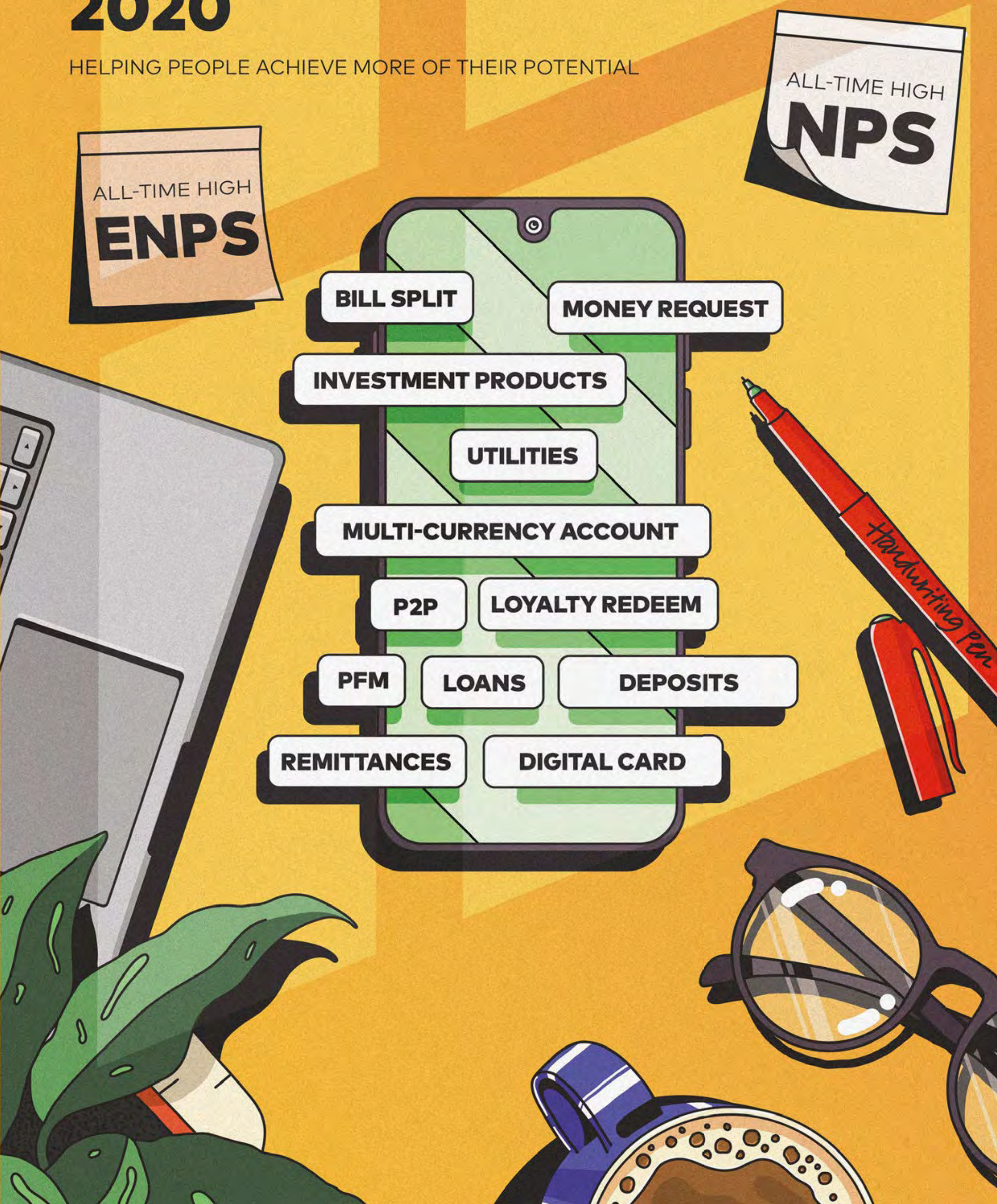
BANK OF GEORGIA
GROUP PLC

ANNUAL REPORT 2020

HELPING PEOPLE ACHIEVE MORE OF THEIR POTENTIAL



ANNUAL
REPORT
2020

About Us

Bank of Georgia Group PLC

Bank of Georgia Group PLC ("**Bank of Georgia Group**", the "**Group**" or "**BOGG**" and on the **LSE: BGEO LN**) is a UK incorporated holding company. The Group comprises: a) retail banking and payment services (Retail Banking); and b) corporate banking, investment banking and wealth management operations in Georgia (Corporate and Investment Banking); and c) banking operations in Belarus ("**BNB**"). JSC Bank of Georgia ("**Bank of Georgia**", "**BOG**", or the "**Bank**"), the systemically important and leading universal bank in Georgia, is the core entity of the Group. The Bank is a leader in payments business and financial mobile application, with the strong retail and corporate banking franchise in Georgia. With a continued focus on increasing digitalisation and expanding technological and data analytics capabilities, we aim to offer more personalised solutions and seamless experiences to our customers to enable them to achieve more of their potential.

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

See page 29 for our business model and strategy.

Bank of Georgia Group PLC is the present parent company of BGEO Group PLC. The Group combined a Banking Business and an Investment Business prior to the Group demerger on 29 May 2018, which resulted in the Investment Business's separation from the Group effective from 29 May 2018 (see details on the Group demerger in the 2018 Annual Report). Throughout this Annual Report the discussion is focused on the results of the Banking Business, which represents the continuous business of the Group since the demerger.

Find the digital version of this report on our website at
www.bankofgeorgiagroup.com

Contents

Financial Highlights

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

Operating income
(GEL million) — Banking Business

1,090.7

-1.8% y-o-y

2018	1,030.0
2019	1,110.3
2020	1,090.7

Cost of credit risk ratio
Banking Business

1.8%

+0.9 ppts y-o-y

2018	1.6%
2019	0.9%
2020	1.8%

Cost to income ratio (adjusted)*
Banking Business

39.7%

+1.9 ppts y-o-y

2018	36.7%
2019	37.8%
2020	39.7%

Cost to income ratio (reported)
Banking Business

39.7%

+0.8 ppts y-o-y

2018	36.7%
2019	38.9%
2020	39.7%

Profit adjusted for one-offs**
(GEL million) — Banking Business

294.9

-42.6% y-o-y

2018	435.0
2019	514.2
2020	294.9

Profit (reported)
(GEL million) — Banking Business

294.9

-41.0% y-o-y

2018	378.6
2019	500.0
2020	294.9

Return on average equity (ROAE) (adjusted)**
Banking Business

13.0%

-13.1 ppts y-o-y

2018	26.4%
2019	26.1%
2020	13.0%

Return on average equity (ROAE) (reported)
Banking Business

13.0%

-12.4 ppts y-o-y

2018	22.9%
2019	25.4%
2020	13.0%

Net loans***
(GEL million) — Banking Business

14,192.1

+18.9% y-o-y

2018	9,397.7
2019	11,931.3
2020	14,192.1

Client deposits
(GEL million) — Banking Business

14,020.2

+39.1% y-o-y

2018	8,133.9
2019	10,076.7
2020	14,020.2

CET1 capital adequacy ratio (NBG, Basel III)
Bank of Georgia

10.4%

Minimum regulatory requirement – 7.4%

2018	12.2%
2019	11.5%
2020	10.4%

Liquidity coverage ratio (NBG, Basel III)
Bank of Georgia

138.6%

Minimum regulatory requirement – 100%

2018	120.1%
2019	136.7%
2020	138.6%

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

** The 2019 income statement adjusted profit excludes GEL 14.2mln one-off employee costs (net of income tax) related to former CEO and executive management termination benefits. The amount comprises GEL 12.4mln (gross of income tax) excluded from salaries and other employee benefits and GEL 4.0mln (gross of income tax) excluded from non-recurring items. The 2018 income statement adjusted profit excludes GEL 3.9mln one-off employee costs (net of income tax) related to the former CEO termination benefits, and 52.5mln demerger-related expenses (net of income tax) and one-off impact of re-measurement of deferred tax balances. 2019 and 2018 ROAE have been adjusted accordingly.

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

Operating Highlights

2020 operating highlights reflecting the expanding footprint of our Banking Business in Georgia

Number of Retail Banking customers

2.6 MLN

+2.8% y-o-y

Retail Banking Branches

206

-22.8% y-o-y

Number of cards

2.1 MLN

-0.3% y-o-y

Express Pay terminals

3,020

-6.1% y-o-y

POS terminals

27,184

+24.3% y-o-y

Market share by number of transactions in POS terminals

49%

+2 ppts y-o-y

Active digital users (mBank/iBank)*

760K

+33.6% y-o-y

ATMs

960

+2.9% y-o-y

Number of mBank transactions

62.5 MLN

+74.0% y-o-y

Transactions through digital channels (%)

95.3%

+2.1 ppts y-o-y

Net Promoter Score (NPS) All-time high

46%

+9 ppts y-o-y

Employee Net Promoter Score (eNPS)

58%

+12 ppts y-o-y

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

At a Glance

Bank of Georgia Group

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

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

The leading banking group in Georgia

- Strong retail and corporate banking franchise
- c.35-40% market shares in loans and deposits
- Leader in payments business and financial mobile application
- 95%+ share of transactions via digital channels
- High standards of transparency and governance
- Sustainable profitability 20+ ROAE over the last four years (pre-COVID-19)

Retail Banking

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

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

Mass Retail

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

SOLO

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

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

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

MSME

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

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

Gross loan book (GEL billion)	Market share*	Client deposits (GEL billion)	Market share*
9.0 +19.2% y-o-y	37.7%	7.1 +24.3% y-o-y	40.3%

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

Corporate and Investment Banking

Integrated solutions for our Corporate and Investment Banking customers

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

Corporate Banking

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

Our Corporate Banking business is a leading trade finance provider in Georgia. We also provide leasing services through the Bank's wholly owned subsidiary, Georgian Leasing Company.

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

Gross CIB loan book* (GEL billion)

4.8

+23.8% y-o-y

Market share**

32.0%

Client deposits* (GEL billion)

6.4

+67.2% y-o-y

Market share**

37.3%

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

Wealth Management and Investment Banking

We are the established leader in wealth management and investment banking services in Georgia

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

We aim to leverage our superior knowledge and capital markets capabilities in the Georgian and neighbouring markets. During the past several years we have accumulated extensive expertise through Galt & Taggart – the largest investment bank in Georgia and a wholly owned subsidiary of the Group, comprising corporate advisory, market research, and brokerage practices. Our brokerage business serves regional and international markets, including hard-to-reach frontier economies. As part of our partnership with Saxo Bank we offer an online brokerage tool through the white label offering. Our macro and sector research currently covers various sectors of the Georgian economy and macroeconomic developments in regional economies. Galt & Taggart also publishes an extensive quarterly report on macroeconomic developments in the Georgian economy (find the research at www.galtandtaggart.com). Galt & Taggart is a leading advisor in Mergers and Acquisitions (M&A) in the country.

Our strategic focus in Wealth Management and Investment Banking business is delivering profitable growth, which we aim to achieve by unlocking retail brokerage potential, fully digitalising brokerage services, and diversifying wealth management offerings.

Group AUM* (GEL billion)

2.8

+11.2% y-o-y

Number of WM customers

1,578

Number of online brokerage customers

800+

+71% y-o-y

Well-capitalised SME bank in Belarus

BNB

JSC Belarusky Narodny Bank (BNB) offers individual and business banking services to SMEs and middle-income retail banking customers in Belarus. Established in 1992, BNB was one of the first privately owned commercial banks in Belarus. BNB targets wider retail penetration through digital channels in Belarus.

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

Neil Janin
Chairman

Chairman's Statement

Dear Stakeholders,

Looking back at the past year, the Group has performed very well in an adverse global and Georgian context. It has weathered the economic effects of the pandemic crisis and has continued to progress and transform. We are proud, in these very difficult times, of having continued to serve our clients and the communities in which we operate, while making sure we did what was needed to protect our employees.

We entered the crisis from a position of strength, having delivered an outstanding financial performance in 2019, with both strong growth and profitability. As expected, 2020 has been more challenging, but we managed to achieve a return on average equity of 13.0%, loan portfolio growth of 10.2%, on a constant currency basis, while keeping the cost of credit risk ratio at 1.8%. This is well below the profitability of 20% to 25% that we achieved over the last few years. We ended the year with our capital ratios substantially in excess of minimum regulatory requirements. Our earnings power and healthy capital position should provide us the capacity to prudently grow our business as we seek to recommence returning excess capital to shareholders through dividends as soon as practicable. Our hope is to do so as soon as possible. Your CEO, Archil Gachechiladze, and his team will relate, later in this Annual Report, all that has been accomplished to improve our competitiveness and our future profitability.

In February 2021 our regulator, the National Bank of Georgia, introduced several changes in the Corporate Governance Code to reinforce the independent nature of supervisory boards of regulated commercial banks. These changes are more conservative than the requirements of the UK Corporate Governance Code and will lead to changes on our Board. First, before the end of 2021, I will need to step down from my position as Chairman and Tamaz Georgadze will have to step down as Chair of the Risk Committee. Second, before the end of 2022, Hanna Loikkanen will also have to step down as Chair of the Remuneration Committee and I will have to step down as Chair of the Nomination Committee. Our preference is to keep a "mirror board" structure between the UK and the Georgian companies. Hanna Loikkanen and Jonathan Muir, two of our experienced Board members, have been appointed to lead the search for a new Chair of the Board. The Board will be actively involved. The Governance section of this Annual Report provides further details on the forthcoming regulatory changes. We are, however, pleased to have welcomed Mariam Megvinetukhutsesi to the Board. You can find her biography on page 165. With her background in governance, regulation and financial services she will further strengthen the quality and skill set of the current Board.

In the long run, our share price is a measure of the progress we have made over the years. To ensure that such progress occurs, we endeavour to make continuous long-range investments, in good times and bad, to build our capabilities — our people, systems and products. These investments translate into value only as a function of the prevailing economic and political context, which have not been good this past year. I will review the economic and political context as they stand today.

The global pandemic has adversely affected the Georgian economic context and the economic outlook has worsened with a 6.2% contraction in GDP in 2020. While January and February of 2021 were also weak, with the opening of the economy from mid-March 2021, we expect GDP growth to turn positive. Public debt has increased from approximately 40% to 60% of GDP as the government has endeavoured to support the economy. It will take some time to bring this level down. You will read the full story, including our forecast for 2021, in the Market and Industry overview section.

Georgia is currently going through some political challanges. Last November, I reported that the October 2020 parliamentary elections had given us a continuation of the present policies. European observers stated that, by and large, these were fair elections while opposition parties maintained that there were irregularities and called for fresh elections. In March 2021, the EU believed the situation serious enough to send the European Council President to the country to mediate. The desire to join the EU is likely to encourage Georgia's political actors to put their differences behind them and start working together more collaboratively. Deeper integration with the EU would be a significant step for Georgia. Countries, such as Georgia, that want to join the European project must follow its rules and regulations. As a result, we are seeing increasing EU Association Agreement-related compliance requirements in the economy and this increased regulatory burden is presenting challenges for robust business growth. Banks are subject to increasing regulatory changes, as are other industries, such as telecom and utilities. Regulations fitting developed European nations might not be the most suitable to a rapidly developing economy such as Georgia. Looking forward, we hope all governmental and regulatory actors will be able to enact a more focused strategy to attract foreign investments which will fuel stronger economic growth.

The COVID-19 pandemic has naturally played havoc with an economy based on tourism. After keeping things under control until the summer, Georgia lost control of contagions during the second wave towards the end of 2020 – much like all Western countries. Georgia now largely depends on the Covax programme to get vaccines. Georgia has already received its first shipment and vaccination process has commenced. The government has decided not to wait any longer to start opening the economy and from 1 February 2021, the country accepts vaccinated tourists or those who have a negative PCR test. This move can only help tourism and the economy, and might "save" the summer tourist season in 2021. The extent to which this will improve Georgia's economic outlook is difficult to forecast but pent-up demand to travel might play in Georgia's favour. Obtaining these vaccines is of the utmost importance for economic recovery and avoiding the possibility of another lockdown.

The pandemic has also affected our employees. They have learned to work from home, quickly adapted to the new reality and continued to support our customers and communities. We have tried to be as supportive as we could be and it shows in our satisfaction surveys, in addition to a record high customer Net Promoter Score. I would like to thank all of our colleagues for going beyond the call of duty to help our institution function and serve. I am grateful for their dedication and am proud of their accomplishments. I would also like to thank our CEO, as well as our senior leaders, for the exceptional leadership they have shown under the most difficult circumstances. We believe more than ever that employee engagement leads to superior customer engagement and business performance. In this regard, we are extremely well placed.

Amid all these challenges, the Bank has not lost track of the fact that investments drive the future of the Bank and position it to grow and prosper. We have continued our efforts to transform the institution into a digital leader. We saw a significant increase in active mobile users (up 39.7%), while online mBank transactions were up 74.0% in 2020. Today, Bank of Georgia is by far the most digital-based bank in the country, with 62.5 million transactions executed through mBank in 2020. We know that digitalisation is the fundamental factor shaping the financial sector – be it in how we serve our customers, how we run our processes, or how we will compete with non-bank actors such as Google, Amazon, or others. Let me illustrate our efforts in each of these areas. You can read more about the Bank's digital strategy and future plans on pages 54 - 59.

On the competitive front, successful banks will have to think beyond banking and develop related market platforms. Successful platforms should take the effort out of managing finances, but also help people accomplish their personal and business goals, such as buying their houses, covering their insurance needs, financing their purchases, or investing to grow their business. In order to enhance our customer-centric offerings by providing beyond-banking solutions to our customers, the Group developed a digital ecosystem, comprising a number of integrated platforms, which rests on four main business verticals: real estate, e-commerce, logistics and point-of-sale. In short, the idea is to create a uniform and borderless experience between banking and third-party offerings that add value for users. In this we would like to be as trail blazing as the most competitive banks worldwide. You can read more about the Group's digital ecosystems and strategy on pages 60 - 65.

As a leading economic player in Georgia, Bank of Georgia believes that it has a huge role to play in helping the country overcome its biggest challenges. In terms of environmental, social and governance (ESG) matters, high standards of governance is a value that we have always upheld, and it is at the core of our culture. Our example has led others in Georgia to imitate us. We have been committed to empowering people and local communities through our core products and services, as well as various community initiatives to create sustainable shared value. We also recognise the impact our operations have on the environment and therefore have established management and mitigation approaches that will help us become a more environmentally friendly and climate-resilient organisation. You can read more about the Group's sustainability initiatives on pages 102 - 131.

In conclusion, the Group stands today with the strongest management team it has ever had, its employees are more engaged than ever before, and its Board is composed of individuals with complementary talents that work most collaboratively. They all will continue to do the right thing to grow and serve their clients, their community, and last but not least, our investors who entrust us with their money.

Neil Janin
Chairman
30 March 2021

Section 172 Statement
In discharging its duty to act in good faith and in a way that is the most likely to promote the long-term success of the Company, Directors must take into consideration the interests of the various stakeholders of the Company. Throughout this report, we detail how we have identified and given consideration to our various stakeholders. See page 158 for our Section 172 statement (which is incorporated to the Strategic Report by reference), and on how the Board has engaged with our stakeholders.

Archil Gachechiladze
Chief Executive Officer

Chief Executive Officer's Statement

2020 was an extraordinary year. The coronavirus pandemic has caused major, unforeseen disruption to our communities, has had a broadscale negative impact on the Georgian economy, resulting in a 6.2% real GDP contraction in 2020, and has presented all of us at Bank of Georgia with significant challenges to manage through. I am proud of the way our management and all of our colleagues have come together in the face of great uncertainty to keep supporting and empowering our customers and communities.

The Group entered 2020 in a very good shape, with what proved to be exceptional resilience and a robust business continuity plan. The agility of our organisation has served us well throughout the pandemic. We anticipated a hard lockdown at the onset of the pandemic and promptly and smoothly adjusted our operations to ensure the uninterrupted delivery of our products and services. The health and safety of our customers and employees has been our top priority, and we introduced comprehensive safety measures to help curb the spread of the virus. During lockdowns, most of our branches remained open, with employees working in shifts and the majority of back office employees working from home.

