	35,298	5,849	53,274
Subordinated debt	14,388	75,845	1,474,185	1,635,830	3,200,248
Debt securities in issue	1,351	59,356	1,407,320	–	1,468,027
Gross settled forwards	3,561,859	484,099	90,172	–	4,136,130
Performance guarantees	211,607	588,883	937,975	12,611	1,751,076
Financial guarantees	318,935	–	–	–	318,935
Letters of credit	10,820	90,559	59,463	–	160,842
Other credit related commitments	1,401,539	–	–	–	1,401,539
Total potential future payments for financial obligations	**16,219,526**	**4,801,346**	**8,584,805**	**2,346,827**	**31,952,504**

The maturity analysis of financial liabilities as of 31 December 2019 is as follows:

in thousands of GEL	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Due to credit institutions	1,590,089	616,417	3,724,084	435,233	6,365,823
Customer accounts – individuals	3,407,952	1,658,316	699,554	27,344	5,793,166
Customer accounts – other	3,722,452	339,114	250,328	142,043	4,453,937
Other financial liabilities	85,338	6,151	4,917	–	96,406
Lease liabilities	4,367	12,508	57,058	11,988	85,921
Subordinated debt	2,351	55,182	1,283,737	2,330,270	3,671,540
Debt securities in issue	–	56,797	1,156,801	–	1,213,598
Gross settled forwards	1,476,685	552,630	164,099	–	2,193,414
Performance guarantees	115,901	332,833	909,599	100,551	1,458,884
Financial guarantees	241,124	–	–	–	241,124
Letters of credit	41,132	19,687	48,914	–	109,733
Other credit related commitments	1,150,110	–	–	–	1,150,110
Total potential future payments for financial obligations	**11,837,501**	**3,649,635**	**8,299,091**	**3,047,429**	**26,833,656**

36. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The maturity analysis of financial liabilities as of 31 December 2018 is as follows:

in thousands of GEL	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Due to credit institutions	950,084	372,517	1,909,587	187,454	3,419,642
Customer accounts – individuals	3,152,851	1,408,710	628,831	27,397	5,217,789
Customer accounts – other	3,821,862	208,250	137,275	195,007	4,362,394
Other financial liabilities	72,399	5,806	–	–	78,205
Subordinated debt	5,573	71,519	415,090	588,197	1,080,379
Debt securities in issue	366	13,847	–	–	14,213
Gross settled forwards	567,259	16,008	–	–	583,267
Performance guarantees	119,994	349,354	671,333	55,166	1,195,847
Letters of credit	16,370	39,321	50,282	–	105,973
Other credit related commitments	769,863	–	–	–	769,863
Total potential future payments for financial obligations	**9,476,621**	**2,485,332**	**3,812,397**	**1,053,221**	**16,827,571**

The undiscounted financial liability analysis gap does not reflect the historical stability of the current accounts. Their liquidation has historically taken place over a longer period than the one indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Term deposits included in the customer accounts are classified based on remaining contractual maturities, according to the Georgian Civil Code, however, individuals have the right to withdraw their deposits prior to maturity if they partially or fully forfeit their right to accrued interest and the Group is obliged to repay such deposits upon the depositor's demand. Based on the Bank's deposit retention history, the management does not expect that many customers will require repayment on the earliest possible date; accordingly, the table does not reflect the Management's expectations as to actual cash outflows.

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors the liquidity gap analysis based on the expected maturities. In particular, the customers' deposits are distributed in the given maturity gaps following their behavioural analysis.

36. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

As at 31 December 2020 the analysis by expected maturities is as follows:

in thousands of GEL	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Cash and cash equivalents	1,601,599	–	–	–	1,601,599
Due from other banks	11,736	7,954	–	–	19,690
Mandatory cash balances with National Bank of Georgia	2,098,506	–	–	–	2,098,506
Loans and advances to customers	1,555,791	2,512,138	6,117,467	4,408,873	14,594,269
Investment securities measures at fair value through OCI	1,527,268	–	–	–	1,527,268
Bonds carried at amortised cost	27,026	149,132	559,823	323,965	1,059,946
Net investments in leases	23,064	73,213	168,447	6,254	270,978
Other financial assets	147,348	1,993	11,652	9	161,002
Total financial assets	**6,992,339**	**2,744,430**	**6,857,389**	**4,739,100**	**21,333,258**
Due to credit institutions	2,116,091	1,007,035	1,322,468	40,279	4,485,873
Customer accounts	1,273,664	382,857	–	10,977,774	12,634,295
Debt securities in issue	121	56,031	1,363,361	–	1,419,513
Other financial liabilities	204,218	6,486	538	–	211,242
Lease liabilities	2,978	8,680	33,933	8,997	54,588
Subordinated debt	11,747	16,369	258,110	386,514	672,740
Total financial liabilities	**3,608,819**	**1,421,427**	**3,034,441**	**11,413,564**	**19,478,251**
Performance guarantees	4,427	–	–	–	4,427
Financial guarantees	5,424	–	–	–	5,424
Other credit related commitments	100,214	–	–	–	100,214
Credit related commitments and performance guarantees	**110,065**	**–**	**–**	**–**	**110,065**
Net liquidity gap as of 31 December 2020	**3,273,453**	**1,323,002**	**3,822,949**	**(6,674,461)**	**1,744,943**
Cumulative gap as of 31 December 2020	**3,273,453**	**4,596,455**	**8,419,404**	**1,744,943**	

36. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

As at 31 December 2019 the analysis by expected maturities is as follows:

in thousands of GEL	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Cash and cash equivalents	994,479	–	–	–	994,479
Due from other banks	12,685	-	2,912	-	15,597
Mandatory cash balances with National Bank of Georgia	1,591,829	–	–	–	1,591,829
Loans and advances to customers	1,303,715	2,307,064	5,108,649	3,629,971	12,349,399
Investment securities measures at fair value through OCI	985,293	–	–	–	985,293
Bonds carried at amortised cost	122,889	215,711	555,379	127,589	1,021,568
Net investments in leases	34,448	70,398	148,542	3,272	256,660
Other financial assets	112,263	2,946	2	–	115,211
Total financial assets	**5,157,601**	**2,596,119**	**5,815,484**	**3,760,832**	**17,330,036**
Due to credit institutions	1,573,720	427,794	1,496,459	95,928	3,593,901
Customer accounts	1,088,948	175,996	-	8,847,058	10,112,002
Debt securities in issue	–	56,797	1,156,801	–	1,213,598
Other financial liabilities	80,592	10,133	4,918	–	95,643
Lease liabilities	–	4,530	46,625	8,161	59,316
Subordinated debt	530	–	113,278	477,227	591,035
Total financial liabilities	**2,743,790**	**675,250**	**2,818,081**	**9,428,374**	**15,665,495**
Performance guarantees	7,466	–	–	–	7,466
Financial guarantees	4,511	–	–	–	4,511
Other credit related commitments	100,212	–	–	–	100,212
Credit related commitments and performance guarantees	**112,189**	**–**	**–**	**–**	**112,189**
Net liquidity gap as of 31 December 2019	**2,301,622**	**1,920,869**	**2,997,403**	**(5,667,542)**	**1,552,352**
Cumulative gap as of 31 December 2019	**2,301,622**	**4,222,491**	**7,219,894**	**1,552,352**	

36. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

As of 31 December 2018 the analysis by expected maturities is as follows:

in thousands of GEL	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Cash and cash equivalents	1,164,403	–	–	–	1,164,403
Due from other banks	25,471	8,075	3,838	–	37,384
Mandatory cash balances with National Bank of Georgia	1,422,809	–	–	–	1,422,809
Loans and advances to customers	1,090,521	2,056,149	4,152,436	2,739,346	10,038,452
Investment securities measures at fair value through OCI	1,005,239	–	–	–	1,005,239
Bonds carried at amortised cost	118,989	92,877	368,843	72,994	653,703
Net investments in leases	31,133	56,432	113,087	3,150	203,802
Other financial assets	132,270	20,325	1,664	–	154,259
Total financial assets	**4,990,835**	**2,233,858**	**4,639,868**	**2,815,490**	**14,680,051**
Due to credit institutions	933,513	271,993	1,653,575	172,424	3,031,505
Customer accounts	1,007,472	129,666	–	8,307,608	9,444,746
Debt securities in issue	112	13,231	–	–	13,343
Other financial liabilities	72,399	5,806	–	–	78,205
Subordinated debt	3,049	23,245	182,986	441,639	650,919
Total financial liabilities	**2,016,545**	**443,941**	**1,836,561**	**8,921,671**	**13,218,718**
Performance guarantees	4,393	–	–	–	4,393
Financial guarantees	5,424	–	–	–	5,424
Other credit related commitments	103,029	–	–	–	103,029
Credit related commitments and performance guarantees	**112,846**	**–**	**–**	**–**	**112,846**
Net liquidity gap as of 31 December 2018	**2,861,445**	**1,789,917**	**2,803,307**	**(6,106,182)**	**1,348,487**
Cumulative gap as of 31 December 2018	**2,861,445**	**4,651,362**	**7,454,669**	**1,348,487**	

The Management believes that the Group has sufficient liquidity to meet its current on- and off-balance sheet obligations.

37. CONTINGENCIES AND COMMITMENTS

Legal proceedings. When determining the level of provision to be set up with regards to such claims, or the amount (not subject to provisioning) to be disclosed in the financial statements, the management seeks both internal and external professional advice. The management believes that the provision recorded in these financial statements is adequate and the amount (not subject to provisioning) need not be disclosed as the probability of material adverse effect on the financial condition or the results of future operations of the Group is remote.

Tax legislation. Georgian and Azerbaijani tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. The management's interpretation of the legislation as applied to the Group's transactions and activity may be challenged by the relevant authorities. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the review period. To respond to the risks, the Group has engaged external tax specialists to carry out periodic reviews of Group's taxation policies and tax filings. The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax and customs positions will be sustained. Accordingly, as of 31 December 2020, 2019 and 2018 no material provision for potential tax liabilities has been recorded.

Compliance with covenants. The Group is subject to certain covenants primarily related to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. During 2020, the bank renegotiated some of its lender covenants to reflect the changes in the operations as a result of the COVID -19. The Group was in compliance with all covenants as of 31 December 2020, 31 December 2019 and 31 December 2018.

37. CONTINGENCIES AND COMMITMENTS CONTINUED

Management of capital. The Bank manages capital requirements under regulatory rules. The Bank complied with all its imposed capital requirements throughout the reporting period.

Credit related commitments and financial guarantees. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Financial guarantees and standby letters of credit, which represent the irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, that are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to prolong credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss is lower than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term ones.

As of 31 December 2020 outstanding credit related commitments presented by stages are as follows:

in thousands of GEL	**Stage 1**	**Stage 2**	**Stage 3**
Undrawn credit lines	1,222,916	165,798	12,825
Letters of credit issued	158,131	1,464	1,247
Financial guarantees issued	303,046	14,571	1,318
Total credit related commitments (before provision)	**1,684,093**	**181,833**	**15,390**
Undrawn credit lines	(3,246)	(986)	(15)
Letters of credit issued	(376)	-	-
Financial guarantees issued	(795)	(4)	(2)
Credit loss allowance for credit related commitments	**(4,417)**	**(990)**	**(17)**
Total credit related commitments	**1,679,676**	**180,843**	**15,373**

As of 31 December 2019 outstanding credit related commitments presented by stages are as follows:

in thousands of GEL	**Stage 1**	**Stage 2**	**Stage 3**
Undrawn credit lines	1,124,862	18,548	6,700
Letters of credit issued	109,299	-	434
Financial guarantees issued	240,205	550	369
Total credit related commitments (before provision)	**1,474,366**	**19,098**	**7,503**
Undrawn credit lines	(2,096)	(514)	(182)
Letters of credit issued	(473)	-	-
Financial guarantees issued	(1,244)	(2)	-
Credit loss allowance for credit related commitments	**(3,813)**	**(516)**	**(182)**
Total credit related commitments	**1,470,553**	**18,582**	**7,321**

37. CONTINGENCIES AND COMMITMENTS CONTINUED

As of 31 December 2018 outstanding credit related commitments presented by stages are as follows:

in thousands of GEL	Stage 1	Stage 2	Stage 3
Undrawn credit lines	744,047	15,570	10,246
Letters of credit issued	104,590	-	1,382
Financial guarantees issued	-	-	-
Total credit related commitments (before provision)	**848,637**	**15,570**	**11,628**
Undrawn credit lines	(2,652)	(736)	(1,347)
Letters of credit issued	(437)	-	(252)
Financial guarantees issued	-	-	-
Credit loss allowance for credit related commitments	**(3,089)**	**(736)**	**(1,599)**
Total credit related commitments	**845,548**	**14,834**	**10,029**

The credit quality of contingencies and commitments is as follows at 31 December 2020:

	31 December 2020			
in thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Undrawn credit lines risk category				
– Very low	1,157,753	3,820	-	1,161,573
– Low	62,193	146,114	-	208,307
– Moderate	2,963	14,723	-	17,686
– High	7	1,141	-	1,146
– Default	-	-	12,825	12,825
Gross carrying amount	**1,222,916**	**165,798**	**12,825**	**1,401,539**
Credit loss allowance	(3,246)	(986)	(15)	(4,247)
Carrying amount	**1,219,670**	**164,812**	**12,810**	**1,397,292**
Letters of credit issued risk category				
– Very low	157,992	-	-	157,992
– Low	139	1,464	-	1,603
– Moderate	-	-	-	-
– High	-	-	-	-
– Default	-	-	1,247	1,247
Gross carrying amount	**158,131**	**1,464**	**1,247**	**160,842**
Credit loss allowance	(376)	-	-	(376)
Carrying amount	**157,755**	**1,464**	**1,247**	**160,466**
Financial guarantees issued risk category				
– Very low	268,333	100	-	268,433
– Low	34,713	14,471	-	49,184
– Moderate	-	-	-	-
– High	-	-	-	-
– Default	-	-	1,318	1,318
Gross carrying amount	**303,046**	**14,571**	**1,318**	**318,935**
Credit loss allowance	(795)	(4)	(2)	(801)
Carrying amount	**302,251**	**14,567**	**1,316**	**318,134**

37. CONTINGENCIES AND COMMITMENTS CONTINUED

The credit quality of contingencies and commitments is as follows at 31 December 2019:

	31 December 2019			
in thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime EC for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Undrawn credit lines risk category				
– Very low	1,027,350	2,706	-	1,030,056
– Low	92,030	5,589	-	97,619
– Moderate	5,480	9,455	-	14,935
– High	2	798	-	800
– Default	-	-	6,700	6,700
Gross carrying amount	**1,124,862**	**18,548**	**6,700**	**1,150,110**
Credit loss allowance	(2,096)	(514)	(182)	(2,792)
Carrying amount	**1,122,766**	**18,034**	**6,518**	**1,147,318**
Letters of credit issued risk category				
– Very low	108,476	-	-	108,476
– Low	823	-	-	823
– Moderate	-	-	-	-
– High	-	-	-	-
– Default	-	-	433	433
Gross carrying amount	**109,299**	**-**	**433**	**109,732**
Credit loss allowance	(473)	-	-	(473)
Carrying amount	**108,826**	**-**	**433**	**109,259**
Financial guarantees issued risk category				
– Very low	233,004	-	-	233,004
– Low	7,027	62	-	7,089
– Moderate	174	488	-	662
– High	-	-	-	-
– Default	-	-	370	370
Gross carrying amount	**240,205**	**550**	**370**	**241,125**
Credit loss allowance	(1,244)	(2)	-	(1,246)
Carrying amount	**238,961**	**548**	**370**	**239,879**

37. CONTINGENCIES AND COMMITMENTS CONTINUED

The credit quality of contingencies and commitments is as follows at 31 December 2018:

	31 December 2018			
in thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Undrawn credit lines risk category				
– Very low	679,115	294	-	679,409
– Low	51,770	3,131	-	54,901
– Moderate	13,151	10,836	-	23,986
– High	11	1,309	-	1,321
– Default	-	-	10,246	10,246
Gross carrying amount	**744,047**	**15,570**	**10,246**	**769,863**
Credit loss allowance	(2,652)	(736)	(1,347)	(4,735)
Carrying amount	**741,395**	**14,834**	**8,899**	**765,128**
Letters of credit issued risk category				
– Very low	94,760	-	-	94,760
– Low	7,863	-	-	7,863
– Moderate	1,967	-	-	1,967
– High	-	-	-	-
– Default	-	-	1,382	1,382
Gross carrying amount	**104,590**	**-**	**1,382**	**105,972**
Credit loss allowance	(437)	-	(252)	(689)
Carrying amount	**104,153**	**-**	**1,130**	**105,283**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Non-cancellable commitments as of 31 December 2020 were GEL 579,915 thousand (2019: GEL 472,485 thousand; 2018: GEL 344,360 thousand).

Performance guarantees. Performance guarantees are contracts that provide compensation in case of another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under the performance guarantee contracts is the possibility that the insured event occurs (i.e.: the failure to perform the contractual obligation by another party). The key risks the Group faces are significant fluctuations in the frequency and severity of payments incurred on such contracts, relative to expectations.

Outstanding amount of performance guarantees and respective provision as of 31 December 2020 is GEL 1,751,041 thousand and GEL 4,427 thousand (2019: GEL 1,458,884 thousand and GEL 7,466 thousand, 2018: GEL 1,195,812 thousand and GEL 4,393 thousand).

Fair value of credit related commitments were GEL 5,424 thousand as of 31 December 2020 (2019: GEL 4,511 thousand; 2018: GEL 5,424 thousand). Total credit related commitments and performance guarantees are denominated in currencies as follows:

in thousands of GEL	**2020**	**2019**	**2018**
Georgian Lari	1,208,199	1,155,422	854,000
US Dollar	1,584,878	1,203,296	955,829
Euro	776,307	542,303	218,091
Other	62,973	58,830	43,762
Total	**3,632,357**	**2,959,851**	**2,071,682**

Capital expenditure commitments. As of 31 December 2020, the Group has contractual capital expenditure commitments amounting to GEL 14,631 thousand (2019: GEL 33,723 thousand; 2018: GEL 12,210 thousand). Out of total amount as at 31 December 2020, contractual commitments related to the head office construction amounted GEL 4,853 thousand (2019: GEL 13,186 thousand).

38. NON-CONTROLLING INTEREST

The following table provides information about each subsidiary with a non-controlling interest as of 31 December 2020:

in thousands of GEL	Proportion of non-controlling interest's voting rights held	Profit attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary
United Financial Corporation JSC	0.47%	22	105

The summarised financial information of these subsidiaries was as follows as of and for the year ended 31 December 2020:

in thousands of GEL	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total comprehensive income	Net cash flows
United Financial Corporation JSC	5,269	17,803	504	257	14,716	4,573	4,573	676

The following table provides information about each subsidiary with a non-controlling interest for the year ended as of 31 December 2019:

in thousands of GEL	Proportion of non-controlling interest's voting rights held	Profit attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary
TBC Leasing JSC*	0.39%	11	-
United Financial Corporation JSC	0.47%	63	582

*In May 2019 the Group purchased remaining 0.39% shareholding from TBC Leasing JSC shareholders and became 100% owner of the Company.