Some of our customers have been hit hard by the pandemic, and we have focused on helping them weather the storm. When the pandemic hit, given high uncertainty and anxiety in our communities, we offered three-month payment holidays on principal and interest of loans to our retail customers. Despite the major challenges and sweeping restrictions on economic activity in 2020, our customer franchise has been extremely resilient. Operating income was down by only 1.8%, with net interest income remaining broadly flat. Our loan and deposit portfolios grew by 10.2% and 28.6%, respectively, on a constant currency basis, in 2020. Having taken a significant upfront COVID-19-related expected credit loss provision for the full economic cycle in the first quarter f 2020, we have focused on portfolio risk management and ensured that the quality of our loan portfolio remained robust throughout the pandemic. Overall, our cost of credit risk ratio increased to 1.8% in 2020 and NPLs to gross loans increased to 3.7%, which is manageable and quite an achievement, reflecting the low systemic risk in our customer lending portfolio.

Considering the scale of the negative economic impact of the pandemic, we saw a greater need to challenge our existing budgeting process to ensure more rigorous cost control. We have carried out major cost optimisation, helping us offset one-off expenses related to the COVID-19 mitigation measures. At the same time, we have not stopped investing in key strategic areas, including the Bank's digital and data capabilities, to maintain our competitive edge and be well-prepared to unlock future opportunities. Overall, we managed to limit the growth in operating expenses to 3.0% in 2020.

Against the backdrop of such a challenging operating environment, we delivered a return on average equity of 21.3% in the fourth quarter of 2020 and above 20.0% in the last three quarters. The return on average equity was 13.0% for the year, and combined with the contribution of other comprehensive income, this resulted in an 18.5% increase in total shareholders' equity in 2020.

During 2020 we have focused on ensuring strong liquidity and capital positions to meet regulatory requirements and continue supporting our customers and the economy. We have maintained excess liquidity for risk mitigation purposes on the back of the high levels of uncertainty, as well as for the repayment of GEL 500 million local currency bonds due in June 2020. As for capital management, in the first quarter of 2020, we took an upfront general provision of c.GEL 400 million for the full economic cycle under the Bank's local accounting basis, in line with the NBG's updated supervisory plan in response to the pandemic. In addition, the NBG has also allowed banks to use the Pillar 2 and conservation buffers. The Bank's capital adequacy ratios have been affected by the upfront general provision, but have remained comfortably above minimum regulatory requirements as a result of the Bank's strong internal capital generation. During the period when banks are allowed to partially or fully use the released buffers, banks cannot distribute capital in any form. As a result, the Board of Directors is not able to recommend a dividend for 2020. We are currently working with the NBG to agree a new schedule to rebuild the released capital buffers and return to pre-COVID capital requirements, a process that we hope will be completed in June this year. As this process concludes, we hope to be in a strong position to consider paying a dividend from 2021 earnings.

Although 2020 was a year of major challenges, it was also a year of major achievements and significant upsides. Digitalisation has continued with increased momentum as we have focused on building our digital capabilities and fine-tuning our digital platforms. In 2020, we added a number of innovative features to mBank, including peer-to-peer payments, bill split and money request, and digital card, among others. To enable more of our customers to go digital during the pandemic, we launched numerous awareness campaigns and provided step-by-step guides on using key features on our digital platforms. We saw a remarkable 33.6% year-on-year increase in the number of active digital users as well as increased engagement, with more than a third now using our mobile app on a daily basis. The number of transactions in mBank was up 74.0%, and the volume of transactions almost doubled in 2020. We have a major achievement in terms of offloading transactions, and a major upside to further increase product offloading to digital channels. At the end of 2020, our product offloading rate was 18.5%, and we plan to double this over the next twelve-to-eighteen months by designing better end-to-end digital product journeys for our customers.

I mentioned last year that our rigorous focus on customer satisfaction and employee empowerment is key to the success of our business. In 2020, we embedded Medallia, a customer experience management platform, into our main channels and continued to proactively engage with our customers and use their feedback to constantly improve our products and services. We also started to collaborate with Salesforce, the world's leading customer experience management platform. This collaboration will enable us to have a more holistic view of customer needs, wants, and behaviours and provide integrated journeys and personalised experiences across all channels. Despite such a tough year, our Net Promoter Score reached an all-time high of 46% at year-end. This achievement would not have been possible without the dedication and professionalism of our senior leadership team and our talented employees. I thank all of my colleagues for their commitment to making Bank of Georgia better, and fostering the culture of innovation and continuous improvement. I am also happy to share that our Employee Net Promoter Score reached an all-time high of 58% at the end of 2020, a significant increase from the prior year.

During 2020, we have sharpened our focus on environmental, social, and governance issues and kept working hard to increase our positive impacts on the communities where we operate. We are committed to building a resilient and successful organisation by having robust governance and risk management practices in place and tapping opportunities that make our communities more sustainable and help people achieve more of their potential. You will be able to read more about our sustainability initiatives on pages 102 to 131 in the Responsible Business section. I would like to also note that we have progressed on a number of regulatory initiatives, including customer protection, strong customer authentication, and open banking, and are in a good position to continue enhancing customer experiences and delivering long-term value for all of our stakeholders.

From a macroeconomic perspective, although the COVID-19 pandemic has dealt a big blow to the Georgian economy, which is highly dependent on tourism revenues, a series of state support measures coupled with financial assistance from international financial institutions have partly mitigated the negative consequences of the pandemic. Notably, Georgia's sovereign credit ratings have not deteriorated during 2020. We expect Georgia to return to economic growth during 2021 as more people get vaccinated, tourism gradually comes back, and various sectors of the economy are revived. We are well-positioned to both contribute to and benefit from this.

Our two clear medium-term targets reflect the delivery of strong profitability and loan book growth and these results are consistent with those targets despite the headwinds we have faced on the back of the COVID-19 pandemic. Our balance sheet and capital position remain robust. Our plan is to focus on enhancing customer experiences by driving digitalisation, championing product excellence and improving end-to-end customer journeys. Bank of Georgia has already demonstrated its resilience and agility, and with our culture of transparency, constructive feedback, and support, we have laid a robust groundwork for sustainable value creation.

Sincerely yours,

Archil Gachechiladze
Chief Executive Officer
30 March 2021

This Strategic Report, as set out on pages 01 to 149, was approved by the Board of Directors on 30 March 2021 and signed on its behalf by

Archil Gachechiladze
Chief Executive Officer
30 March 2021

Market and Industry Overview

Strengths that make Georgia an attractive place

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

Doing business

#7 THE WORLD BANK

Out of 190 countries

Economic freedom

#12 The Heritage Foundation

Out of 178 countries

Corruption perception

#45 TRANSPARENCY INTERNATIONAL

Out of 180 countries

Open budget index

#5 International Budget Partnership

Out of 117 countries

Business bribery Index

#28 TRACE

Out of 194 countries

3rd-lowest tax burden globally

0% THE WORLD BANK

Corporate income tax on retained earnings

No downgrades from global rating agencies

FitchRatings	**BB Negative affirmed February 2021**
Moody's Investors Service	**Ba2 Stable affirmed August 2020**
S&P Global Ratings	**BB Negative affirmed February 2021**

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

Strengths that make Georgia an attractive place

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

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

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

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

Economic developments in 2020

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

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

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

Government support measures

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

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

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

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

Healthcare
- Medical supplies, quarantine costs, testing and treatment costs

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

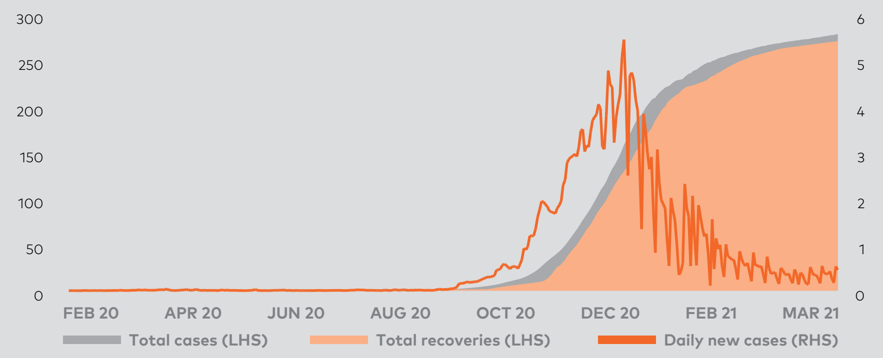
COVID-19 pandemic in Georgia

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

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

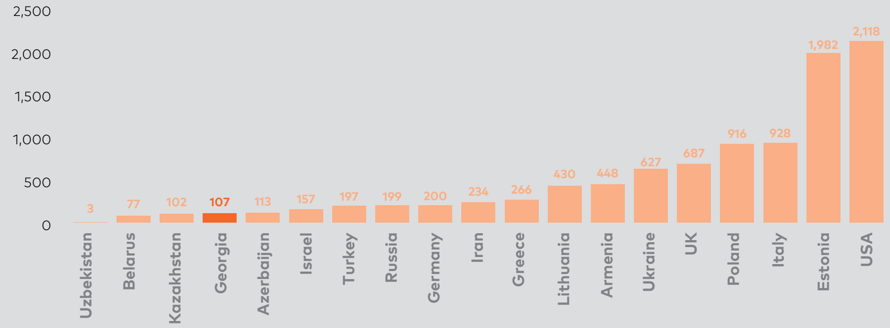
As the COVID-19 cases reduced significantly at the end of January 2021 (daily cases down to 479 from the peak of 5,450 during two months), the Government has started to gradually lift restrictions from 1 February 2021. Flights have also resumed to a number of countries. Notably, the Government maintains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

COVID-19 statistics in Georgia, thousand persons



Source: NCDC, as of 24 March 2021, 12:30

COVID-19 active cases per 100,000 persons



Source: Johns Hopkins, Worldometer, as of 24 March 2021, 12:30

Prudently managed banking sector

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

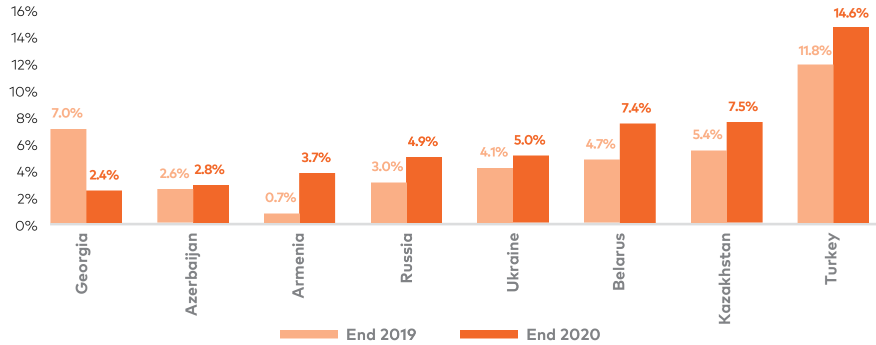
The banking sector has entered the COVID-19-pandemic-related economic crisis with significant capital and liquidity buffers, which have ensured the resilience of Georgian banks during 2020. Banks' voluntary loan principal and interest payment moratorium and proactively offered restructuring opportunities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

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

The Georgian economy in 2021

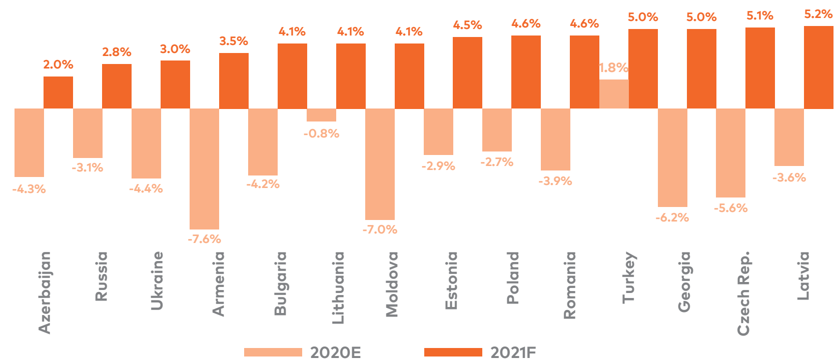
In 2021, the economic rebound in Georgia is expected to be driven by the gradual lifting of the existing restrictions, the vaccination roll-out, improved domestic and external sentiments, and continued fiscal stimulus. That said, the COVID-19 pandemic still remains one of the key uncertainties in the growth outlook. Based on the estimates of our brokerage and investment arm, Galt & Taggart, real GDP growth in 2021 is currently expected to be approximately 5.0%, assuming the further reopening of borders and the partial resumption of tourism in the second half of 2021. Without the recovery in tourism, GDP growth in 2021 is expected at 3.6%. Domestic demand recovery, increased utility tariffs, and sustained growth of world commodity prices are expected to keep price pressures, with annual average inflation projected at 4.5%. The local currency is expected to be supported by continued moderately tight monetary policy and expectations of tourism recovery. The rebound in economic activity is expected to accelerate the credit growth, reaching double digits in 2021.

Inflation: Georgia vs. regional economies



Source: Statistics Offices

Real GDP growth projections, 2020-2021



Source: Statistics Offices, IMF WEO, Oct 2020

Response to the COVID-19 Pandemic Outbreak

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

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

Resilience throughout the pandemic

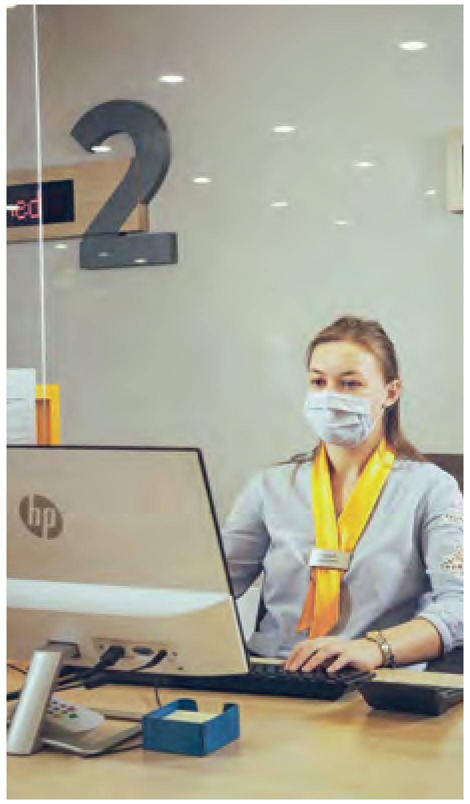
Operational continuity	Supporting public health system and communities	Abundant liquidity	Strength of capital

Operational continuity

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

Employees

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



Customers

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

Standing by customers and communities during lockdown

Enabling businesses to adapt and continue operations during lockdown

- The Group's digital ecosystem arm introduced a best-in-class digital solution branded as Adapter for merchants who faced low consumer demand and a heavy burden of restrictions. With Adapter merchants can switch to digital sales quickly and efficiently with just a simple plug-in. The solution has helped many of our MSME clients effectively manage digital transformation processes during the pandemic. See more details on Adapter on page 63.
- The Group has also set up a new online platform argacherde.ge to help businesses continue operations during lockdown by selling future-use coupons to customers. See more details on argacherde.ge on page 104.
- In addition to assisting the MSMEs financially, the Bank has also focused on providing educational opportunities for business customers and sharing knowledge and experience with them to contribute to their success. In 2020, the Bank organised a working meeting with companies to teach them to better market their products, sell their products via the largest global platforms, including Amazon, eBay and Etsy, and find new partners. See more details on page 122.

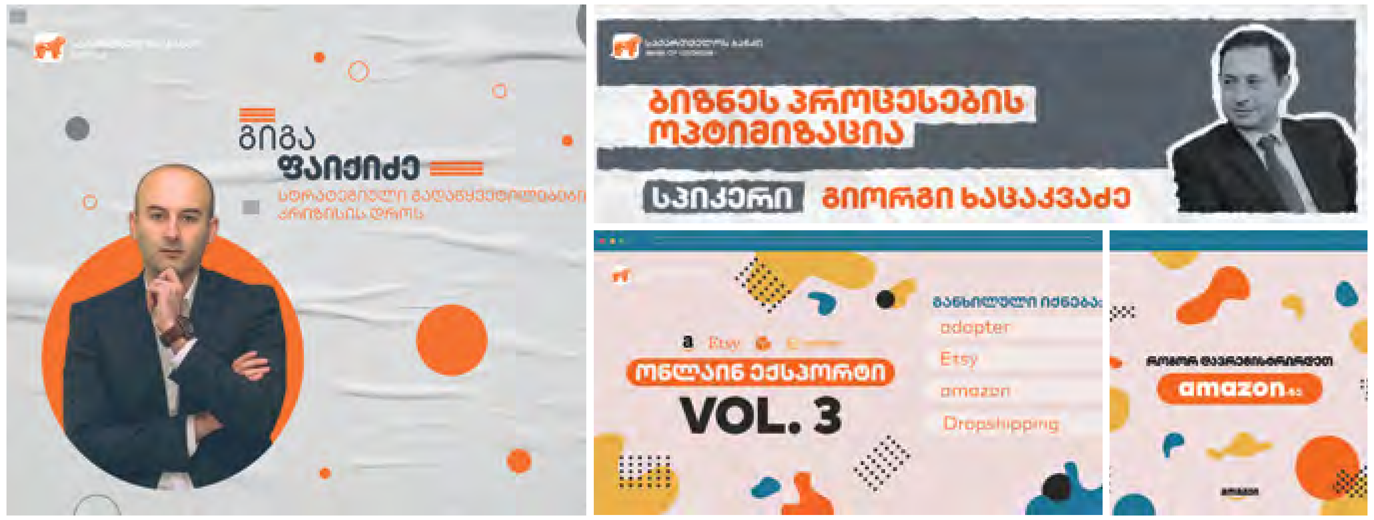
Enabling more retail customers to go digital

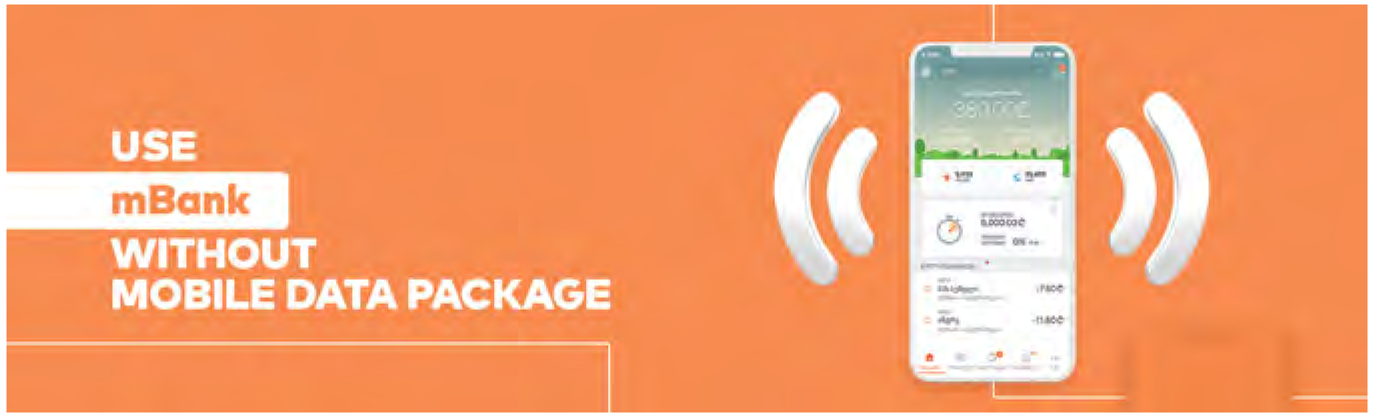
- We temporarily removed fees for transactions executed through our internet and mobile banking platforms for a two-month period during lockdown in the spring of 2020.
- We launched mBank (our mobile banking application) without data package, enabling our customers to access mBank without internet connection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

Supporting public health

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

More details on the initiatives put in place by the Bank to support our customers and communities can be found on pages 104 to 123 in the Responsible Business section.





Ensuring abundant liquidity

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

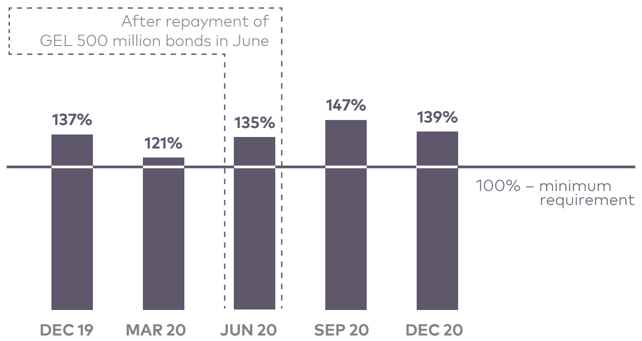
During 2020, the Bank's liquidity position remained strong and comfortably above minimum regulatory requirements. The Bank maintained substantial excess liquidity throughout 2020, primarily for:

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

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

See pages 92 and 93 for more details on how the Bank monitors the liquidity risk, as well as the details on measures implemented by the National Bank of Georgia as part of its updated supervisory plan aimed at alleviating the negative financial and economic challenges created by the COVID-19 pandemic in Georgia.

Liquidity coverage ratio



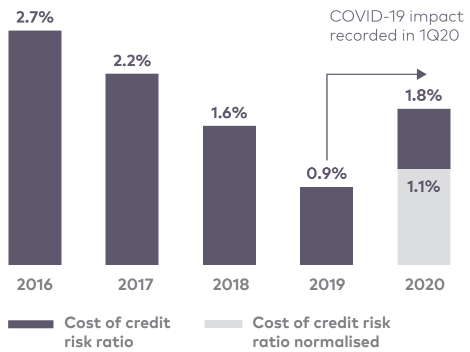
Ensuring a strong capital position

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

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

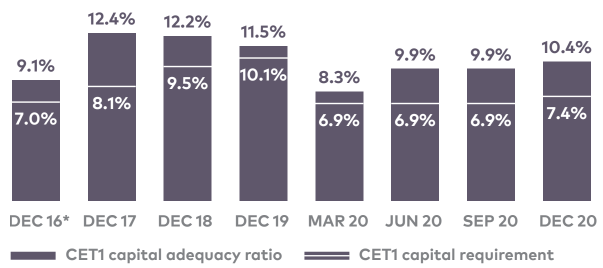
- **Entering the COVID-19 environment with a de-risked banking sector:** introduction of responsible lending regulations in December 2018, followed by a shift in the loan portfolio mix to more secured lending, coupled with Bank of Georgia's robust risk management system, resulted in a consistent decrease in cost of credit risk over the last four years, from 2.7% in 2016 to under 1.0% in 2019. Going into 2020, we expected normalised cost of credit risk at around 1.0-1.2%. This meant that Georgia's banking system overall, and Bank of Georgia in particular, were able to face the pandemic with a healthy balance sheet and de-risked environment. Therefore, despite taking upfront provisions for expected credit losses for the full economic cycle in the first quarter of 2020, our cost of credit risk ratio remained at a manageable level of 1.8% in 2020.
- **Upfront provisions for expected credit losses for the full economic cycle:** in March 2020, the Bank created a general provision of c.GEL 400 million under the Bank's local accounting basis, which is used for the calculation of capital ratios under the NBG Basel III framework. This represents approximately 3.3% of the Bank's lending book subject to provisioning under the local accounting standards. The NBG considers banks' capital ratios to be sufficiently in excess of expected minimum capital requirements to be able to absorb the upfront general provision for the full economic cycle whilst maintaining a sufficiently comfortable buffer over required minimum capital ratios. On an IFRS basis, the Group similarly took an upfront provision, built to cover expected credit losses in both the Retail and Corporate and Investment Banking businesses for the full economic cycle.
- **Release of capital buffers by the National Bank of Georgia:** in March 2020, the NBG introduced an updated Supervisory Plan for the banking sector, aimed at alleviating the negative financial and economic challenges created by the global COVID-19 pandemic. The measures on capital adequacy have allowed banks to use existing regulatory capital buffers to support customers in current, financially challenging circumstances, to continue normal business activities as much as possible, and to support the economy through ongoing lending operations. As part of the NBG's COVID-19 supervisory plan, during the period that banks partially or fully use Pillar 2 or conservation buffers, they are restricted from any form of capital distribution. See pages 94 to 95 for more details on the NBG's COVID-19 Supervisory Plan.
- **Strong internal capital generation:** the Group has a recent track record of strong profitability and capacity to generate high levels of internal capital. Our CET1 capital adequacy ratio was rebuilt to 10.4% as at 31 December 2020, after coming down to 8.3% as at 31 March 2020 as a result of upfront general provisions for expected credit losses over the full economic cycle.

Cost of credit risk ratio



NBG BASEL III CET1 capital adequacy ratio

* Basel II CET1 capital adequacy ratio and requirement



Our Mission

We are here to help people achieve more of their potential

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

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

1 NO POVERTY

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

4 QUALITY EDUCATION

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

5 GENDER EQUALITY

- Promoting equal opportunities in the workplace
- Empowering women entrepreneurs

8 DECENT WORK AND ECONOMIC GROWTH

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

13 CLIMATE ACTION

- Reducing direct negative impacts from our operations
- Embedding climate-change-related risks into risk management framework and procedures
- Raising awareness of climate-change-related risks and opportunities
- Helping our customers and the economy to transition to a low-carbon future

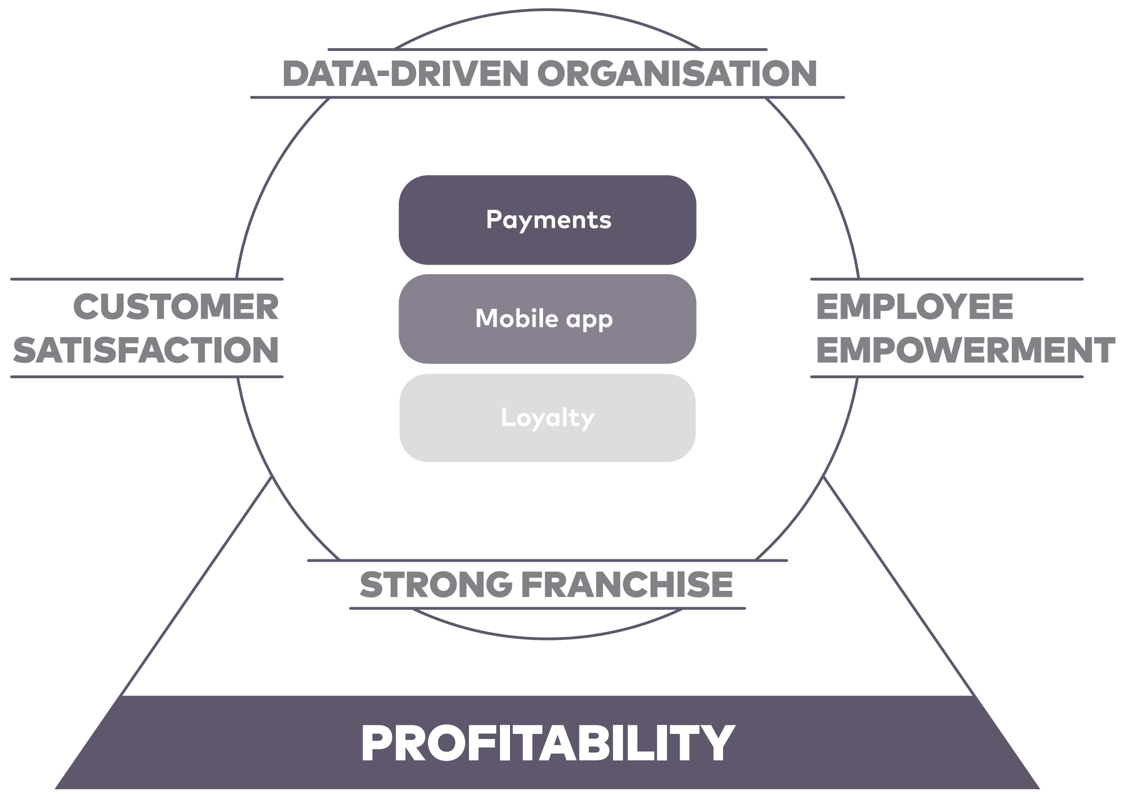
Archil Gachechiladze, Chief Executive Officer: "2020 was a challenging year, and the COVID-19 pandemic has amplified the role we play in helping our customers, employees, and communities through the pandemic as well as in supporting recovery and building resilient and sustainable communities that we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

Business Model and Strategy

Strategic focus

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

BANK OF THE FUTURE



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

Key medium-term strategic targets

Loan book growth	ROAE	Dividend payout
c.15%	20%+	25-40%

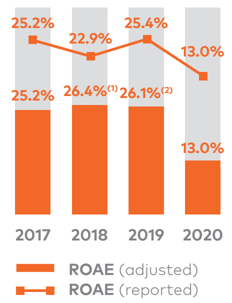
Delivering on Our Strategy

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

Key medium-term strategic targets

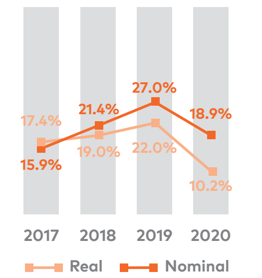
ROAE

20%+



Loan book growth

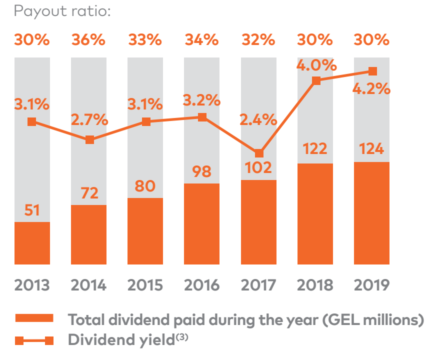
c.15%



Robust capital management track record

- **Capital position:** We aim to maintain a buffer of **c.200 basis points over minimum regulatory** requirements for CET1 and Tier 1 capital ratios in the medium term
- **Maintaining regular dividend payouts:** Aiming at **25-40%** dividend payout ratio. Resuming dividend payout depends on new capital requirements schedule to be released by the NBG
- **GEL 648mln+** cash dividend paid during 2013-2019, within the targeted **payout ratio range**

Regular dividends



2020 ROAE – 13.0%

The Group has a track record of consistently delivering superior returns in excess of 20%.

The Group's 2020 results were significantly impacted by the COVID-19 pandemic outbreak:

- **Challenging operating environment affecting all quarters in 2020:** Whilst our second quarter results were significantly impacted by the environment and the measures we put in place to manage the crises, we have seen significant recovery in economic activity since June 2020. The recovery slowed down in 4Q20 on the back of the new partial lockdown restrictions introduced at the end of November 2020, which primarily affected our Retail Banking results. That said, the Group's operating income only decreased by 1.8% y-o-y in 2020.
- **Operating expenses:** Our costs stood largely flat during 2020 (up 3.0% y-o-y), mostly as a result of a number of cost optimisation initiatives in the second quarter of 2020, which offset some one-off spend related to the COVID-19 mitigation measures. That said, we have continued investments in IT-related resources, digital and data capabilities, and marketing, as part of our key strategic priorities, and, at the same time, maintained our focus on efficiency and cost control. Our medium-term cost to income ratio target of c.35% remains unchanged.
- **Upfront expected credit losses:** The Group recorded significant upfront ECL provisions on loans to customers and finance lease receivables created for the full economic cycle in the first quarter of 2020, related to the adverse macroeconomic environment and the expected negative impact on creditworthiness of borrowers as a result of the COVID-19 pandemic. These assumptions were further revisited during the year to reflect macroeconomic forecast updates, better visibility of the portfolio, and a detailed review of our borrowers' creditworthiness. As a result, the provisions created in 1Q20 overall proved to be sufficient.
- **Loss on modification of financial assets:** The Group recorded a GEL 39.7 million one-off net loss on modification of financial assets in relation to the three-month payment holidays on principal and interest offered to our retail banking clients in March 2020, in order to reduce the requirement for customers to physically visit Bank branches and reduce the risk of the COVID-19 virus spread. The net loss incurred on these modifications has been classified as a non-recurring item in the income statement.

As a result, the Group generated profit of GEL 294.9 million in 2020 (down 41.0% y-o-y), with ROAE of 13.0%, and a ROAE in excess of 20% in each of the last three quarters of 2020.

2020 loan book growth – 18.9%

The loan book growth in 2020 was strong across all business lines and better than expected despite the challenging operating environment. Customer lending growth in the Retail and CIB segments was 17.6% and 22.5% y-o-y, respectively, while on a constant currency basis the Retail and CIB loan books grew by 11.0% and 10.4% respectively. Overall, our loan portfolio increased by 18.9% y-o-y, and on a constant currency basis the growth amounted to 10.2% in 2020.

In the medium term, we expect customer lending growth to be around our 15% target level.

1 The 2018 ROAE adjusted for GEL 30.3mln demerger-related costs, GEL 8.0mln demerger-related corporate income tax gain, GEL 30.3mln one-off impact of re-measurement of deferred tax balances, and GEL 3.9mln (net of income tax) termination costs of the former CEO.
2 The 2019 ROAE adjusted for GEL 14.2mln (net of income tax) termination costs of the former CEO and executive management.
3 Dividend yield for 2013-2019 is calculated based on the closing price of shares immediately prior to the ex-dividend date.

Retail Banking

Customer-centric and solutions-based multi-brand strategy

Over the past decade, Retail Banking has been the main driver of the Banking Business growth. We are a leading retail franchise in Georgia serving more than 2.6 million customers as at 31 December 2020. The Retail Banking segment demonstrated strong performance in 2020, notwithstanding the negative impact of the COVID-19 pandemic. The loan and deposit portfolio growth amounted to 17.6% y-o-y and 24.3% y-o-y as at 31 December 2020, respectively, and we delivered ROAE of 10.0% in 2020. We have substantially improved our customer value proposition and our positioning across key areas.

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

Mass Retail

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

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

Scale of our Retail Banking business

Strong customer base

2.3 MLN+
Mass Retail customers

298K
Payroll customers, c.36% of employed (hired) population

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

49%
Market share by number of transactions at POS terminals*

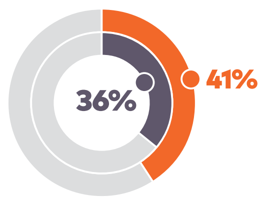
c.6 MLN
Transactions in mobile application per month

Strong retail banking franchise

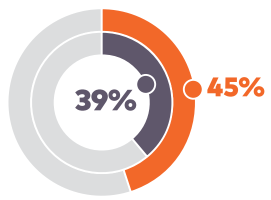
40.3%
Market share in deposits of individuals*

37.7%
Market share in loans to individuals*

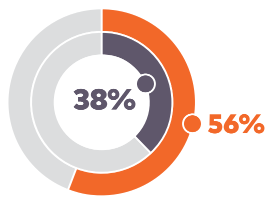
First-choice bank



Most trusted bank**



Main bank for majority**



Main bank for Generation Z**

● Bank of Georgia ● Peer Bank

* Market shares based on the data published by the National Bank of Georgia as at 31 December 2020.
** Based on fall 2020 research by IPM Georgia (independent research company).

Strategic focus and key priorities

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

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

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

Predicting and satisfying customers' needs seamlessly through digital channels

Advanced **analytics**

Convenient **channels**

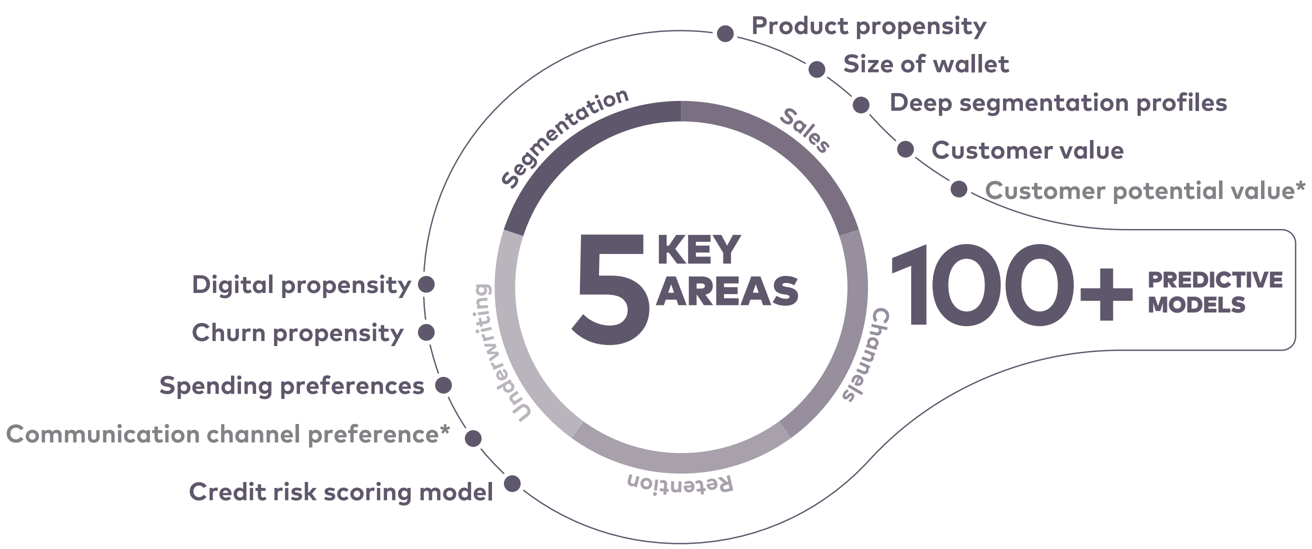
Payments ecosystem

Customer **experience**

Advanced analytics

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

We have been using advanced analytics tools for several years and have incrementally improved our understanding of customer behaviour. With big data we look to the future, that is, we focus on developing predictive models that will enable us to offer our customers what they want and need in the exact moment. Currently we use more than 100 predictive models with high GINI coefficient, an indicator of model quality. We cover the five key areas of our business: sales, channels, retention, underwriting, and segmentation. We will continue to invest in and expand our advanced analytics capabilities to deliver innovative solutions and superior experiences to our clients in real time. See more details on data analytics on page 58.