The summarised financial information of these subsidiaries was as follows as of and for the year ended 31 December 2019:

in thousands of GEL	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total comprehensive income	Net cash flows
TBC Leasing JSC	180,282	172,275	133,198	182,804	29,894	6,861	6,861	719
TBC Kredit LLC	10,605	14,140	6,238	5,730	4,543	2,221	2,221	473
United Financial Corporation JSC	9,507	8,821	155	435	12,023	4,725	4,725	(622)

The following table provides information about each subsidiary with non-controlling interest for the year ended and as of 31 December 2018:

in thousands of GEL	Proportion of non-controlling interest's voting rights held	Profit attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary
TBC Leasing JSC	39.00%	26	96
TBC Kredit LLC*	0.00%	251	0
United Financial Corporation JSC	133.00%	59	517
BG LLC	0.00%	(88)	0

38. NON-CONTROLLING INTEREST CONTINUED

The summarised financial information of these subsidiaries was as follows as of and for the year ended 31 December 2018:

in thousands of GEL	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total comprehensive income	Net cash flows
TBC Leasing JSC	160,619	128,610	138,582	126,954	26,998	6,585	6,585	10,773
TBC Kredit LLC	19,639	14,987	13,961	10,813	3,177	1,836	1,836	(1,622)
BG LLC	8,964	1	60	8,993	123	(88)	(88)	63
United Financial Corporation JSC	8,711	6,646	3,284	–	12,401	4,427	4,427	(438)

*In 2018 the Group purchased remaining 25% shareholding from TBC Kredit LLC shareholders and became 100% owner of the company.

39. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

As of 31 December 2020, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

				Amounts subject to master netting and similar arrengments not set off in the statement of financial position		
in thousands of GEL	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c)=(a)-(b)	Financial instruments (d)	Cash collateral received(e)	Net amount of exposure (c)-(d)-(e)
Assets						
Other financial assets:						
– Receivables on credit card services and money transfers	25,245	18	25,227	–	–	25,227
ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**25,245**	**18**	**25,227**	**–**	**–**	**25,227**
Liabilities						
Other financial liabilities:						
– Payables on credit card services and money transfers	8,800	18	8,782	–	–	8,782
LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**8,800**	**18**	**8,782**	**–**	**–**	**8,782**

39. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES CONTINUED

As of 31 December 2019, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

in thousands of GEL	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c)=(a)-(b)	Amounts subject to master netting and similar arrengments not set off in the statement of financial position		Net amount of exposure (c)-(d)-(e)
				Financial instruments (d)	Cash collateral receive (e)	
Assets						
Other financial assets:						
– Receivables on credit card services and money transfers	24,139	2,244	21,895	–	–	21,895
ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**24,139**	**2,244**	**21,895**	**–**	**–**	**21,895**
Liabilities						
Other financial liabilities:						
– Payables on credit card services and money transfers	17,518	2,244	15,274	–	–	15,274
LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**17,518**	**2,244**	**15,274**	**–**	**–**	**15,274**

As of 31 December 2018, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

in thousands of GEL	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c)=(a)-(b)	Amounts subject to master netting and similar arrengments not set off in the statement of financial position		Net amount of exposure (c)-(d)-(e)
				Financial instruments (d)	Cash collateral receive (e)	
Assets						
Other financial assets:						
– Receivables on credit card services and money transfers	17,544	3,154	14,390	–	–	14,390
ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**17,544**	**3,154**	**14,390**	**–**	**–**	**14,390**
Liabilities						
Other financial liabilities:						
– Payables on credit card services and money transfers	21,426	3,154	18,272	–	–	18,272
LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**21,426**	**3,154**	**18,272**	**–**	**–**	**18,272**

39. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES CONTINUED

The amount set off in the statement of financial position reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting. Similarly, the amounts in columns (d) and (e) are limited to the exposure reported in column (c) for each individual instrument in order not to understate the ultimate net exposure.

Deposits placed with other banks and deposits received from other banks as part of gross settled currency swap arrangements have been netted-off in these financial statements and the instrument has been presented as either asset or liability at a fair value.

The disclosure does not apply to loans and advances to customers and related customer deposits unless they are netted-off in the statement of financial position.

40. DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Group enters into various derivative financial instruments, to manage currency, liquidity and interest rate risks and for trading purposes.

in thousands of GEL	**2020**	**2019**	**2018**
Fair value of gross settled currency swaps, included in other financial assets or due from banks	30,783	5,849	1,370
Fair value of foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	(121,183)	(20,440)	(2,030)
Total	**(90,400)**	**(14,591)**	**(660)**

Foreign Exchange Forwards and gross settled currency swaps. Foreign exchange derivative financial instruments the Group entered are generally traded in an over-the-counter market with professional counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange forwards contracts and gross settled currency swaps the Group entered. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective balance sheet date.

	2020		**2019**		**2018**	
in thousands of GEL	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
- USD payable on settlement (-)	(476,671)	(145,313)	(123,836)	(14,480)	(83,561)	(31,305)
- USD receivable on settlement (+)	360,514	3,123,145	338,080	1,750,746	136,386	306,597
- GEL payable on settlement (-)	(175,849)	(25,589)	(822)	(204,470)	(10,834)	(5,155)
- GEL receivable on settlement (+)	291,022	135,116	108,914	-	97,386	8,367
- EUR payable on settlement (-)	(175,014)	(3,262,892)	(333,796)	(1,616,299)	(138,398)	(303,416)
- EUR receivable on settlement (+)	199,968	-	16,048	9,191	1,548	22,188
- Other payable on settlement (-)	(2,904)	-	(1,631)	(2,887)	(1,157)	(464)
- Other receivable on settlement (+)	9,717	54,350	2,892	57,759	-	1,158
Fair value of foreign exchange forwards and gross settled currency swaps	**30,783**	**(121,183)**	**5,849**	**(20,440)**	**1,370**	**(2,030)**
Net fair value		**(90,400)**		**(14,591)**		**(660)**

Information on related party balances is disclosed in Note 43.

41. FAIR VALUE DISCLOSURES

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised as follows:

	31 December 2020				31 December 2019				31 December 2018			
in thousands of GEL	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS CARRIED AT FAIR VALUE												
FINANCIAL ASSETS												
Investment securities measured at fair value through other comprehensive income												
– Certificates of Deposits of National Bank of Georgia	–	21,687	–	21,687	–	40,346	–	40,346	–	14,985	–	14,985
– Corporate Bonds	–	664,563	–	664,563	–	611,000	–	611,000	–	549,477	–	549,477
– Netherlands Government notes	–	–	–	–	–	1,596	–	1,596	–	66,760	–	66,760
– Ministry of Finance of uzbekistan treasury bills	–	1,950	–	1,950	–	–	–	–	–	–		
– Ministry of Finance Treasury Bills	–	838,152	–	838,152	–	329,353	–	329,353	–	373,447	–	373,447
– Corporate shares	-	-	916	916	–	–	2,999	2,999	-	-	1,707	1,707
Investment securities measured at fair value through profit and loss												
– Foreign exchange forwards and gross settled currency swaps, included in other financial assets or due from banks	–	30,786	–	30,783	–	5,849	–	5,849	–	1,370	–	1,370
– investment held at fair value through profit or loss	–	–	17,239	17,239	–	–	–	–	–	–	–	–
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**–**	**1,557,135**	**18,155**	**1,575,290**	**–**	**988,144**	**2,999**	**991,143**	**–**	**1,006,039**	**1,707**	**1,007,746**
LIABILITIES CARRIED AT FAIR VALUE												
FINANCIAL LIABILITIES												
Foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	–	121,183	–	121,183	–	20,440	–	20,440	–	2,030	–	2,030
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS	**–**	**121,183**	**–**	**121,183**	**–**	**20,440**	**–**	**20,440**	**–**	**2,030**	**–**	**2,030**

There were no transfers between levels 1 and 2 during the year ended 31 December 2020 (2019 none, 2018: none).