Campaign management

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

Sales

17 MLN+
Unique offers to customers

10
Offers per unique customer

15%+
Contribution in total sales

Offloading

17 MLN+
Unique offers to customers

8
Offers per unique customer

1 MLN+
Offers converted

Payments

4 MLN+
Unique offers to customers

4
Offers per unique customer

6%+
Conversion rate

Loyalty programme

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

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

c.1.4 MLN
Active loyalty programme members

c.124K
Loyalty points exchange operations per month

44%
Average increase in sales volume during merchant campaigns

Personalised campaigns

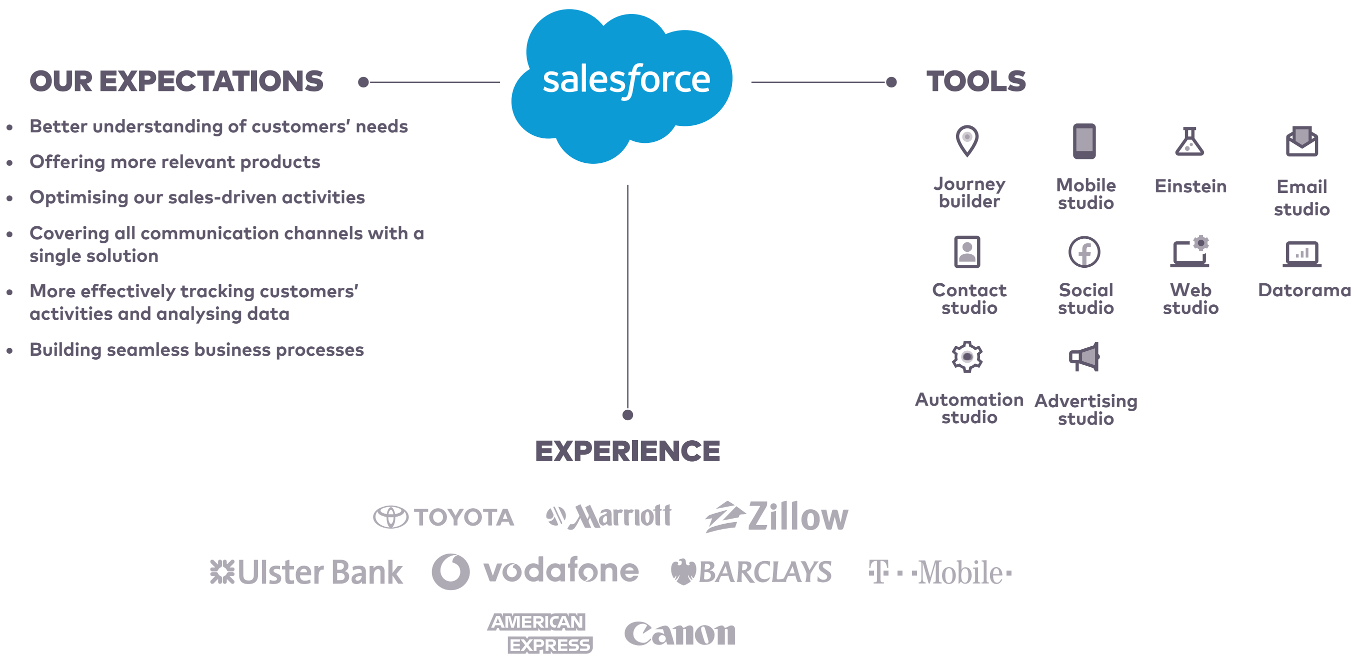
Advanced analytics for partner merchants

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

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

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

Collaboration with the world's leading customer relationship management company

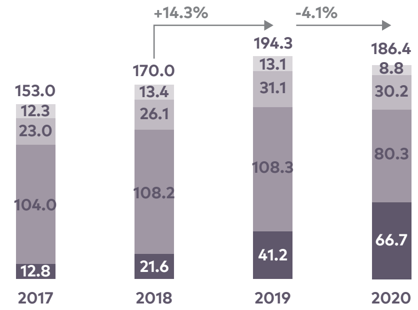


Convenient channels

Digitalisation is one of our key priorities, and we continuously update and upgrade our digital channels based on the concerns and preferences of our customers to enhance digital customer experiences (see more details on the new services and functionalities in mBank and iBank in Digital Banking Experience section on pages 54 to 59). The number of active users of mBank and iBank has increased markedly, and the number of transactions executed via mBank and iBank were up 62% in 2020 compared with the prior year.

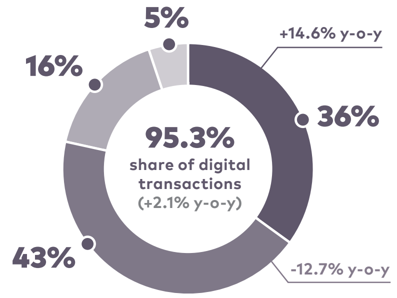
Multichannel performance

Number of transactions in millions



Transactions breakdown by channel

2020 results



iBank/mBank — Self-service terminals — ATMs — Branches — Other

Going forward, our focus is to accelerate sales growth in digital channels and turn mBank into the main sales channel. Currently, 38% of sales-related transactions are executed in the Bank's branches.

We view our self-service terminals as a key transition channel from physical to digital. The migration has been significant over the past few years. The next step is shifting customers' activity from self-service terminals to mBank. The overall offloading ratio was more than 95% in 2020, a 2 ppts improvement from the prior year.

Payments ecosystem

Our payments ecosystem is one of the cornerstones of our business. Considering that over two million people interact daily with the Bank's channels, one of the three fundamental pillars in the payments business is customer satisfaction. The second pillar, data, enables us to digest more than 800,000 different types of information on customer behaviour per day and develop tailor-made offerings. In terms of profitability, the third pillar, the payments business generated around 22% of the Group's net fee and commission income in 2020.

Customer
experience

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

Data
source

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

Revenue
contributor

22% of total net fee and commission income in 2020

Our payments ecosystem rests on four values: innovation, presence, exclusivity, and loyalty. Innovation is crucial in the payments ecosystem, and we showcase it in our digital channels: mBank, iBank, iPay, POS terminals, self-service terminals. See pages 54 to 59 for additional information on the Digital Banking Experience. We have the biggest presence in Georgia through our POS and self-service terminals. We have exclusive partnerships with four international payment systems (American Express, Diners Club, Discover, and JCB), in addition to our partnerships with Visa and MasterCard. We are also an exclusive payments services provider in public transportation in Tbilisi and Batumi. As for our loyalty programme, it is one of our key strengths, which we leverage to boost engagement of our retail customers and merchants.

Strategic Report | Overview
Strategic Report | Strategy
Strategic Report | Performance
Governance
Financial Statements
Additional Information

Scale of our payments ecosystem

Payment systems
Exclusive provider of four international payment systems
American Express • Diners Club • Discover • JCB

Public transport
Exclusive provider of payment services to the public transportation network
Tbilisi and Batumi

27K+
Multifunctional POS terminals

3.0K+
Self-service terminals

2.3MLN+
Customers

POS terminals
Multifunctionality
• Cash register
• Payment with cash advance
• Tip payment

Availability
Soft POS solution for smartphones

Variety
Apple Pay • Contactless Payments
• Proprietary solution for Android • QR Pay

E-commerce
Payments aggregation and settlement for international companies • Electronic invoicing

Local payment scheme
Issuing local contactless chip cards for local PSPs and financial institutions

Plus+ loyalty Programme
BOG's strength compared to peer bank

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

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

Newly acquired merchants +32% in 2020

Growth of e-commerce merchants in 2020

New partnership contracts signed with international companies in 2020

New products and services launched in 2020

Number of payments transactions at BOG terminals in 2020

100 MLN

+20.3% y-o-y

Volume of payments transactions at BOG terminals in 2020

GEL 2.7 BLN

+4.5% y-o-y

Market share by number of payments transactions in POS terminals in 2020*

49%

+2 ppts y-o-y

Market share by volume of payments transactions in POS terminals in 2020*

47%

+1 ppts y-o-y

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

Customer experience

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

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

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

In 2019 we invested in #1 customer experience management platform MEDALLIA

Improve
Every experience

150+
Small and large improvement projects identified and implemented

Engage
Every customer

200K+
Customer responses collected and analysed

30K+
Customers consulted personally during close-the-loop process

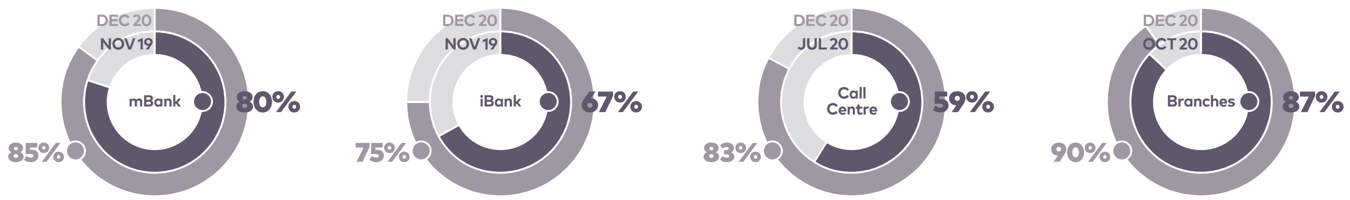
Engage
Every employee

2K+
Employees were onboarded to Medallia by end of 2020

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

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

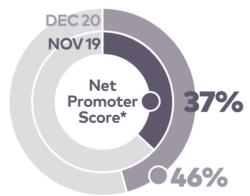
Channel satisfaction



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

Net Promoter Score

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



* Based on IPM research (independent research company).

Opportunities for future growth

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

Youth	Premium Mass Retail customers	Georgian emigrants

Youth

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

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

Exclusive **products**

290K+

Cards for students and pupils with additional exclusive benefits

Special **campaigns**

56+

Special campaigns for students and pupils in 2020

10+

Collaborative projects with universities

Partnership with universities

21

Universities participate in BOG payroll programme

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

Premium Mass Retail customers

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

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

Dedicated **remote RM**

Simple and convenient banking experience provided by dedicated remote Relationship Manager

360° financial planning

RM provides expert solutions that meet customers' financial needs

Full **coverage**

RM helps customers fulfil their financial needs by offering a full spectrum of banking products and services

Goal

BOG share of wallet	Product to client ratio	Net Promoter Score
85%	**4.2** Increase by 30%	**80%**

Georgian emigrants

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

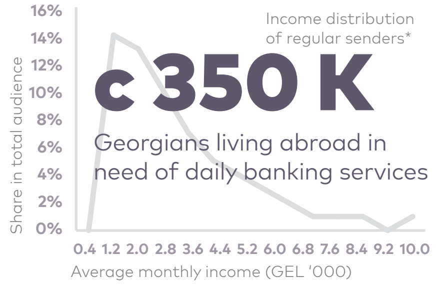
c.1.3 MLN

Georgians living abroad in need of daily banking services

US$ 1.9 BLN

Transferred in 2020

+8.8% y-o-y



c 350 K

Georgians living abroad in need of daily banking services

Digital **onboarding**

Enabling Georgians living abroad to open bank accounts and use various services and products

Convenient **tools**

Convenient and varied options for account top-ups through partnerships with international companies

Tailored **products**

Special deposit and loan products tailored to emigrants' needs

Market potential

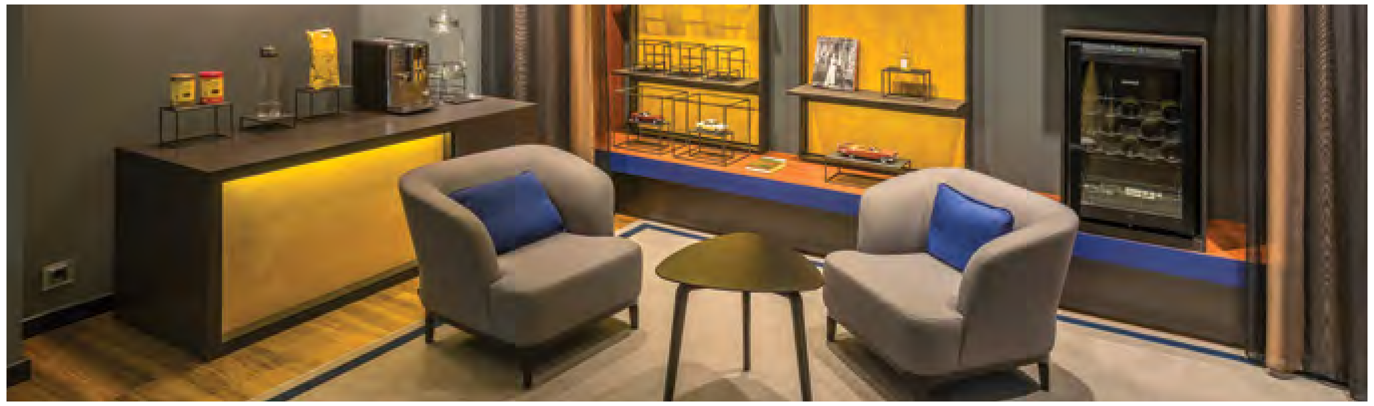
Active customers	Loan portfolio	Deposit portfolio
350K	**GEL 1.7 BLN**	**GEL 1.5 BLN**

* More than three transfers in the last 12 months.

SOLO – a fundamentally different approach to premium banking

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

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



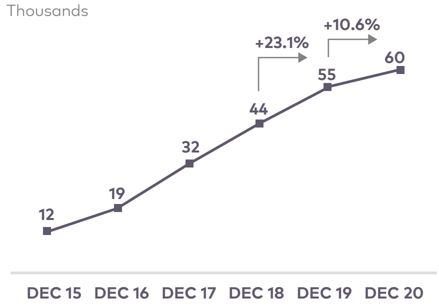
Strong growth in customer base and portfolios

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

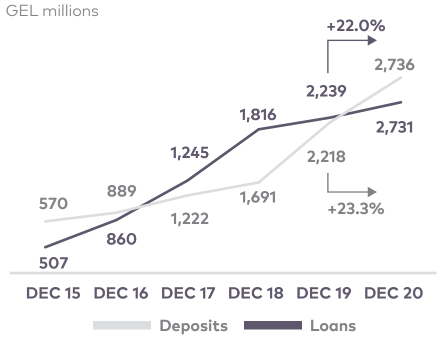
SOLO Club, a membership group within SOLO launched in 2017, offers exclusive access to SOLO's products and offerings ahead of other SOLO clients, at a higher fee. One such exclusive product is American Express Platinum card, available to SOLO Club members only. Since 2019, SOLO Club members have also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

Third bank in Georgia by portfolios

Number of customers



Loan and deposit portfolios



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

Strategic focus

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

Excellence in customer service

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

75%

NPS based on internal survey of Bank of Georgia customers

+3 ppts y-o-y

Increased digitalisation

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

89%

of SOLO customers use mBank/iBank

24.2

monthly transactions per customer in mBank in December 2020

+19% y-o-y

Tailor-made bundled offerings

- Shift from reactive sales to data-driven proactive sales strategy in 2019-2020 – actively using data analytics tools to identify more targeted audiences with specific and common needs and offer them more needs-based products and services (investment loans, needs-based SOLO loyalty, interests-based lifestyle experiences, among others)
- Focus for 2021 – extensively using improved data analytics tools and collaborating with the world's leading customer relationship management company Salesforce to provide tailor-made bundled offerings to SOLO customers (see details on Salesforce on page 36)

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

Medium-term key objective still valid, notwithstanding the pandemic

SOLO's operations, like those of other business segments of the Group, have been significantly impacted by the COVID-19 pandemic outbreak. 2020 results were hit by the upfront loan loss provisions and the net modification losses incurred on loan restructurings during the year. As such, SOLO's profit amounted to GEL 57.5 million in 2020, down 28.4% y-o-y.

Profit per SOLO client was GEL 1,007 in 2020, over 50 times more than what we had in the Mass Retail segment.

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

Micro, small and medium-sized enterprise banking

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

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

Market share*

31.6% MSME

+0.9 ppts y-o-y

38.3% MICRO

+1.6 ppts y-o-y

26.5% SME

+1.0 ppts y-o-y

Significant upside potential in SME

Gross loans

GEL 3.3 BLN

+22.2% y-o-y

Deposits

GEL 958 MLN

+18.6% y-o-y

ROAE

6.3%

-20.1** ppts y-o-y

Key initiatives in 2020

Our approach towards the MSME segment rests on two pillars — **client at the centre of everything** and **data behind every decision** — and we keep this in mind when interacting with our clients and making decisions.

Despite the fact that MSMEs have suffered the most from the economic fallout, we have made significant progress on two major initiatives during 2020: the **service model transformation** and the **lending process transformation**.

The benefits of these initiatives have not been unlocked yet, but we are well prepared to unleash their full potential as the economy starts to recover in 2021.

Service model transformation

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

* Source: internal estimation as at 31 December 2020 based on IFRS consolidated data, annual reports and data exchange with several Georgian banks.
** The 2019 ROAE adjusted for one-off employee costs related to the former CEO and executive management termination benefits.

New coverage model

Champions

Relationship manager

- Highly skilled relationship managers with deep industry expertise provide our most valuable clients — Champions — with banking services, as well as value-added services
- Each relationship manager, with industry expertise, covers a portfolio of ~40-50 customers

Aspirants

Business banker

- Business bankers work with Aspirants to support their development and turn them into Champions
- Business bankers serve ~100-150 customers in the branches

Remote banker

- In the medium term, remote bankers will increase the segment coverage

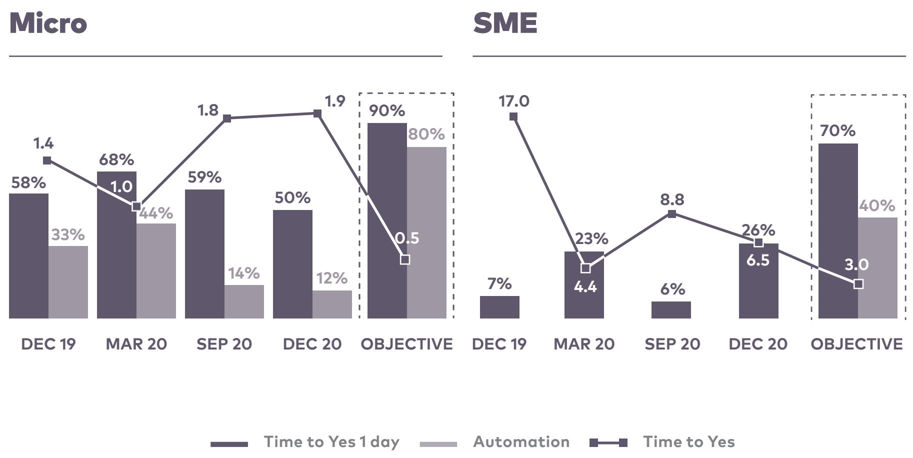
Participants

- Mostly inactive customers, or customers with a very small share of wallet at Bank of Georgia
- Primary focus is to incentivise the migration of these customers to digital channels

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

Lending process transformation

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



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

Tools

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

Other enablers

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

■ Implemented ■ MVP launched

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

Supporting MSMEs at every stage of their development

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

Onboarding

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

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

Innovative solutions launched

POS

Innovative payment solutions

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

IBANK

Internet bank with innovative modules

- Payroll management module
- Business Finance Manager

CASH BOX

Cash management solution

- Cash Box new infrastructure

We are dedicated to helping MSMEs build and develop successful enterprises, which is why we also incorporate educational, advisory, and networking solutions into the value proposition. We believe that education, information sharing and professional network development are crucial during the entire lifecycles of MSMEs. In December 2020, we launched a new e-learning platform businesscourse.ge, where we provide educational and practical courses as roadmaps to effective business actions, tailored to the needs of MSMEs. We have launched new webinar series where field experts share knowledge and most up-to-date data with our MSME customers, so that they have a holistic view of the country's economic sectors and recent market developments. Going forward, we plan to provide MSMEs with sector and need-based advisory and educational programmes, designed to help solve sector-specific business tasks. For more information on value-added offerings to MSME customers, see pages 108 and 109.

Growth

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

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

To empower businesses during their growth phase, we offer several value-added services, such as Women in Business, #Icreate, advisory services, and business support. For more information on these value-added offerings, see pages 108 and 109.

Channels

We consider the multichannel coverage of MSME clients one of our core strengths. We have a strong presence in Georgia through our branch network, with 206 retail branches, 960 ATMs and 3,020 self-service terminals, and our superior call centre with sales competence. That said, digitalisation and offloading is our top priority, and we focus on migrating our MSME customers to digital channels. We aim to achieve this by offering best-in-class digital platforms: Business iBank was fully updated in 2019 and now enables customers to use a single credential to navigate and manage multiple businesses and personal accounts; and Business mBank, which was launched in the first quarter of 2021, offers the full digital experience to our business customers. For more information of business digital platforms, see page 57.

High offloading rate achieved in 2020

Objective	Achieved	
95%	93.4%	Share of digital transactions
95%	83.2%	Share of ATM transactions in all cash-out transactions
90%	87.6%	Share of cash-box and pay-box transactions in cash-in transactions

● Objective

Key medium-term objectives

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

DEC 20

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

Medium term

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

* Based on internal survey of BOG clients.

Corporate and Investment Banking

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

We are the established leader of wealth management and investment banking services in Georgia. Our investment arm, Galt & Taggart, is the leading investment bank in Georgia, comprising corporate advisory, market research, and brokerage practices.

In 2020, we accelerated the customer deposit growth while being cautious on the lending side, given the challenging operating environment on the back of the COVID-19 pandemic. As at 31 December 2020, CIB's net loan book increased to GEL 4.7 billion, up 22.5% y-o-y, and our deposit portfolio reached GEL 6.4 billion, up 67.2% y-o-y. The top ten CIB client concentration was 9.7% of the total loan book at the end of 2020, compared with 9.9% at 31 December 2019. While aiming for a healthy growth of the Corporate and Investment Banking loan book, Bank of Georgia prudently manages the concentration risk so that the exposure to its top ten clients is maintained at around 10% of the total loan book.

The 2020 profit from the CIB segment was significantly impacted by the COVID-19 pandemic. The upfront loan loss provisions, the net modification losses incurred on loan restructurings, the cost of local currency funding at the early stage of the pandemic, and a decline in operating activity during the year significantly hit CIB's profitability. However, the resilience of operating income, coupled with our prudent cost management, liquidity management, and risk control initiatives, enabled us to deliver ROAE of 18.1% in 2020. Detailed 2020 financial results of the CIB business are outlined on pages 146 to 149.

Gross CIB loans

GEL 4.8 BLN

+23.8% y-o-y

CIB client deposits

GEL 6.4 BLN

+67.2% y-o-y

Market share* – loans

32.0%

+1.0 ppts y-o-y

Market share* – deposits

37.3%

+6.4 ppts y-o-y

ROAE

18.1%

-7.5 ppts** y-o-y

Medium-term strategic objective

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

Strategic objective – ROAE – 20%+

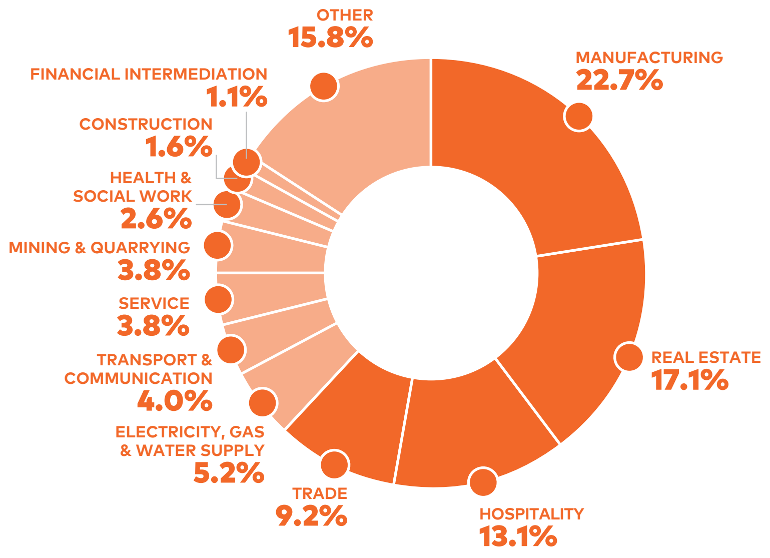
Strong CIB franchise	Solid profitability	Operational excellence

* Market shares by loans and deposits to legal entities, respectively, based on standalone accounts of the banks published by the National Bank of Georgia as at 31 December 2020.
** The 2019 ROAE adjusted for one-off employee costs related to the former CEO and executive management termination benefits.

Corporate Banking

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

Diversified CIB loan portfolio



Our Corporate Banking business is also a leading trade finance provider in Georgia with well-established partnerships with large counterparty banks and international financial institutions. In addition, we provide leasing services through the Bank's wholly owned subsidiary, Georgian Leasing Company, which offers a variety of financial products tailored to different segments, such as small and medium-sized businesses and low-, medium-, and high-income individuals.

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

Key strengths of our Corporate Banking business

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

Sound credit quality

Prudent lending policy and team expertise

Operational excellence

High quality and innovative product and service offerings

Attraction of great talent

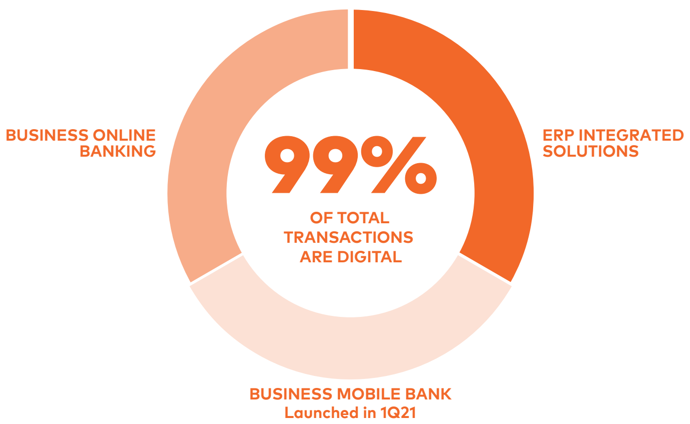
Unique programme on the Georgian market to attract and develop top talent

Advisory mindset

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

Convenient digital platforms

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



Special programme for young talent development

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

In order to fuel our business with top young talent, we run Leaderator, a student development programme highly recognised on the Georgian labour market among students and recent graduates. For more details on the programme, see pages 114 and 115. Leaderators can be promoted to associates and can then move up to managerial positions.

Leaderators

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

Associates

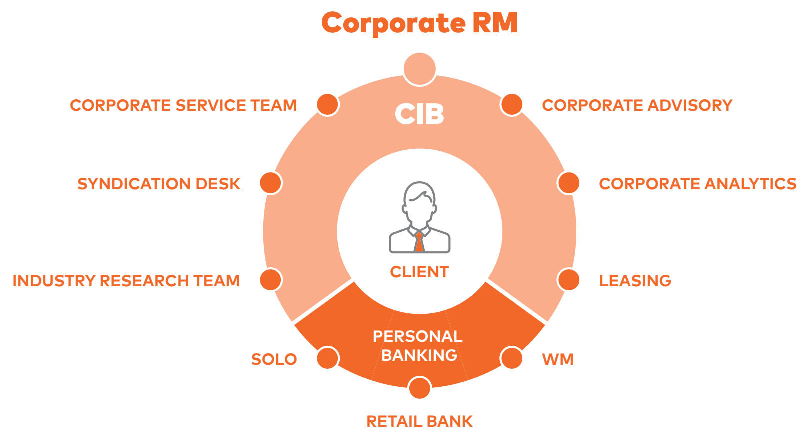
- Industry-specific knowledge development
- In-depth training programmes
- Defined promotion schemes

Line managers

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

Customer coverage model

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



Wealth Management and Investment Banking

Leading regional franchise

Our strong franchise comprises our regional Wealth Management practice and our leading investment bank, Galt & Taggart.

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

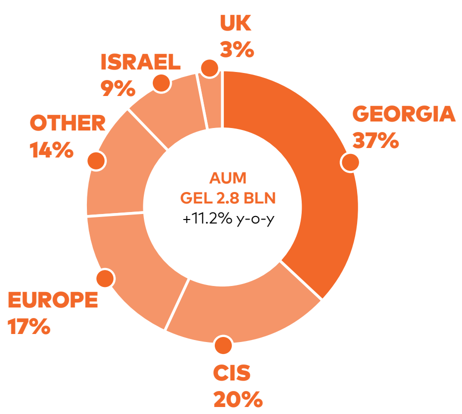
Galt & Taggart is the leading investment bank in Georgia, aiming to leverage superior knowledge and capital markets capabilities in the Georgian and neighbouring markets. It consists of the following practices: 1) market research – macro, sector, and fixed income coverage, global market coverage; 2) brokerage – the leading brokerage house in Georgia, and the exclusive partner of Saxo Bank via a white label structure; 3) DCM/ECM – the leading player on the local market, and the lead manager of choice for corporates as well as IFIs; 4) corporate advisory – track record of more than 30 completed transactions over the past eight years. In February 2020, *Global Finance Magazine* named Galt & Taggart Best Investment Bank in Georgia for the sixth consecutive year.

Despite the challenging market environment and our strict AML approach, we have maintained good momentum in our assets under management, coupled with the robust profitability profile. Our AUM* reached GEL 2,769.2 million at 31 December 2020, up 11.2% y-o-y, and continue to be diversified, underlining the regional nature of this business.

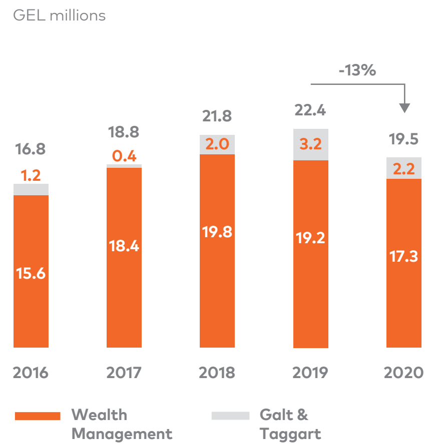
- We have amended the assets under management definition in 2020 to exclude certain illiquid assets that we hold in custody, and include only the most liquid assets that are being traded on an ongoing basis, and where we earn material fees on holding or trading such assets. The 2019 balances have been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

Strong international presence, diversified customer base, robust profitability

Diversified customer base across multiple geographies



Net operating profit



Strategic objective

Focus on profitable growth, through:

Diversifying the wealth management offerings

Unlocking the retail brokerage potential

Fully digitalising brokerage services

Diversifying the wealth management offerings

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

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

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

Financial products offerings

Diversifying our portfolio to basic structured securitised products:

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

Advisory products offerings

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

- Private investment opportunities
- Portfolio structuring
- Succession planning

Lifestyle products offerings

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

- WM exclusive offers
- Business Club
- Concierge service

Unlocking the retail brokerage potential

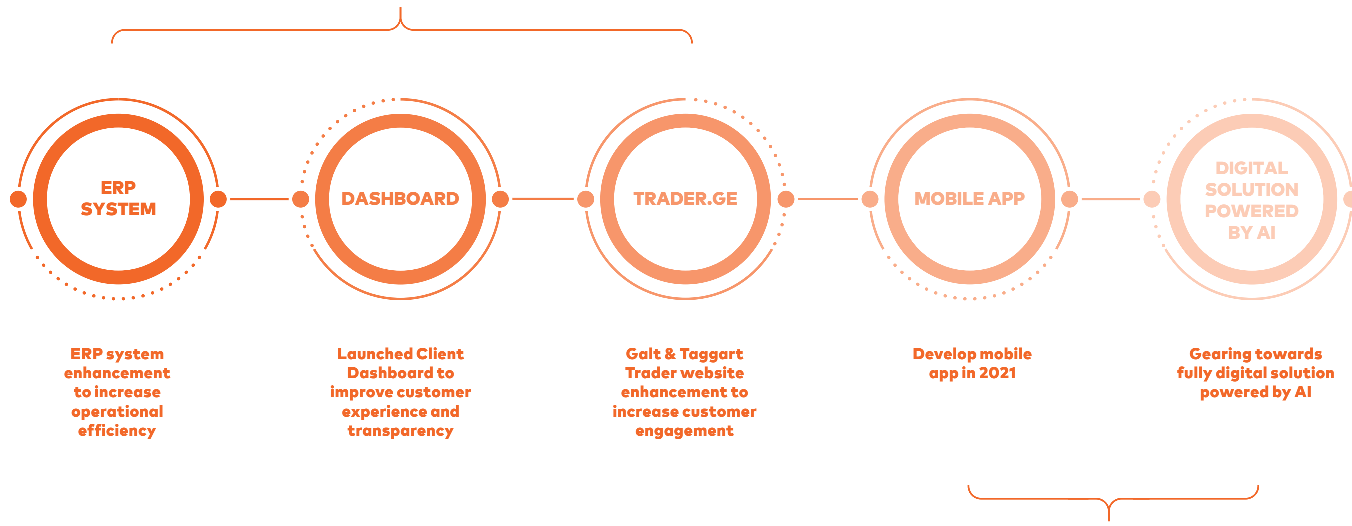
Our brokerage business demonstrated a remarkable growth in 2020. At 31 December 2020, we had more than 800 online brokerage customers, up 71% y-o-y. Gross revenue of brokerage business increased to GEL 6.5 million in 2020, up 75% y-o-y, generating 51% net margin. This was mostly driven by our online brokerage, offered in partnership with Saxo Bank under a white label offering, which generated gross revenue of GEL 5.0 million in 2020, up 166% y-o-y. Importantly, this business has emerged from the investment phase, and for the past two years it has been profitable.

We see significant upsides in the brokerage business in Georgia. Historically, we have focused on providing brokerage services to our wealth management customers (investment products take-up rate is around 30%), whereas the retail investor participation in the securities market in Georgia has been limited (investment products take-up rate is only c.4% in Georgia). Securities as a percentage of household financial assets in Georgia are below 5%, considerably lower compared with other countries in the region and developed economies. Therefore, going forward, we aim to extend our offerings to the wider retail and mass affluent segment.

Fully digitalising brokerage services

Similar to Bank of Georgia's overall digital strategy, we are working on digitalising our brokerage offerings. Over the past few years we have made significant enhancements to our back and front-end processes to improve customer experience and engagement in brokerage services. In 2020, we launched a single-view client dashboard, a product combining investment banking products into a single channel, which has improved overall customer experience and reporting tools. In 2021, we also plan to launch the mobile app to increase the usage and participation of the retail segment in this business and to enhance customer experiences.

Significant milestones towards digitalisation achieved in 2020



Focusing on mobile and fully digital solutions

Digital Banking Experience

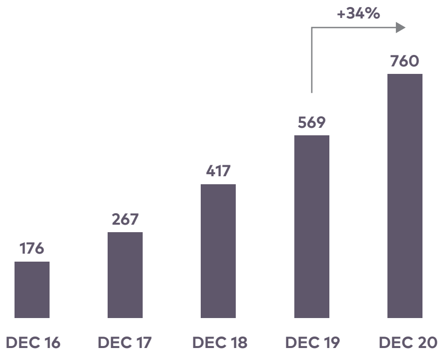
We regard the digital experience as inherent to our brand identity and core to our strategy. We have been actively investing in information technology and building digital capabilities to offer our customers best-in-class digital channels that make the management of their daily lives and businesses easier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

Retail digital channels

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

Number of mBank and iBank active users

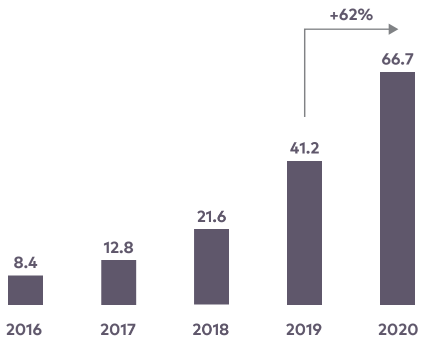
Thousands



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

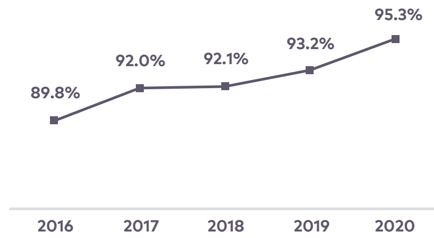
Number of mBank and iBank transactions

Millions



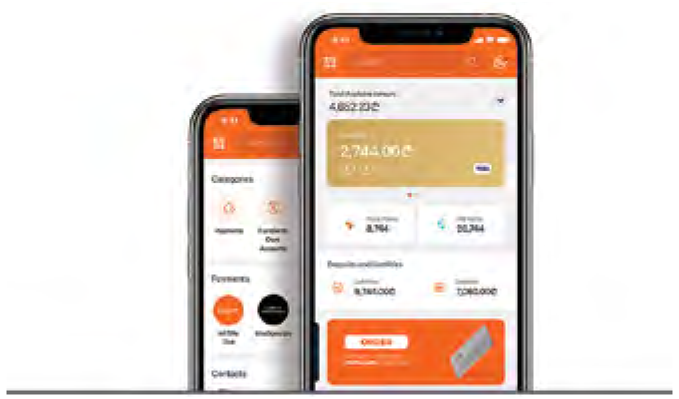
Number of transactions excludes digital product and service sales

Transactions offloading rate



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

The most popular financial mobile app – mBank



GET IT ON Google Play 4.8

Download on the App Store 4.7

Transactions per month

c.6 MLN

Active digital users

c.760K

Customer Satisfaction Score

84.8%

DAU/MAU

39.2%

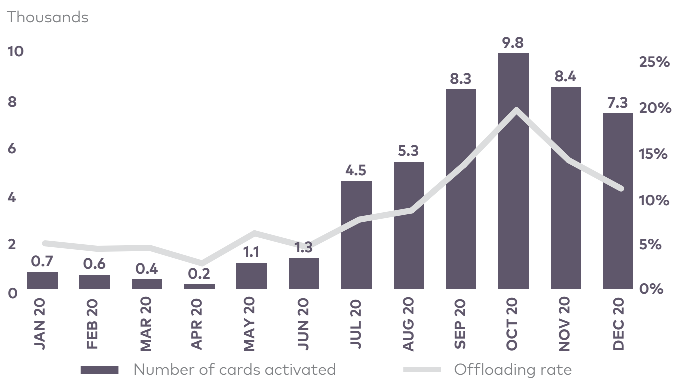
NEXT STEP

BUILDING THE SUPERAPP

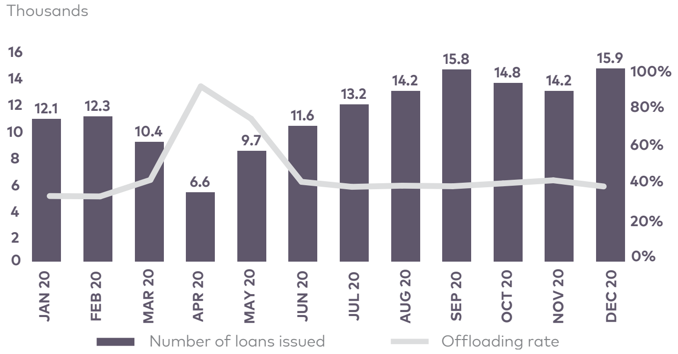
Product offloading to digital channels

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

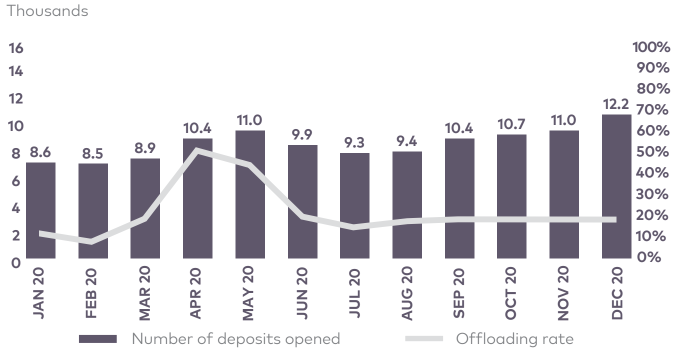
Cards



Loans



Deposits



Development of retail digital products

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


DIGITAL CARD


FULLY DIGITAL CONSUMER LENDING PROCESS


FULLY REDESIGNED IBANK


EMBEDDED ONLINE CHAT


BILL SPLITTING AND MONEY REQUEST


SECURITY DESIGN WITH STRONG AUTHENTICATION


PEER-TO-PEER PAYMENTS


DIGITAL ONBOARDING

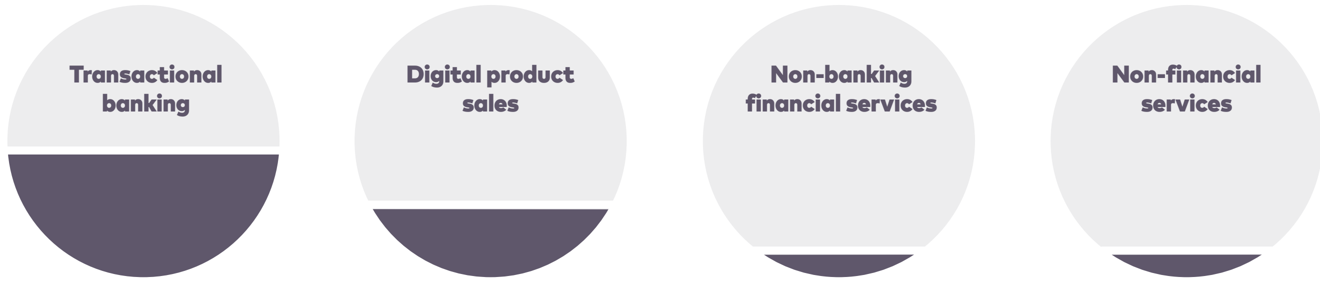
Our achievements have been recognised by external stakeholders. *Global Finance Magazine* named Bank of Georgia Best Consumer Digital Bank in Georgia 2020 and Best Online Product Offerings in Central and Eastern Europe 2020.