41. FAIR VALUE DISCLOSURES CONTINUED

(a) Recurring fair value measurements

The description of the valuation technique and the description of inputs used in the fair value measurement for level 2 measurements:

	Fair value at 31 December				
in thousands of GEL	**2020**	**2019**	**2018**	**Valuation technique**	**Inputs used**
ASSETS CARRIED AT FAIR VALUE					
FINANCIAL ASSETS					
– Certificates of Deposits of NBG, Ministry of Finance Treasury Bills, Government notes, Corporate bonds	1,526,352	982,295	1,004,669	Discounted cash flows ("DCF")	Government bonds yield curve
– Foreign exchange forwards and gross settled currency swaps, included in due from banks	30,783	5,849	1,370	Forward pricing using present value calculation	Official exchange rate, risk-free rate
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**1,557,135**	**988,144**	**1,006,039**		
LIABILITIES CARRIED AT FAIR VALUE					
FINANCIAL LIABILITIES					
– Foreign exchange forwards included in other financial liabilities	121,183	20,440	2,030	Forward pricing using present value calculation	Official exchange rate, risk-free rate
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**121,183**	**20,440**	**2,030**		

There were no changes in the valuation technique for the level 2 and level 3 recurring fair value measurements during the year ended 31 December 2020 (2019: none; 2018: none).

Fair value measurement analysis by level in the fair value hierarchy is disclosed in Note 2.

41. FAIR VALUE DISCLOSURES CONTINUED

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	31 December 2020				31 December 2019				31 December 2018			
in thousands of GEL	Level 1	Level 2	Level 3	Carrying Value	Level 1	Level 2	Level 3	Carrying Value	Level 1	Level 2	Level 3	Carrying Value
FINANCIAL ASSETS												
Cash and cash equivalents	747,195	854,404	–	**1,601,599**	646,394	348,085	–	**994,479**	1,164,403	–	–	**1,164,403**
Due from other banks	–	19,690	–	**19,690**	–	15,597	–	**15,597**	–	37,384	–	**37,384**
Mandatory cash balances with the NBG	–	2,098,506	–	**2,098,506**	–	1,591,829	–	**1,591,829**	–	1,422,809	–	**1,422,809**
Loans and advances to customers:												
– Corporate loans	–	–	5,728,134	**5,583,107**	–	–	4,838,348	**4,579,723**	–	–	3,212,490	**3,095,766**
– Consumer loans	–	–	2,025,055	**1,769,759**	–	–	1,876,364	**1,750,050**	–	–	1,970,006	**1,832,793**
– Mortgage loans	–	–	4,032,243	**3,845,233**	–	–	3,354,901	**3,137,491**	–	–	2,702,768	**2,684,295**
– Loans to micro, small and medium enterprises	–	–	3,508,881	**3,396,170**	–	–	2,891,382	**2,882,135**	–	–	2,440,078	**2,425,598**
Bonds carried at amortised cost	–	1,086,008	–	**1,059,946**	–	990,537	–	**1,021,568**	–	660,916	–	**653,703**
Investments in leases	–	–	274,402	**270,978**	–	–	265,165	**256,660**	–	–	207,579	**203,802**
Other financial assets	–	–	112,981	**112,981**	–	–	109,362	**109,362**	–	–	152,889	**152,889**
NON-FINANCIAL ASSETS												
Investment properties, at cost	–	–	105,628	**68,689**	–	–	123,325	**72,667**	–	–	97,425	**84,296**
TOTAL ASSETS	**747,195**	**4,058,608**	**15,787,324**	**19,826,654**	**646,394**	**2,946,048**	**13,458,846**	**16,411,561**	**1,164,403**	**2,121,108**	**10,783,234**	**13,757,738**
FINANCIAL LIABILITIES												
Customer accounts	–	7,503,114	5,153,793	**12,634,295**	–	6,490,267	3,633,289	**10,112,002**	–	5,891,364	3,569,222	**9,444,746**
Debt securities in issue	1,463,830	–	–	**1,419,513**	1,136,297	–	–	**1,136,297**	–	13,343	–	**13,343**
Due to credit institutions	–	4,490,464	–	**4,485,873**	–	3,600,318	–	**3,593,901**	–	3,028,180	–	**3,031,503**
Other financial liabilities	–	144,645	–	**144,645**	–	134,519	–	**134,519**	–	76,175	–	**76,175**
Subordinated debt	–	677,246	–	**672,740**	–	594,892	–	**591,035**	–	648,802	–	**650,919**
TOTAL LIABILITIES	**1,463,830**	**12,815,469**	**5,153,793**	**19,357,066**	**1,136,297**	**10,819,996**	**3,633,289**	**15,567,754**		**9,657,867**	**3,569,222**	**13,216,688**

The fair values in the level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of unquoted fixed interest rate instruments was calculated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of investment properties was estimated using market comparatives (refer to Note 17).

Amounts due to credit institutions were discounted at the Group's own incremental borrowing rate. Liabilities due on demand were discounted from the first date that the Group could be required to pay the amount. There were no changes in the valuation technique for the level 2 and level 3 measurements of assets and liabilities not measured at fair values in the year ended 31 December 2020 (2019: none; 2018: none).

42. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2020:

in thousands of GEL	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total
ASSETS				
Cash and cash equivalents	1,601,599	–	–	1,601,599
Due from other banks	19,690	–	–	19,690
Mandatory cash balances with the National Bank of Georgia	2,098,506	–	–	2,098,506
Loans and advances to customers	14,594,269	–	–	14,594,269
Investment securities measured at FVOCI	–	1,527,268	–	1,527,268
Bonds carried at amortised cost	1,059,946	–	–	1,059,946
Other financial assets	112,980	–	48,022	161,002
TOTAL FINANCIAL ASSETS SUBJECT TO IFRS 9 MEASUREMENT CATEGORIES	**19,486,990**	**1,527,268**	**48,022**	**21,062,280**
Investments in leases	–	–	–	270,978
Non-financial assets	–	–	–	1,065,704
TOTAL ASSETS	**19,486,990**	**1,527,268**	**48,022**	**22,398,962**

For the measurement purposes, IFRS 9, classifies financial assets into the categories discussed in Note 2. The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2019:

in thousands of GEL	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total
ASSETS				
Cash and cash equivalents	994,479	–	–	994,479
Due from other banks	15,597	–	–	15,597
Mandatory cash balances with the National Bank of Georgia	1,591,829	–	–	1,591,829
Loans and advances to customers	12,349,399	–	–	12,349,399
Investment securities measured at FVOCI	–	985,293	–	985,293
Bonds carried at amortised cost	1,021,568	–	–	1,021,568
Other financial assets	113,124	–	2,087	115,211
TOTAL FINANCIAL ASSETS SUBJECT TO IFRS 9 MEASUREMENT CATEGORIES	**16,085,996**	**985,293**	**2,087**	**17,073,376**
Investments in leases	–	–	–	256,660
Non-financial assets	–	–	–	925,574
TOTAL ASSETS	**16,085,996**	**985,293**	**2,087**	**18,255,610**

42. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY CONTINUED

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2018:

in thousands of GEL	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total
ASSETS				
Cash and cash equivalents	1,164,403	–	–	1,164,403
Due from other banks	37,384	–	–	37,384
Mandatory cash balances with the National Bank of Georgia	1,422,809	–	–	1,422,809
Loans and advances to customers	10,038,452	–	–	10,038,452
Investment securities measured at FVOCI	–	1,005,239	–	1,005,239
Bonds carried at amortised cost	653,703	–	–	653,703
Other financial assets	152,890	–	1,370	154,259
TOTAL FINANCIAL ASSETS SUBJECT TO IFRS 9 MEASUREMENT CATEGORIES	**13,469,641**	**1,005,239**	**1,370**	**14,476,249**
Investments in leases	–	–	–	203,802
Non-financial assets	–	–	–	720,835
TOTAL ASSETS	**13,469,641**	**1,005,239**	**1,370**	**15,400,886**

43. RELATED PARTY TRANSACTIONS

Pursuant to IAS 24 “Related Party Disclosures”, parties are generally considered to be related if the parties are under common control or one party has the ability to control the other or it can exercise significant influence over the other party in taking financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form:

- Parties with material ownership stake (more than 5% beneficial ownership stake for 2020, 2019 and 2018) in the TBCG or with representatives in the Board of Directors are considered as Significant Shareholders.
- The key management personnel include members of TBCG’s Board of Directors, the Management Board of the Bank and their close family members.

Transactions between TBC Bank Group PLC and its subsidiaries also meet the definition of related party transactions. Where these are eliminated on consolidation, they are not disclosed in the Group Financial Statements.

The definition of the related party is different per standards of National Bank of Georgia and is regulated by the published Decree N 26/04 of the Governor of the National Bank of Georgia (link to the document below in the footnote[1]).

As of 31 December 2020, the outstanding balances with related parties were as follows:

in thousands of GEL	Contractual interest rate	Significant shareholders	Key management personnel	Immediate parent	Companies undercommon control
Gross amount of loans and advances to customers	4% - 33%	54	6,869	–	–
Impairment provisions for loans and advances to customers		–	4	–	–
Guarantees	–	–	–	–	35
Customer accounts	0%–12.50%	16,574	16,555	37,275	24,441

1 www.nbg.gov.ge

43. RELATED PARTY TRANSACTIONS CONTINUED

The income and expense items with related parties except from key management compensation for the year 2020 were as follows:

in thousands of GEL	Significant shareholders	Key management personnel	Companies under common control	Immediate parent
Interest income - loans and advances to customers	8	346	–	–
Interest expense	–	1	6	7
Gains less losses from trading in foreign currencies	197	47	171	624
Foreign exchange translation gains less losses	(61)	1,242	–	–
Fee and commission income	21	24	58	5
Administrative and other operating expenses (excluding staff costs)	–	323	–	–

The Group's income and expense items with related parties except from key management compensation for the year 2020 were as follows:

in thousands of GEL	Significant shareholders	Key management personnel	Companies under common control	Immediate parent
Amounts advanced to related parties during the year	107	3,750	–	–
Amounts repaid by related parties during the year	(76)	(8,193)	–	–

As of 31 December 2020, transactions and balances of TBC Bank JSC with its subsidiaries were as follows:

in thousands of GEL	Balance as of 31 December 2020 Amount
Gross amount of loans and advances granted to subsidiaries	28,472
Customer accounts of subsidiaries	112,665
Other Financial Assets	23,994
Other Assets	112
Other Financial Liabilities	24,192
Investment in subsidiaries	31,120

The income and expense items for JSC TBC Bank with its subsidiaries were as follows:

in thousands of GEL	31 December 2020
Interest income	5,278
Interest expense	5,509
Fee and commission income	25,229
Fee and commission expense	248
Other operating income	4,144
Administrative and other operating expense	771

As of 31 December 2019, the outstanding balances with related parties were as follows:

in thousands of GEL	Contractual interest rate	Significant shareholders	Key management personnel	Immediate parent	Companies under common control
Gross amount of loans and advances to customers	0.4%-48%	77	9,624	–	99
Impairment provisions for loans and advances to customers		–	1	–	–
Customer accounts	0.0% – 10.2%	16,418	13,098	47,426	15,991
Guarantees		–	–	–	97

43. RELATED PARTY TRANSACTIONS CONTINUED

The income and expense items with related parties except from key management compensation for the year 2019 were as follows:

in thousands of GEL	Significant shareholders	Key management personnel	Companies under common control	Immediat parent
Interest income - loans and advances to customers	7	620	–	42
Interest expense	87	197	1,135	5,814
Gains less losses from trading in foreign currencies	159	65	126	713
Foreign exchange translation gains less losses	85	207	51	–
Fee and commission income	123	342	2	–
Administrative and other operating expenses (excluding staff costs)	68	978	–	–

The aggregate loan amounts advanced to, and repaid, by related parties during 2019 were as follows:

in thousands of GEL	Significant shareholders	Key management personnel	Companies under common control	Immediate parent
Amounts advanced to related parties during the year	1,512	15,137	–	48
Amounts repaid by related parties during the year	(3,146)	(17,747)	–	–

As of 31 December 2019, transactions and balances of JSC TBC Bank with its subsidiaries were as follows

In thousands of GEL	Balance as of 31 December 2019
Gross amount of loans and advances granted to subsidiaries	86,518
Customer accounts of subsidiaries	65,025
Other Financial Assets	22,061
Other Assets	19
Other Financial Liabilities	22,268
Investment in subsidiaries	30,426

The income and expense items for JSC TBC Bank with its subsidiaries were as follows:

In thousands of GEL	2019
Interest income	2,109
Interest expense	5,527
Fee and commission income	16,471
Fee and commission expense	2,415
Foreign exchange translation gains less losses	54
Other operating income	4,477
Administrative and other operating expense	223

As of 31 December 2018, the outstanding balances with related parties were as follows:

in thousands of GEL	Contractual interest rate	Significant shareholders	Key management personnel	Immediate parent	Companies under common control
Gross amount of loans and advances to customers	0.4% – 36%	1,614	11,407	–	–
Impairment provisions for loans and advances to customers		–	9	–	–
Customer accounts	0.0% – 11.8%	27,095	21,328	81,311	11,123

43. RELATED PARTY TRANSACTIONS CONTINUED

The income and expense items with related parties except from key management compensation for the year 2018 were as follows:

in thousands of GEL	Significant shareholders	Key management personnel	Companies under common control	Immediate parent
Interest income - loans and advances to customers	22	591	–	–
Interest expense	411	301	563	5,879
Gains less losses from trading in foreign currencies	479	65	25	–
Foreign exchange translation gains less losses	28	352	–	–
Fee and commission income	87	50	8	3
Administrative and other operating expenses (excluding staff costs)	89	297	–	–

The aggregate loan amounts advanced to, and repaid, by related parties during 2018 were as follows:

in thousands of GEL	Significant shareholders	Key management personnel	Companies under common control	Immediate parent
Amounts advanced to related parties during the year	2,465	13,547	–	–
Amounts repaid by related parties during the year	(1,055)	(10,195)	–	–

As of 31 December 2018, transactions and balances of JSC TBC Bank with its subsidiaries were as follows:

In thousands of GEL	Balance as of 31 December 2018
Gross amount of loans and advances granted to subsidiaries	64,782
Customer accounts of subsidiaries	36,971
Bonds Carried at Amortised Cost	190
Other Financial Assets	10,995
Other Assets	495
Other Financial Liabilities	2,405
Investment in subsidiaries	26,761

The income and expense items for JSC TBC Bank with its subsidiaries were as follows:

In thousands of GEL	2018
Interest income	5,423
Interest expense	2,556
Fee and commission income	1,757
Fee and commission expense	15,857
Foreign exchange translation gains less losses	56
Other operating income	121
Administrative and other operating expense	5,001

Compensation of the key management personnel and supervisory board members is presented below:

	2020		2019		2018	
in thousands of GEL	Expense	Accrued liability	Expense	Accrued liability	Expense	Accrued liability
Salaries and short-term bonuses	7,484	–	7,376	–	11,094	270
Cash settled bonuses related to share-based compensation	–	–	(1,627)	–	6,424	8,395
Equity-settled share-based compensation	11,514	–	25,695	–	9,369	–
Total	**18,998**	**–**	**31,444**	**–**	**26,887**	**8,665**

44 BUSINESS COMBINATION

Acquisition of Bonaco

On 31 October 2018, the Bank won the auction held by National Bank of Georgia for the acquisition of Bonaco LLC, microfinance organization. The business process of merger has been finalized in December 2018. The transaction is in line with Bank's strategy to enhance its product offering to its customers. Bonaco LLC was offering gold pawn and mortgage products to its customers and was added to the respective portfolio for products and services offered to TBC Bank customers.

The acquisition-date fair value of the total purchase consideration and its components are as follows:

In thousands of GEL	
Cash consideration paid	10
Non-cash consideration	14,582
Total purchase consideration	**14,592**

Non-cash consideration includes the fair value as at acquisition date of the loan issued from the Bank to the Bonaco.

Details of the assets and liabilities acquired and goodwill arising is as follows:

In thousands of GEL	Note	Provisional Fair Values
Cash and cash equivalents		819
Placements with banks		1,581
Loans to customers*		20,212
Property and equipment		6,922
Repossessed assets		55
Other assets		156
Amounts due to customers		(17,691)
Other Liabilities		(29)
Fair value of acquired interest in net assets of subsidiary		**12,025**
Goodwill arising from the acquisition	18	2,567
Total purchase consideration		**14,592**
Less: Non-cash consideration		**(14,582)**
Less: cash and cash equivalents of subsidiary acquired		(819)
Inflow of cash and cash equivalents on acquisition		**809**

*The carrying amount of Loans to customers before fair value adjustments amounted to GEL 19,339 thousand.

The goodwill is primarily attributable to the profitability of the acquired business and the significant synergies expected to arise.

The acquired business combination contributed to Group's net revenue in the amount of GEL 212 thousand and to Group's net profit in the amount of GEL 15 thousand from the date of acquisition to 31 December 2018. If the acquisition had occurred on 1st of January 2018, the contribution to the Group's net revenues for the year ended 31 December 2018 would have been of GEL 1,489 thousand and to net profit would have been negative of GEL 11 thousand.

45. EVENTS AFTER REPORTING PERIOD

Starting from early 2021 Government of Georgia took additional measures to decrease the mobility of people by announcing public holidays and putting specific constraints in various directions. On its way out from the pandemic, the Government of Georgia has started the first phase of Covid-19 vaccination, which is expected to last throughout the year. Management successfully coped with the pandemic challenges in 2020 and the Group's robust risk management framework continues to be applied across Group and monitors the impact of COVID-19 on the Consolidated Group's risk profile. Non-financial risks emerging from movement restrictions, and remote working by our staff, counterparties, clients and suppliers, are being identified, assessed, managed and governed through timely application of the Group's risk management system.

In March 2021, the Bank obtained the funding resource of USD 30 million from Green for Growth Fund ("GGF"). Loan agreement has the maturity of 5 years.