Best Consumer Digital Bank in Georgia 2020

Best Online Product Offerings in Central and Eastern Europe 2020

Future of mBank and iBank

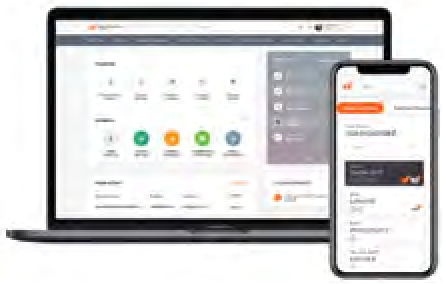
We see our mBank and iBank as primary all-in-one channels, covering customers' financial and non-financial needs. Transactional banking is already well covered through digital channels, but we still see opportunity to offload activity from self-service terminals to mBank and iBank. Digital product sales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



Business digital channels

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

Business iBank



Features added in Business iBank in 2020

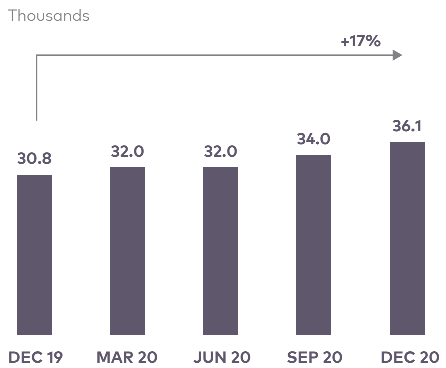
- Business finance management
- Payroll management
- Business digital onboarding
- Business mBank launched in the first quarter of 2021

Next steps

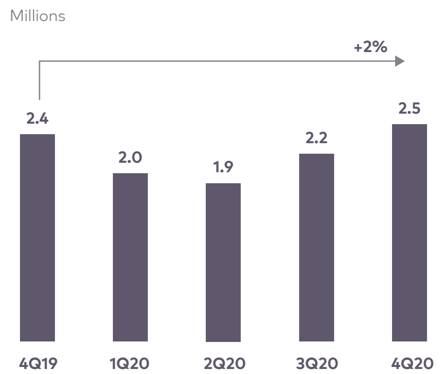
- Application Programming Interface (API) marketplace
  - Payments as a service
  - Data as a service
  - Banking as a service

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

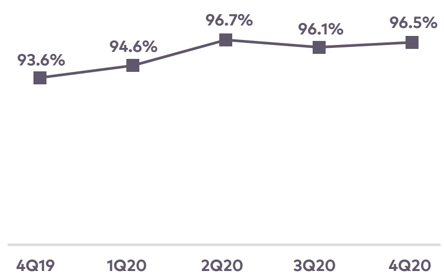
Number of Business iBank active users



Number of Business iBank transactions



Transactions offloading rate



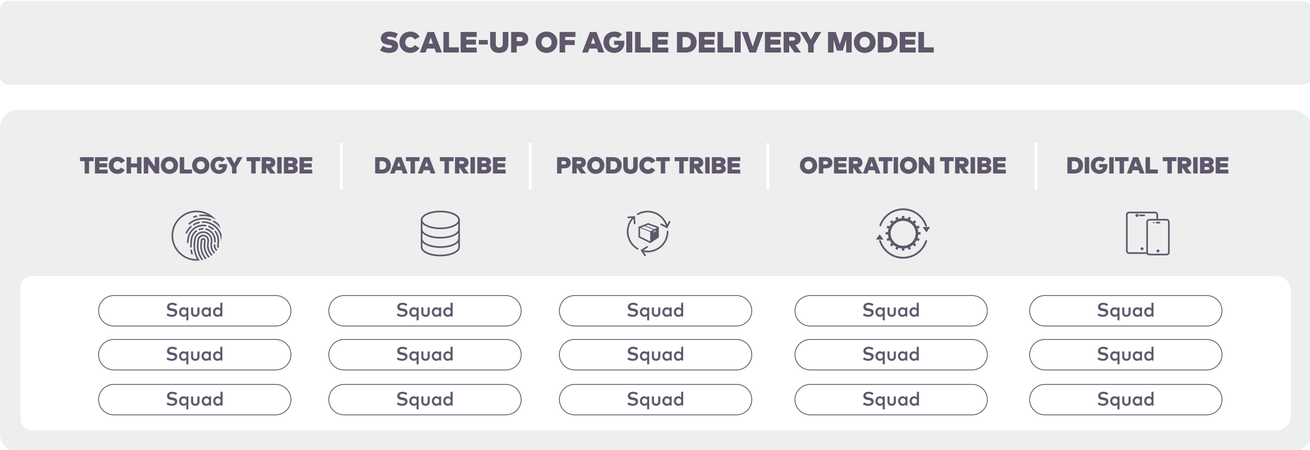
Managing digital ecosystem

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

People | **Processes** | **Data** | **Technology**

People and processes

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



+57%
Increase in number of employees in IT and digital

50+
Squads in Agile Delivery

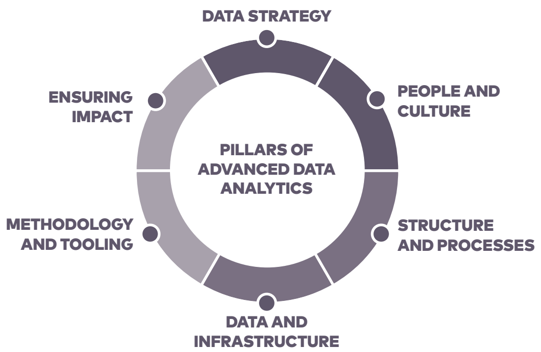
100+
Releases per month
3x increase as a result of transformation

Data

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

Data models online
56 in 2019

100+



Data specialists

50+

Technology

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

Open banking
Provide banking as a service to third parties

Cloud adoption strategy
Provide different types of services from the cloud

Modern data warehouse and BI
Data available throughout the organisation

Microservice-based architecture
More scalable, reliable, and secure platforms

Big data-processing environment
Data available throughout the organisation

Data-driven campaign management platform
Boost in digital sales

Orchestrator of the digital ecosystem

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

Payments

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

Data

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

Single sign-on

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

Loyalty

- Unmatched loyalty programme with 1.4 million active loyal members

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

Orchestrator of the digital ecosystem

Digital Ecosystems

In order to enhance our customer-centric offerings by providing beyond-banking solutions to our customers, we have developed a digital ecosystem comprising a number of integrated platforms through our subsidiary, JSC Digital Area. Our ecosystem rests on four main business verticals: real estate, e-commerce, logistics, and point-of-sale. In 2019 and 2020, we launched the following platforms:

AREA – real estate marketplace

In 2019, we launched a technologically advanced real estate marketplace, **area.ge**, a single space for convenient, timely, and efficient interactions, information exchange, and execution of the best possible transactions for all stakeholders involved in buying, selling, renting, and developing real estate in Georgia. We were the first in Georgia to offer fully online smart mortgage origination process to our customers through the platform that is integrated with the Bank to provide its users a one-click live credit limit appraisal and mortgage application experience.

The COVID-19 pandemic has decreased activity in the real estate sector, impacting area.ge's operations and performance. That said, area.ge pivoted its strategy towards facilitating real estate sales by introducing multiple solutions for real estate developers and mortgage providers. We aim to further improve the platform and our value-added offerings to boost real estate and mortgage sales.

Mortgage leads

Soft leads*	8K / GEL 470 MLN
Hard leads*	5.1K / GEL 296 MLN
Approved loans	GEL 52 MLN (18% conversion rate**)
Disbursed loans	GEL 21 MLN (7% conversion rate**)

Inventory

Developers and agencies	1.7K
Active listings	91.6K+
Residential	79.7K+
Commercial	9.9K+
Land	6.8K+

OPTIMO – MSME light ERP system

In 2019, we launched **Optimo**, an inventory and sales management system for traditional retail and e-commerce businesses. Optimo's cutting-edge digital inventory management and a POS solution with integrated software and a variety of functions and analytical tools enable businesses to easily manage sales and inventory and access data and insights on sales transactions, inventory, revenues, and profitability, anytime and anywhere, to make timely decisions with relevant information at hand. Optimo covers four main business lines: **software as a service, data business, card business, and value-added services**.

Market overview

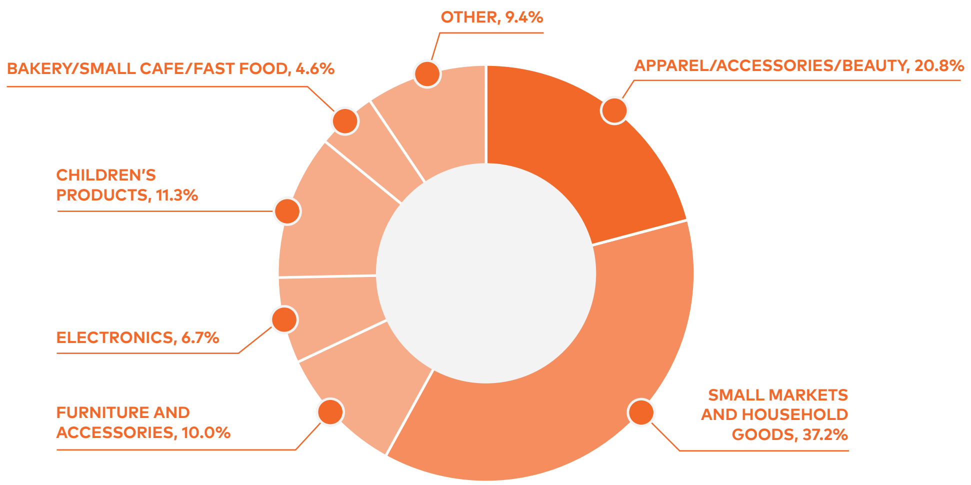
Registered MSMEs	188K
Registered MSME merchants	74K
MSME unorganised / non-digital share	59K / 80%

Business data

Active MSMEs	655+ (+10% m-o-m)
Registered unique stock keeping units (SKU)	220K+
Transactions	1.2 MLN+
Registered turnover	GEL 10 MLN+

* Soft lead – a user used a mortgage loan calculator without requesting a loan. Hard lead – a user used a mortgage calculator and requested a loan.
** Conversion rate – loan approval rate for hard leads.

Business verticals



EXTRA – e-commerce marketplace

In the second quarter of 2019, we acquired a leading Georgian e-commerce platform, **extra.ge.** Since the acquisition, we have transformed the platform into a vibrant multichannel e-commerce marketplace, supporting B2C, C2C, and B2B sales by providing integrated payment systems and convenient digital shopping experiences. A full-scale re-launch of the platform was completed in March 2020, as planned, and a new mobile application was launched in 4Q20. Currently, extra.ge is one of the largest online marketplaces in Georgia.

extra.ge is integrated with the Bank's flexible single sign-on and payment system and offers the Bank's pre-approved instant instalment loans, enabling customers to purchase selected products and improving overall digital shopping experiences. Through active campaigns and initiatives, the platform increased the network of merchants, private sellers, and registered users, resulting in a significant boost in sales.

Traffic data

Average daily users	25K (+2% d-o-d)
Average monthly users	700K (+5% m-o-m)

User data

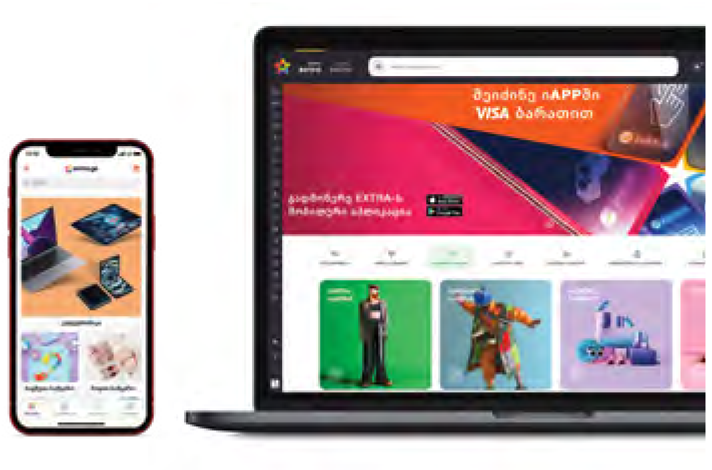
Registered users	190K+ (+7% m-o-m)
Registered active users	130K+ (+5% m-o-m)

Inventory data

Sellers	7K+ (+10% m-o-m)
Products	110K+ (+10% m-o-m)

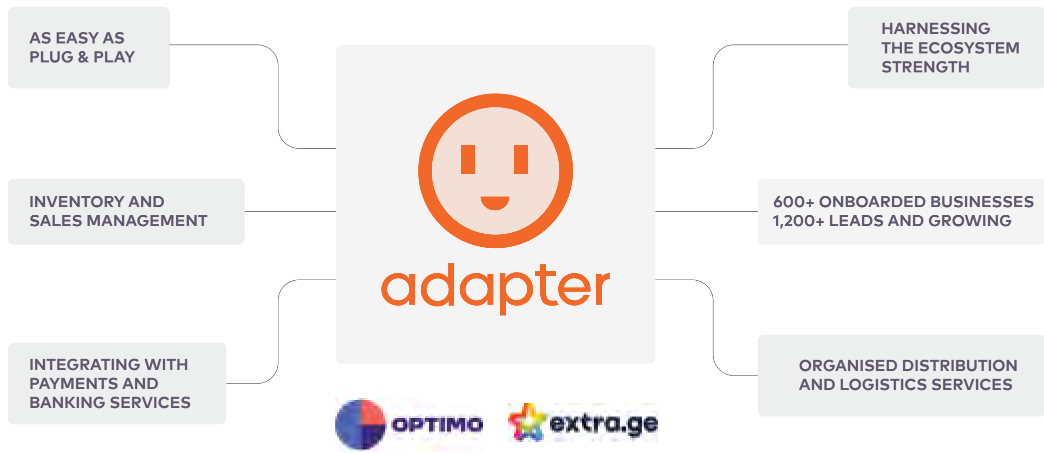
Sales data

Average monthly orders	3.5K (+10% m-o-m)
Average monthly turnover	GEL 550K (+10% m-o-m)



ADAPTER – digital adaptation programme for businesses

In order to help MSMEs to continue operations in the wake of the COVID-19 pandemic in March 2020, we pulled together our resources in e-commerce, business management, and logistics to develop and launch a unique digital solution – **adapter.ge.** The Group offers a best-in-class solution to merchants, who can undergo fast and efficient transformation to digital sales with just a simple plug-in. **adapter.ge** combines **Optimo**, an inventory and order management platform, with **extra.ge**, a digital e-commerce marketplace. adapter.ge has quickly gained traction among market players and small merchants, as well as large physical marketplaces. More than 600 businesses have been onboarded to the solution.

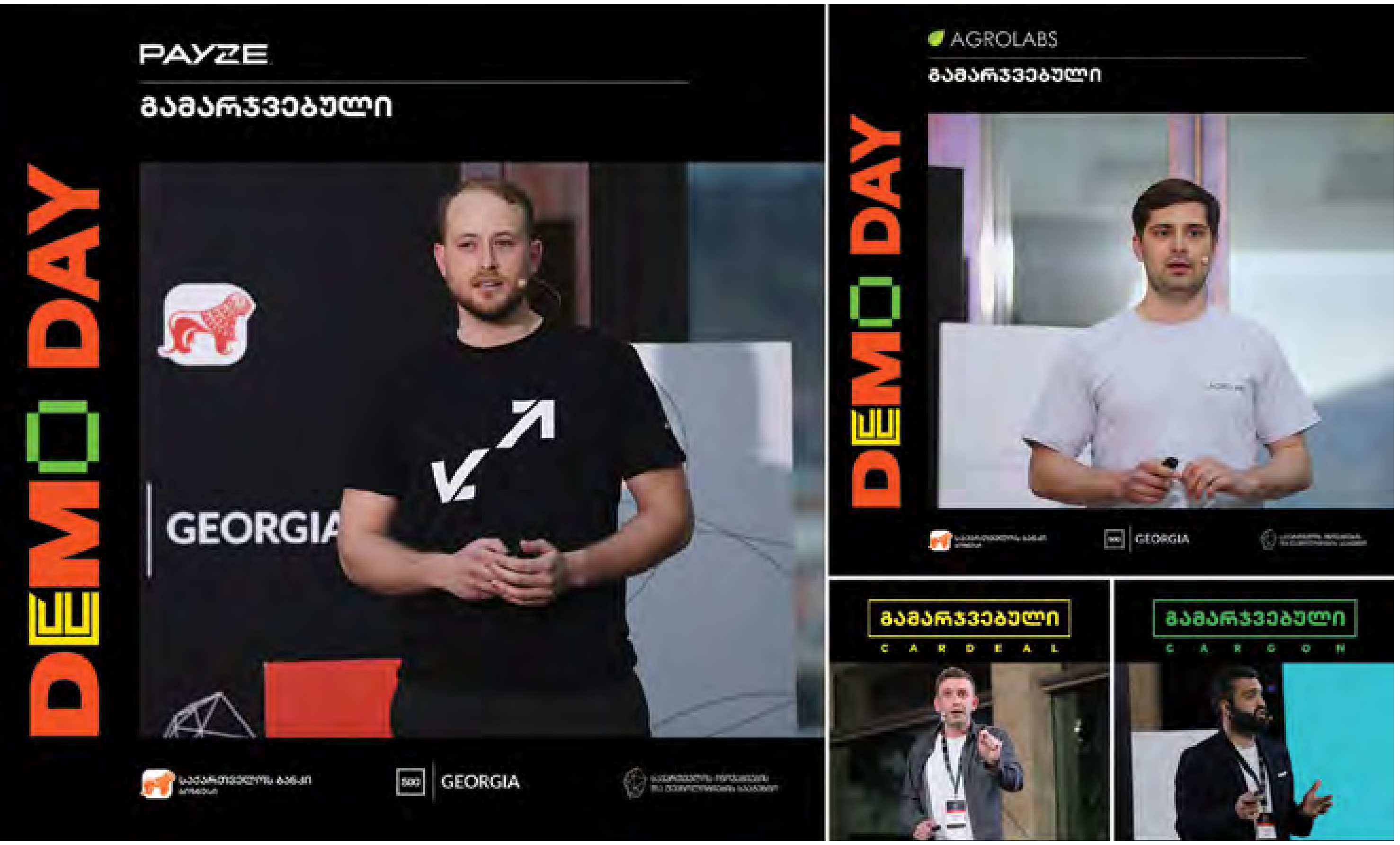


Digital area ecosystem today and going forward

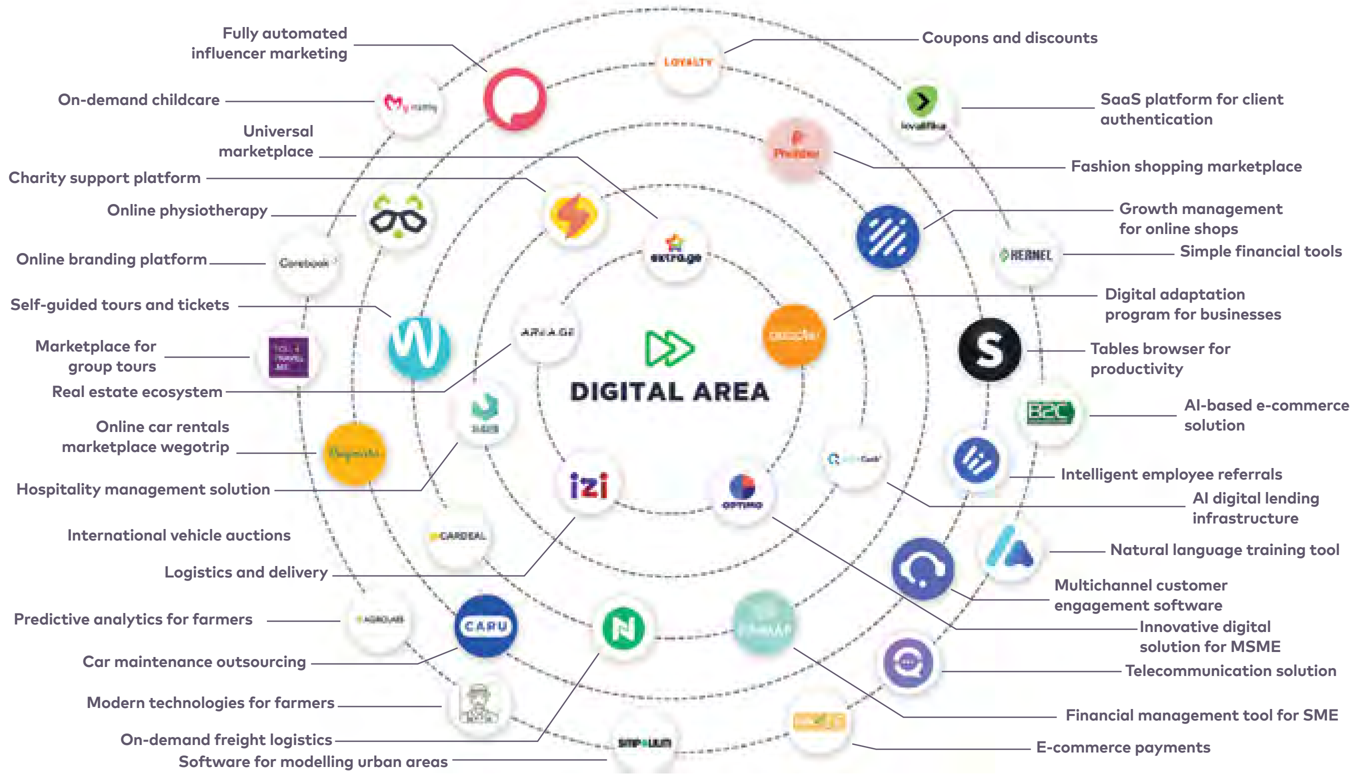
In early 2020, we have started to re-evaluate the strategic objectives behind our existing ecosystem, asking ourselves why we are building the ecosystem, who are we building it for, and how we can empower more businesses to fulfil ever-changing customer needs. We want to be relevant for our customers, and just having four startups in the ecosystem is not enough to fulfil all of our customers' financial and non-financial needs. At the same time, we have realised that we cannot build everything ourselves and that partnering up with third parties, including startups, to aggregate additional products and services within our universal ecosystem will bring more benefits to us and to our customers.

To find local and international startups that would address a wide range of customer needs, we have partnered with the best match-maker in this game – the world's leading accelerator, 500 Startups. Together with 500 and with support from Georgia's Innovation and Technology Agency (GITA), we have launched an acceleration programme – 500 Georgia. 500 Startups uses an integrated approach to help companies accelerate and scale up, providing expertise, networks, and additional capital. It has an impressive track record of success, with 19 unicorn companies, valued at more than US$ 1 billion, and more than 70 companies valued at US$ 100mln–999mln.

500 Georgia – We have divided a twelve-month programme into two batches, with the total of 28 selected startups undergoing a six-month acceleration programme. 28 companies from ten different business verticals completed the programme and are currently candidates to join our Digital Area ecosystem. Since the launch, the startups have raised more than US$ 5.5 million from external international investors and venture funds. Four of these 28 companies will complete the final acceleration stage in San Francisco in the second quarter of 2021.



The beyond-banking ecosystem



500 Georgia preliminary results

Revenue

GEL 10 MLN+

Jobs

354 (75% new)

Users

627K+

Investment raised

GEL 16.5 MLN

New partnership

89

Customers*

4.4K

Accomplishments and the way forward

Since June 2019

- extra.ge – launch of web platform
- extra.ge – largest e-commerce marketplace
- extra.ge – launch on IOS and Android apps
- optimo.ge – launch of merchant services
- adapter.ge – launch of web platform
- area.ge – launch of developer platform
- Accelerated 28 local and international startups

Coming soon

- extra.ge – website and mobile app redesign
- optimo.ge – card for merchants and distributors
- adapter.ge – launch for MSME manufacturers
- Accelerate the uptake of real estate sales management tool with developer companies
- Continue partnerships with other ecosystem players
- Digital Area ecosystem data-harnessing

Invested 2018-2020

US$ 6.5 MLN

Plan to invest 2021-2023

US$ 3-10 MLN

* We have amended the definition of Customers in the fourth quarter of 2020 and currently it includes B2B paid customers.

Superior Access to Funding

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

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

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

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

The strong support from International Financial Institutions is especially important during periods of crises. In 2020, following the COVID-19 pandemic outbreak, we have secured a number of long-term commitments from IFIs, which further strengthened our liquidity and funding, and capital positions to be able to meet regulatory requirements, as well as ensure uninterrupted support to our customers. See more details on our initiatives on pages 24 and 25 in the section on Response to the COVID-19 Pandemic Outbreak.

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

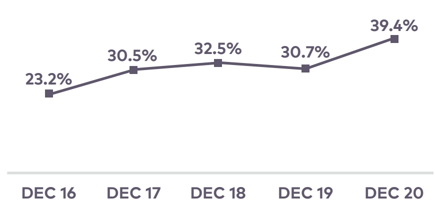
- cost of client deposits and notes 3.6% in 2020, down from 7.5% in 2010.
- cost of funds 4.7% in 2020, down from 8.2% in 2010.

At 31 December 2020, the Group's share of local currency deposits in total deposits reached 39.4%, up from 30.7% in 2019, and the share of local currency loans in total loan portfolio was 40.9%, compared with 41.5% in 2019.

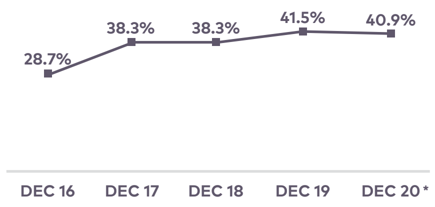
Our investment banking arm, Galt & Taggart, brings corporate advisory, markets research and brokerage services under one brand, and continues to develop local capital markets in Georgia. We are the leading player on the local capital market through Galt & Taggart and Bank of Georgia custody:

- GEL 2.1 billion local bonds placed by Galt & Taggart since 2014.
- Bank of Georgia is the only international sub-custodian in the region through State Street, Citi and Clearstream Bank Luxembourg. Since 2011, Bank of Georgia has been named Best Sub-custodian Bank in Georgia by the *Global Finance Magazine*.
- In 2020, *Global Finance Magazine* named Galt & Taggart Best Investment Bank in Georgia for the sixth consecutive year.

GEL deposits as a percentage of total client deposits



GEL loans as a percentage of total loan portfolio



* The loan portfolio de-dollarisation slowed down in 2020 on the back of local currency depreciation.

Key Performance Indicators

Strong underlying performance across all segments amid COVID-19 impact

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

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

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

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

The KPIs are closely aligned with our medium-term strategy and ensure that the Group delivers on its key strategic targets. The KPIs could be affected if any of the principal risks and uncertainties, set out on pages 86 to 99, materialise.

For more information on our 2020 financial results, see pages 132 to 149.

Profitability KPIs

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

Profit adjusted for one-offs*
(GEL million) Banking Business

294.9

2018	435.0
2019	514.2
2020	294.9

-42.6% y-o-y

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

Profit (reported)
(GEL million) Banking Business

294.9

2018	378.6
2019	500.0
2020	294.9

-41.0% y-o-y

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

Return on average equity (adjusted)*
Banking Business

13.0%

2018	26.4%
2019	26.1%
2020	13.0%

-13.1 ppts y-o-y

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

Return on average equity (reported)
Banking Business

13.0%

2018	22.9%
2019	25.4%
2020	13.0%

-12.4 ppts y-o-y

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

Net interest margin
Banking Business

4.6%

2018	6.5%
2019	5.6%
2020	4.6%

-1.0 ppts y-o-y

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

Basic earnings per share
(GEL) Banking Business

6.17

2018	8.72
2019	10.45
2020	6.17

-41.0% y-o-y

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

* The 2019 adjusted profit and ROAE exclude GEL 14.2mln one-off employee costs (net of income tax) related to former CEO and executive management termination benefits. The 2018 adjusted profit and ROAE exclude GEL 56.4mln (net of income tax) demerger-related expenses, one-off impact of re-measurement of deferred tax balances and one-off employee costs related to the former CEO termination benefits.

Efficiency KPIs

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

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

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

Cost to income ratio (adjusted)*

Banking Business

39.7%

2018	36.7%
2019	37.8%
2020	39.7%

+1.9 ppts y-o-y

Operating expenses divided by operating income.

Operating leverage (adjusted)*

Banking Business

-4.8%

2018	2.9%
2019	-3.2%
2020	-4.8%

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

Cost to income ratio (reported)

Banking Business

39.7%

2018	36.7%
2019	38.9%
2020	39.7%

+0.8 ppts y-o-y

Operating expenses divided by operating income.

Net loan book growth

Banking Business

18.9%

2018	21.4%
2019	27.0%
2020	18.9%

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

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

Growth KPIs

The balance sheet has remained strong with better than expected levels of growth. The 18.9% loan book growth in 2020 was driven by 17.6% growth in Retail Banking loan book and 22.5% increase in the Corporate and Investment Banking loan book. We expect customer lending growth for the medium term to be at around 15%.

Asset quality KPIs

Against the backdrop of the economic downturn, the quality of our customer lending has been resilient, reflecting the significant reduction in the portfolio risk over the last few years. We entered the COVID-19 environment with a de-risked banking sector – at the beginning of the pandemic our non-performing loans were at historically low levels. This was driven by the prudent application of the Group's risk management policies, as well as the shift in the loan portfolio mix from high-yielding unsecured to more secured consumer lending that followed the introduction of responsible consumer lending regulation by the National Bank of Georgia in 2018. The absence of high levels of corporate leverage, and the strong Government support programmes for both individuals and businesses is also expected to partially mitigate the negative economic impact of COVID-19.

We have taken a significant ECL provision in the first quarter of 2020 to cover all expected credit losses through the full economic cycle. Following the lockdown and subsequent reopening of the economy, we have now individually reviewed all of our SME and corporate borrowers, and the provision estimated in the first quarter has proved to be sufficient. Our corporate, SME, and SOLO segment portfolios all continue to perform better than initially expected. As a result, cost of credit risk ratio increased from 0.9% in 2019 to 1.8% in 2020.

NPLs to gross loans increased from 2.1% at 31 December 2019 to 3.7% at 31 December 2020. NPL coverage ratio decreased to 76.3% at the end of 2020, largely reflecting the shift in the loan portfolio mix from high-yielding unsecured to more secured consumer lending since 2019 on the back of the consumer lending regulation, and is supported by the high level of collateralisation of our loan book.

NPL coverage ratio adjusted for discounted value of collateral

Banking Business

128.8%

2018	129.9%
2019	139.6%
2020	128.8%

-10.8 ppts y-o-y

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

Cost of credit risk ratio

Banking Business

1.8%

2018	1.6%
2019	0.9%
2020	1.8%

+0.9 ppts y-o-y

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

Capital and liquidity KPIs

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

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

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

CET1 capital adequacy ratio (NBG, Basel III)

Bank of Georgia

10.4%

2018	12.2%
2019	11.5%
2020	10.4%

Minimum regulatory requirement – 7.4%

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

Leverage (times)

Banking Business

7.6

2018	7.2
2019	7.6
2020	7.6

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

Liquidity coverage ratio (NBG, Basel III)

Bank of Georgia

138.6%

2018	120.1%
2019	136.7%
2020	138.6%

Minimum regulatory requirement – 100%

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

Net stable funding ratio (NBG, Basel III)

Bank of Georgia

137.5%

2018	133.6%
2019	132.5%
2020	137.5%

Minimum regulatory requirement – 100%

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

Non-financial KPIs

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

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

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

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

Net Promoter Score (NPS)

Bank of Georgia

46.0%

2018	38.8%
2019	36.6%
2020	46.0%

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

Employee Net Promoter Score (eNPS)

Bank of Georgia

58.0%

2019	46.0%
2020	58.0%

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

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

Active digital users (Thousands)

Bank of Georgia

760

2018	417
2019	569
2020	760

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

Transactions through digital channels (%)

Bank of Georgia

95.3%

2018	92.1%
2019	93.2%
2020	95.3%

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

Risk Management

Creating a culture of integrity and accountability

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

Overview

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

Our framework

The Board's mandate includes determining the Group's risk appetite and risk tolerance as well as monitoring risk exposures to ensure that the nature and extent of the main risks we face are consistent with our overall goals and strategic objectives. The Board is accountable for reviewing the effectiveness of the systems and processes of risk management and internal control, with the Audit and Risk Committees assisting in the discharge of this responsibility. At the Board, Committee and Management Board levels, we develop formal policies and procedures which explain the way in which risks need to be systematically identified, assessed, quantified, managed and monitored.

Each business participates in the risk management process by identifying the key risks applicable to its business. The principal risks and uncertainties faced by the Group are identified through this bottom-up process.

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

A description of these Principal Risks and Uncertainties, including recent trends and outlook, as well as mitigation efforts, can be found on pages 86 to 99 of the Strategic Report.

Internal control

Our Board is responsible for reviewing and approving the Group's system of internal control, and its adequacy and effectiveness. Controls are reviewed to ensure effective management of risks we face. Certain matters – such as the approval of major capital expenditure, significant acquisitions or disposals and major contracts – are reserved exclusively for the Board. The full schedule of matters specifically reserved for the Board can be found on our website, at https://bankofgeorgiagroup.com/governance/documents. For other matters, the Board is often assisted by both the Audit and Risk Committees.

With respect to internal control over financial reporting, including over the Group's consolidation process, our financial procedures include a range of system, transactional and management oversight controls. The Group prepares detailed monthly management reports that include analyses of results along with comparisons, relevant strategic plans, budgets, forecasts and prior results. These are presented to, and reviewed by, the Management Board. Each quarter, the Bank's Deputy CEO – Chief Financial Officer, and other members of the Finance team discuss financial reporting and associated internal controls with the Audit Committee, which reports significant findings to the Board. The Audit Committee also reviews the quarterly, half-year and full-year financial statements and corresponding results announcements, and advises the Board. The external and internal auditors attend each Audit Committee meeting, and the Audit Committee meets them regularly both with and without the Management Board present.

Creating a culture of integrity and accountability continued

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

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

Effectiveness review

Each year, we review the effectiveness of our risk management processes and internal control systems, with the assistance of the Audit and Risk Committees. This review covers all material systems, including financial, operational and compliance controls. The latest review covered the financial year to 31 December 2020 and obtained assurance from the Management Board and the Internal Audit. The Board is able to conclude with reasonable assurance that the appropriate internal controls and risk management systems were maintained and operated effectively throughout 2020, and that these systems continued to operate effectively up to the date of approval of this Annual Report. The review did not identify any significant weaknesses or failings in the systems. We are satisfied that our risk management processes and internal control systems processes comply with the UK Corporate Governance Code 2018 (the Code) and the Financial Reporting Council (FRC)'s guidance on Risk Management, Internal Control and Related Financial and Business Reporting. Although we did not identify any significant weaknesses or failings, we continuously strive to improve our framework and focus on further mitigating our key risks, especially as they evolve.

Committee reports

As noted throughout this discussion, both the Audit and Risk Committees play an essential role in implementing effective risk management and internal control system. Each Committee has described this work in its Committee Report.

The Audit Committee Report and the Risk Committee Report can be found on pages 176 to 182 and pages 183 to 185, respectively.

Viability statement

The Board has undertaken the assessment of the Group's prospects to meet its liabilities by taking into account its current position and principal risks. The Group's going concern and viability statements are on page 101.

Bank risk management

The Bank is the principal driver of the Group's revenue and operates in the financial services sector, therefore, its risk management and internal control frameworks are fundamental to that of the Group. The work undertaken by the Bank's risk management bodies feeds back directly to the Group. Given the significance of the Bank, the risk management and internal control frameworks in place at the Bank are described below.

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

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

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

Risk management structure

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

First line of defence

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

Second line of defence

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

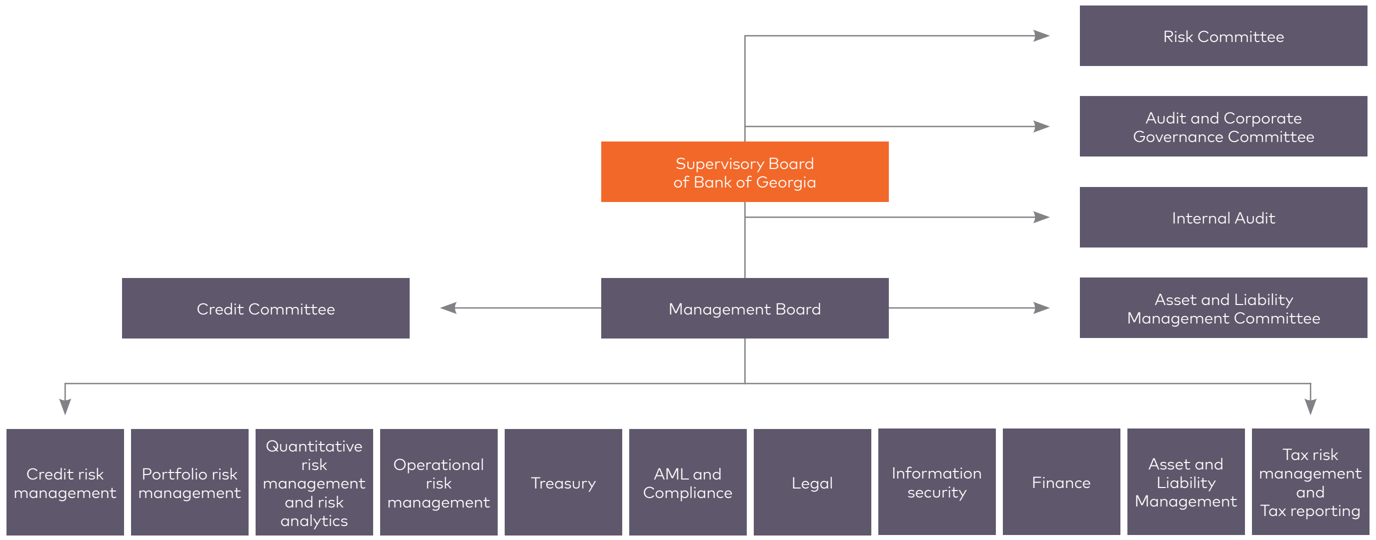
Third line of defence

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

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

Creating a culture of integrity and accountability continued

Risk management bodies of Bank of Georgia



Risk management bodies

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

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

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

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

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

Credit Committees. The Bank has five credit committees (together, the "Credit Committees"), each responsible for supervising and managing the Bank's credit risks in respect of loans for retail and wealth management clients, micro loans, SME loans, corporate loans and counterparty loans. These committees are: the Retail Banking Credit Committee, Micro loans Credit Committee, SME loans Credit Committee, the Corporate Banking Credit Committee and the Financial and Governmental Counterparty Risk Management Committee (FGCRMC). FGCRMC manages, monitors and controls counterparty risk in relation to financial and governmental counterparties of the Bank. Each Credit Committee approves individual loan transactions.

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

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

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

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

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

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

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

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

Legal direction. The Bank's Legal direction's principal purpose is to ensure: (i) the Bank's business and/or structural units receive due legal support; (ii) the Bank's activities conform to applicable legislation; and (iii) the possible losses from the materialisation of legal risks are minimised. The Legal department is responsible for the application and development of mechanisms for identifying legal risks in the Bank's activities in a timely manner, the investigation of the Bank's activities in order to identify any legal risks, the planning and implementation of all necessary actions for the elimination of identified legal risks, participation in legal proceedings on behalf of the

Creating a culture of integrity and accountability continued

Bank, where necessary, increasing the effectiveness of the legal structures of the Bank's transactions and systemisation/standardisation of the Bank's legal documentation with a view to optimise and achieve easier and more automated and de-risked transacting process in the Bank's daily activities. The Legal department is also responsible for providing legal support to structural units of the Bank and/or its subsidiaries.

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

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

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

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

Bodies implementing the risk management system

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

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

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

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

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

The Portfolio Risk Management department manages and assesses credit risk with respect to the overall loan portfolio and is responsible for providing recommendations on the improvement of loan portfolio quality to minimise credit losses. It develops the Bank's portfolio quality control models/methods and ensures compliance with the Bank's Credit Policies and established limits.