A FULL LIST OF RELATED UNDERTAKINGS AND THE COUNTRY OF INCORPORATION IS SET OUT BELOW

Company Name	Country of incorporation
JSC TBC Bank	7 Marjanishvili Street, 0102, Tbilisi, Georgia
United Financial Corporation JSC	154 Agmashenebeli Avenue, 0112, Tbilisi, Georgia
TBC Capital LLC	11 Chavchavadze Avenue, 0179, Tbilisi, Georgia
TBC Leasing JSC	80 Chavchavadze Avenue, 0162,, Tbilisi, Georgia
TBC Kredit LLC	71-77, 28 May Street, AZ1010, Baku, Azerbaijan
TBC Pay LLC	7 Marjanishvili Street, 0102, Tbilisi, Georgia
TBC Invest LLC	7 Jabonitsky street, , 52520, Tel Aviv, Israel
Index LLC	8 Tetelashvili,0102,, Tbilisi, Georgia
TBC Invest International Ltd	7 Marjanishvili Street, 0102, Tbilisi, Georgia
University Development Fund	1 Chavchavadze Avenue, 0128 , Tbilisi, Georgia
JSC CreditInfo Georgia	2 Tarkhnishvili street, 0179, Tbilisi, Georgia
Natural Products of Georgia LLC	1 Chavchavadze Avenue, 0128 , Tbilisi, Georgia
Mobi Plus JSC	45 Vajha Pshavela Street, 0177, Tbilisi, Georgia
Mineral Oil Distribution Corporation JSC	11 Tskalsadeni Street, 0153, Tbilisi, Georgia
Georgian Card JSC	106 Beliashvili Street, 0159, Tbilisi Georgia
Georgian Securities Central Depositor	74 Chavchavadze Avenue, 0162, Tbilisi, Georgia
JSC Givi Zaldastanishvili American Academy In Georgia	37 Chavchavadze Avenue, 0162, Tbilisi Georgia
United Clearing Centre	5 Sulkhan Saba Street, 0105, Tbilisi, Georgia
GRDC	2 Vagzali Square, 0112, Tbilisi, Georgia
Banking and Finance Academy of Georgia	123, Agmashenebeli Avenue, 0112, Tbilisi, Georgia
Tbilisi's City JSC	15 Rustaveli Avenue, 0108, Tbilisi Georgia
TBC Trade	11A Chavchavadze Ave, 0179, Tbilisi, Georgia
Tbilisi Stock Exchange JSC	floor 2th block 8, 71 Vazha Pshavela Ave, Tbilisi, Georgia
Georgian Stock Exchange JSC	floor 7th block 10, 71 Vazha Pshavela Ave, Tbilisi, Georgia
Kavkasreestri JSC	6 Bagrationi st. saburtalo, Tbilisi , georgia

GLOSSARY

Bank	Joint Stock Company TBC Bank
Bank Republic	Joint Stock Company Bank Republic
Board	Board of Directors of TBC Bank Group PLC
Chairman	Chairman of Board of Directors of the Company
Chief Executive Officer (or CEO)	Chief Executive Officer of JSC TBC Bank
Chief Financial Officer (or CFO)	Chief Financial Officer of JSC TBC Bank
Company	JSC TBC Bank
Corporate segment	A legal entity/group of affiliated entities with an annual revenue exceeding GEL 12.0 million, or which have been granted facilities of more than GEL 5 million. Some other business customers may also be assigned to the corporate segment or transferred to MSME on a discretionary basis
Corporate Centre	Comprises the Treasury, other support and back office functions, and the non-banking subsidiaries of the Group
Deputy Chairman	Deputy chairman of Board of Directors of the Company
Director(s)	Members of the Board of JSC TBC Bank
Engagement index	Employees feel involved and committed to TBC Bank
Fully digital on-boarding	Share of legal entities registered online out of total number of newly-registered legal entities
Group	The UK-incorporated parent company of Joint Stock Company TBC Bank (the Bank) and a group of companies that principally operate in Georgia in the financial sector and other closely related fields. The Group also recently expanded its operations in Uzbekistan
Management Board	Management Board of Joint Stock Company TBC Bank
Mobile banking penetration ratio	Number of active mobile banking users divided by total number of active retail clients
Mobile and Internet banking penetration ratio	Number of active mobile and Internet banking users divided by total number of active retail clients
MSME (Micro, Small and Medium) segment	Business customers who are not included in either the corporate or the retail segments; or legal entities who have been granted a pawn shop loan; or individual customers of the newly launched, fully digital bank - Space
Nikoil Bank	Nikoil Open Joint-Stock Company Investment Commercial Bank
Offloading ratio	Number of transactions conducted in remote channels divided by total number of transactions, based on JSC TBC Bank standalone data
Retail segment	Non-business individual customers or individual business customers who have been granted mortgage loans; all individual customers are included in retail deposits;
Supervisory Board	Supervisory Board of Joint Stock Company TBC Bank
TBC Bank	Joint Stock Company TBC Bank
TBC Bank Group PLC	The UK-incorporated parent company of Joint Stock Company TBC Bank (the Bank)
TBCG	TBC Bank Group PLC
TBC JSC	Joint Stock Company TBC Bank
TBC PLC	TBC Bank Group PLC

ABREVIATIONS

ACCA	Association of Chartered Certified Accountants
AFS	Available for sale
ALCO	Asset-liability management committee
APM	Alternative performance measure
ATM	Automated teller machine
BNY	Bank of New York
CAGR	Compounded annual growth rate
CAR	Capital adequacy ratio
CEE	Central and Eastern Europe
CEO	Chief executive officer
CFA	Chartered Financial Analyst
CFO	Chief financial officer
CGU	Cash generating unit
CIB	Corporate investment banking
CIS	The Commonwealth of Independent States
COR	Cost of risk
CRM	Customer relationship management
CRO	Chief risk officer
CSAT	Customer satisfaction
CSR	Corporate social responsibility
CVP	Cost volume profit
DCF	Discounted cash flows
EBRD	European Bank for Reconstruction and Development
ECL	Expected credit losses
EECG	Energy Efficiency Centre Georgia
EFSEDF	The Development Facility of the European Funds for Southeast Europe
EMEA	Europe, Middle East and Africa
ENPS	Employee Net Promoter Score
EPS	Earnings per share
ERM	Enterprise risk management
ESRM	Environmental and social risk management
EU	European Union
EUR	Euro
FDI	Foreign direct investment
FTSE	Financial Times Stock Exchange
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
GBP	Great British pound, national currency of the UK
GDP	Gross domestic product
GDR	Global depositary receipt
GEL	Georgian lari, national currency of Georgia
GHG	Greenhouse gas
GWP	Gross written premium
HNWI	High-net-worth individuals
HR	Human resources
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IDR	Issuer default rating
IFC	International Finance Corporation
IFI	International financial institution
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
IPO	Initial public offering
IT	Information technology
JSC	Joint stock company
KPI	Key performance indicators
LED	Light-emitting diode
LSE	London Stock Exchange
LTV	Loan to value
MBA	Master of Business Administration
MBO	Management-by-objectives
MSME	Micro, small and medium-sized enterprises
NBG	National Bank of Georgia
NCI	Non-controlling interest
NIM	Net interest margin
NPL	Non-performing loans
NPS	Net promoter score
OCI	Other comprehensive income
OECD	Organisation for Economic Cooperation and Development
PLC	Public limited company
POS	Point of sale
PPP	Purchasing power parity
PTI	Payment to income
PWC	PricewaterhouseCoopers
ROA	Return on average assets
ROE	Return on average equity
SME	Small and medium-sized enterprises
SPPI	Solely payments of principal and interest
STEM	Science, technology, engineering and mathematics
UK	United Kingdom of Great Britain and Northern Ireland
US$	The US dollar, national currency of the United States
VAR	Value-at-risk
VIP	Very important person
WB	World Bank
WRI	World Resources Institute

2020