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

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

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

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

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

Risk measurement and reporting

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

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

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

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

Risk mitigation and excessive risk concentration

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

The Bank actively uses collateral to reduce its credit risks.

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

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

Credit risk

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

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

The Bank manages its credit risk by placing limits on the amount of risk accepted with respect to individual corporate borrowers or groups of related borrowers, liability of insurance companies, types of banking operations and by complying with the exposure limits established by the NBG. The Bank also mitigates its credit risk by obtaining collateral and using other security

Creating a culture of integrity and accountability continued

arrangements. The Bank monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for expected credit loss (ECL). The exposure to financial institutions is managed by limits covering on and off-balance sheet exposures and by settlement limits with respect to trading transactions such as foreign exchange contracts.

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

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

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

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

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

Collateral
The Bank typically requires credit support or collateral as security for the loans and credit facilities that it grants. The main forms of credit support are guarantees and rights to claim amounts on the borrower's current account with the Bank or other assets. The main forms of collateral for corporate lending are charges over real estate properties, equipment, inventory and trade receivables. The main form of collateral for retail lending is a mortgage over residential property. In the case of corporate loans, the Bank usually requires a personal guarantee (surety) from the borrower's shareholders. Under the Bank's internal guidelines, collateral should be provided (where it is required) to cover outstanding liabilities during the entire duration of a transaction. As at 31 December 2020, 85.8% of loan to customers was collateralised. An evaluation report of the proposed collateral is prepared by the Asset Evaluation department or by the reputable third-party asset appraisal company and submitted to the appropriate Credit Committee, together with the loan application and Credit Risk Manager's report.

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

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

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

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

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

Liquidity risk

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

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

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

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

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

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

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

Creating a culture of integrity and accountability continued

As at 31 December 2020, the Group's consolidated client deposits and notes were GEL 14,020.2 million, compared with GEL 10,076.7 million and GEL 8,133.9 million as at 31 December 2019 and 2018, respectively, and represented 72.0% of total liabilities, compared with 61.4% and 62.6% as at 31 December 2019 and 2018, respectively. In accordance with Georgian legislation, the Bank is obliged to repay such deposits upon demand of a depositor. In the case of early withdrawal, the interest on the deposit is foregone or reduced. As at 31 December 2020, total amounts owed to credit institutions and debt securities issued were GEL 4,921.5 million, compared with GEL 6,054.2 million and GEL 4,725.3 million as at 31 December 2019 and 2018, respectively, and represented 25.3% of total liabilities, compared with 36.9% and 36.3% as at 31 December 2019 and 2018, respectively. Amounts owed to credit institutions and debt securities are taken from a wide range of counterparties.

The Bank's Management Board believes that the Bank's liquidity is sufficient to meet the present requirements. For information on the Group's liquid assets, liabilities and the maturity profile of the Group's financial liabilities, as well as further information on the liquidity risk of the Group, see Note 26 and 28 to the Consolidated Financial Statements.

Borrowed funds repayment schedule

US$ million	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Eurobonds and notes	–	–	339	–	–	–	–	–	–	–
Senior loans	176	65	91	48	43	9	–	–	–	–
Subordinated loans	–	–	–	–	90	–	–	–	127	–
Total	**176**	**65**	**430**	**48**	**133**	**9**	**–**	**–**	**127**	**–**
% of total assets	**2.6%**	**1.0%**	**6.4%**	**0.7%**	**2.0%**	**0.1%**	**0.0%**	**0.0%**	**1.9%**	**0.0%**

Market risk

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

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

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

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

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

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

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

As at 31 December 2020, the Group's floating rate borrowings accounted for 10.3% of the total liabilities.

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

For further information on the Group's market risk see Note 26 of the Notes to the Consolidated Financial Statements.

Operational risk

Definition: Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a risk management and integrated control framework and by monitoring and responding to potential risks, the Bank aims to manage the risks. Cyber risk, AML and compliance risk, and certain operational risks, are discussed in Principal Risks and Uncertainties on pages 86 and 99.

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

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

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

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

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

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

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

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

Emerging risk

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

We recognise the challenges posed by climate change. The Bank has identified Climate Risk as an emerging risk (see page 99). As such, we intend to integrate climate change-related risks into our credit risk framework and our business resilience assessments. In 2021, we will be describing and managing climate-related risks in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. See more details on the Bank's planned actions on this matter on page 127.

Principal Risks and Uncertainties

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

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

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

Macroeconomic environment

Principal risk/ uncertainty	**Macroeconomic factors relating to Georgia, including depreciation of the Lari against the US Dollar, may have a material impact on our loan book.**
Key drivers/ trends	The Group's operations are primarily located in, and most of its revenue is sourced from, Georgia. Macroeconomic factors relating to Georgia, such as changes in GDP, inflation and interest rates, may have a material impact on the quality of our loan portfolio, loan losses, our margins, and customer demand for our products and services. Georgia's economy contracted by 6.2% in 2020, according to Geostat, as the country faced a pronounced economic shock due to the COVID-19 pandemic. Halt in international tourism has widened the current account deficit to 12.3% of GDP in 2020. Rising global risk aversion has reduced private financial inflows and delayed investment. The authorities have sought to contain the COVID-19 pandemic and cushion its economic impact, and attracted IFI funding in the face of a balance of payments gap. Notably, the real GDP growth was 5.0% in 2019 and 4.8% in 2018, according to Geostat. Uncertain and volatile global economic conditions could have substantial political and macroeconomic ramifications globally which, in turn, could impact the Georgian economy. In 2020, the Lari depreciated against the US Dollar by 14.3%, after depreciating by 7.1% in 2019. The volatility of the Lari against the US Dollar may adversely affect the quality of our loan portfolio, as well as increase the cost of credit risk and expected credit loss provisions. The creditworthiness of our customers may be adversely affected by the depreciation of the Lari against the US Dollar, which could result in them having difficulty repaying their loans. The depreciation of the Lari may also adversely affect the value of our customers' collateral. As at 31 December 2020, approximately 79.7% and 44.9% of our net Corporate and Investment Banking and Retail Banking loans, respectively, were denominated in foreign currency, while 7.2% of Retail Banking gross loans and 40.9% of Corporate and Investment Banking gross loans issued in foreign currency had no or minimal exposure to foreign currency risk. In the first quarter of 2020, following the COVID-19 pandemic outbreak, the Group created upfront provision for the full economic cycle in both Retail and Corporate and Investment Banking businesses. This COVID-19-related charge was based on our expectations of future credit losses on our portfolio given the application of the future economic scenarios. The assumptions were further revisited during the year to reflect the macroeconomic forecast scenarios published by the NBG in May 2020, and better visibility of the portfolio and the detailed review of creditworthiness of the borrowers in the third and fourth quarters of 2020. Based on these analyses, additional reserves created in the first quarter proved overall to be sufficient. As a result, our cost of credit risk ratio was 1.8% in 2020 compared to 0.9% in 2019. There still is uncertainty over the magnitude of the global slowdown that will result from the COVID-19 pandemic.

Principal Risks and Uncertainties continued

Macroeconomic environment continued

Mitigation

The Group continuously monitors market conditions and reviews market changes, and also performs stress and scenario testing to test its position under adverse economic conditions, including adverse currency movements.

The Bank's Asset and Liability Management Committee sets our open currency position limits and the Bank's proprietary trading position limits, which are currently more conservative than those imposed by the NBG, our regulator. The Treasury department manages our open currency position on a day-to-day basis. The open currency position is also monitored by the Bank's Quantitative Risk Management and Risk Analytics department.

In order to assess the creditworthiness of our customers, we take into account currency volatility when there is a currency mismatch between the customer's loan and the revenue. In line with the NBG requirements, we assign up to 75% additional risk weighting to the foreign currency loans of clients, whose source of income is denominated in Lari (this requirement was temporarily decreased to 25% since April 2020 by the NBG on the back of the COVID-19 outbreak; see details in the section on Capital risk on pages 94 and 95; however, we have not modified our approach with regard to underwriting principles and this change has not affected our pricing decisions).

The Bank's Credit Committees and Credit Risk department set counterparty limits by using a credit risk classification and scoring system for approving individual transactions. The credit quality review process is continuous and provides early identification of possible changes in the creditworthiness of customers, including regular collateral revaluations, potential losses and corrective actions needed to reduce risk, which may include obtaining additional collateral in accordance with underlying loan agreements.

In order to encourage responsible lending practice in the market, the NBG introduced macroprudential policy instruments that modify lending conditions to individuals. The payment-to-income ratio (PTI) and the loan-to-value ratio (LTV) effective since 1 November 2018 for commercial banks and since 1 January 2019 for all loan issuers require the financial institutions to issue loans based on the rigorous assessment of clients' debt paying ability and aim at reducing high-risk products in the market. This initiative ensures the sustainability of the financial sector in the event of real estate price reductions and further reduces the risk of the loan portfolio quality. The NBG eased the above mentioned regulation from April 2020 as part of its response to the COVID-19 pandemic. The changes mostly apply to hedged borrowers, while the PTI and LTV thresholds for unhedged borrowers remain more conservative.

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

Among the NBG's initiatives towards de-dollarisation and increasing access to long-term lending in the local currency is Liquidity Coverage Ratio (LCR) under the Basel III framework, effective since September 2017. The NBG's preferential treatment for Georgian Lari is translated into 75% LCR for the local currency high-quality liquid assets, while the mandatory ratio stands at 100% for foreign currency as well as for all currencies in total.

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

Since the beginning of 2016, we have focused on increasing local currency lending. We actively work with IFIs to raise long-term Lari funding to increase our Lari-denominated loans to customers. Furthermore, in June 2017, we completed the inaugural local currency denominated international bond issuance in the amount of GEL 500 million to support local currency lending.

From the beginning of 2017, the NBG expanded the list of assets that banks are permitted to use as collateral for REPO transactions, which provides an additional funding source for our Lari-denominated loan book. This list further expanded since the second quarter of 2020 as part of the NBG's response to the COVID-19 pandemic.

The Government and the NBG have appropriate tools to help mitigate the economic threat to a degree, and to try to support economic recovery to resume growth quickly. The Georgian economy is well-diversified, both by sector, and in terms of trading partner country dependence. However, if the virus leads to a continued global shutdown a significant negative impact on areas of the Georgian economy is expected. We continue to monitor the COVID-19 pandemic outbreak's impact and to consider our continued business resilience.

Regional instability

Principal risk/ uncertainty

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

The Group's operations are primarily located in, and most of its revenue is sourced from, Georgia. The Georgian economy is well-diversified and there is no significant dependency on a single country. However, it is dependent on economies of the region, in particular Russia, Turkey, Azerbaijan and Armenia, which are key trading partners.

There has been ongoing geopolitical tension, political and economic instability and military conflict in the region, which may have an adverse effect on our business and financial position.

Key drivers/ trends

Russian troops continue to occupy the Abkhazia and the Tskhinvali/South Ossetia regions, and tensions between Russia and Georgia persist. Russia is opposed to the Eastward enlargement of NATO, including the former Soviet republics such as Georgia. Therefore, Georgia's continued progression towards closeness to the EU and NATO may intensify tensions between Georgia and Russia. Developments such as the introduction of a free trade regime between Georgia and the EU in September 2014 and the visa-free travel in the EU granted to Georgian citizens in March 2017 similarly contribute to tensions. The Government has taken certain steps towards improving relations with Russia but, as of the date of this Annual Report, these have not resulted in any formal or legal changes in the relationship between the two countries.

In June 2018, as a result of early parliamentary and presidential elections, amendments to the Turkish constitution became effective. The amendments which grant the president wider powers are expected to transform Turkey's system of government away from a parliamentary system, which could have a negative impact on political stability in Turkey.

On 8 July 2019, Russia's ban on direct flights to Georgia, imposed earlier in June over anti-occupation protests in Tbilisi, came into effect. The sanction affected the Georgian tourism sector; however, it also provided more incentives to further diversify the country's tourist base.

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

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

Principal Risks and Uncertainties continued

Regional instability continued

Mitigation

The Group actively monitors regional and local market conditions and risks related to political instability, and the Georgian Government's response thereto. It performs stress and scenario tests in order to assess the impact on its financial position, and develops responsive strategies and action plans. While financial market turbulences and geopolitical tensions affect regional trading partners, Georgia's preferential trading regimes and well-diversified economy in terms of dependency on a single country, support the country to enhance resilience to regional external shocks.

Although the COVID-19 pandemic had an adverse impact on the Georgian economy, which is highly dependent on tourism revenues, a series of state support measures coupled with financial assistance from international financial institutions have partly mitigated the negative consequences of the pandemic. As a result, the Georgia economy contracted by 6.2% in 2020. Georgia is expected to return to economic growth during 2021 as more people get vaccinated, tourism gradually comes back, and various sectors of the economy are revived. We believe that Georgia's efforts to further diversify its economic linkages, use the potential of new large markets – the EU and China – and further enhance its institutions will enable the economy to deal with the external shocks relatively well.

In December 2019, the IMF's Executive Board approved the extension of the US$ 285 million economic programme with Georgia, approved in April 2017, by one year until 11 April 2021. The programme has not envisaged additional financing, however, after the COVID-19 pandemic outbreak the authorities have requested additional financial assistance of about US$ 375 million. The authorities have also secured additional donor assistance in the amount of US$ 1.5 billion that is expected to close the external financing gap. On 16 December 2020, the Executive Board of the IMF completed the Seventh Review of Georgia's programme. The completion of the review released SDR 79 million (about US$ 113.9 million) to help Georgia meet balance of payments needs stemming from the COVID-19 shock. Total disbursements so far under the arrangement amount to SDR 406 million (about US$ 585.4 million).

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

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

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

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

Loan portfolio quality

Principal risk/ uncertainty

The Group may not be able to maintain the quality of its loan portfolio.

The quality of the Group's loan portfolio may deteriorate due to external factors beyond the Group's control such as negative developments in Georgia's economy or in the economies of its neighbouring countries, the unavailability or limited availability of credit information on certain of its customers, any failure of its risk management procedures or rapid expansion of its loan portfolio.

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

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

Key drivers/ trends

Expected credit loss and, in turn, the Group's cost of credit risk could increase if a single large borrower defaults or a material concentration of smaller borrowers default. The Corporate and Investment Banking loan portfolio is concentrated, with the Group's top ten Corporate and Investment Banking borrowers accounting for 9.7% of gross loans to customers and finance lease receivables at 31 December 2020, as compared with 9.9% at 31 December 2019 and 9.8% at 31 December 2018.

As at 31 December 2020, the Group held collateral against gross loans covering 85.8% of the total gross loans to customers. The main forms of collateral taken in respect of Corporate and Investment Banking loans are liens over real estate, property, plant and equipment, corporate guarantees, inventory, deposits and securities, and transportation equipment. The most common form of collateral accepted in Retail Banking loans is a lien over residential property.

Downturns in the residential and commercial real estate markets, or a general deterioration of economic conditions in the industries in which the Group's customers operate, may result in illiquidity and a decline in the value of the collateral securing loans, including a decline to levels below the outstanding principal balance of those loans. In addition, declining or unstable prices of collateral in Georgia may make it difficult for the Group to accurately value collateral it holds. If the fair value of the collateral that the Group holds declines significantly in the future, it could be required to record additional provisions and could experience lower than expected recovery levels on collateralised loans. Further changes to laws or regulations may impair the value of such collateral.

During 2020, the Group's cost of credit risk ratio was 1.8%, as compared to 0.9% in 2019. The increase was driven by additional expected credit losses created for the full economic cycle in both Retail and Corporate and Investment Banking segments, primarily related to deterioration of macroeconomic environment and expected creditworthiness of borrowers as a result of the impact of the COVID-19 pandemic. As of 31 December 2020, 2019 and 2018, the Group's non-performing loans accounted for 3.7%, 2.1% and 3.3% of gross loans to customers and finance lease receivables, respectively.

Mitigation

The Group continuously monitors market conditions and reviews market changes, and also performs stress and scenario testing to test its position under adverse economic conditions.

Our Credit Committees and Credit Risk department set counterparty limits by using a credit risk classification and scoring system for approving individual transactions. The credit quality review process is continuous and provides early identification of possible changes in the creditworthiness of customers, including regular collateral revaluations, potential losses and corrective actions needed to reduce risk, which may include obtaining additional collateral in accordance with underlying loan agreements.

The Group continuously monitors the market value of the collateral it holds against the loans. When evaluating collateral for provisioning purposes, the Group discounts the market value of the assets to reflect the liquidation value of the collateral.

In terms of Retail Banking loan portfolio, when disbursing the loans to retail customers the Group strictly adheres to PTI and LTV ratios set by the NBG based on the rigorous assessment of clients' debt paying ability. This further reduces the risk of the loan portfolio quality in the event of real estate price reductions.

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

In terms of Corporate and Investment Banking loan portfolio concentration, the Group aims to adhere strictly to the limits set by the NBG for client exposures, monitors the level of concentration in its loan portfolio and the financial performance of its largest borrowers, uses collateral to minimise loss given default on its largest exposures and maintains a well-diversified loan book sector concentration.

Principal Risks and Uncertainties continued

Regulatory risk

Principal risk/ uncertainty

The Group operates in an evolving regulatory environment and is subject to regulatory oversight of the National Bank of Georgia, supervising the banking sector and the securities market in Georgia.

The financial sector in Georgia is highly regulated. The regulatory environment continues to evolve. We, however, cannot predict what additional regulatory changes will be introduced in the future or the impact they may have on our operations.

Key drivers/ trends

Our banking operations must comply with prudential ratios set by our regulator, the NBG, including reserve requirements, and mandatory financial ratios, as well as adhere to required regular report filings. Our ability to comply with existing or amended the NBG requirements may be affected by a number of factors, including those outside of our control, such as an increase in the Bank's risk-weighted assets, our ability to raise capital, losses resulting from deterioration in our asset quality and/or a reduction in income levels and/or an increase in expenses, decline in the value of the Bank's securities portfolio, as well as weakening of global and Georgian economies.

Since the Group is listed on the London Stock Exchange's main market for listed securities, it is subject to the UK Financial Conduct Authority regulations. Furthermore, the Group companies are also subject to relevant laws and regulations in Georgia. The Group's banking subsidiary in Belarus, BNB, is also subject to regulatory oversight of the National Bank of the Republic of Belarus (NBRB).

Mitigation

In order to ensure full compliance with relevant regulations, the Group has established systems and processes, which are embedded in all levels of the Group's operations. Continued investment in our people and processes enables us to meet our current regulatory requirements and means that we are well-placed to respond to any future changes in regulation.

In line with our integrated control framework, we carefully evaluate the impact of legislative and regulatory changes as part of our formal risk identification and assessment processes and, to the extent possible, proactively participate in the drafting of relevant legislation. As part of this process, we engage in constructive dialogue with regulatory bodies, where possible, and seek external advice on potential changes to legislation. We then develop appropriate policies, procedures and controls, as required, to fulfil our compliance obligations.

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

Liquidity risk

Principal risk/ uncertainty

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

Although the Group expects to have sufficient funding over the next 12 months and beyond to execute its strategy and to have sufficient liquidity over the next 12 months and beyond, liquidity risk is nevertheless inherent in banking operations and may be heightened by a number of factors, including an over-reliance on, or an inability to access, a particular source of funding, changes in credit ratings or market-wide phenomena, such as financial market instability.

Credit markets worldwide have in recent years experienced, and may continue to experience, a reduction in liquidity and long-term funding as a result of global economic and financial factors. The availability of credit in emerging markets, in particular, is significantly influenced by the level of investor confidence and, as such, any factors that affect investor confidence (for example, a downgrade in credit ratings of the Bank, Georgia, or state interventions or debt restructurings in a relevant industry) could affect the price or availability of funding for the Group companies, operating in any of these markets.

Liquidity risk continued

Key drivers/ trends

The Group's current liquidity may be affected by unfavourable financial market conditions. If assets held by the Group in order to provide liquidity become illiquid or their value drops substantially, the Group may be required, or may choose, to rely on other sources of funding to finance its operations and future growth. Only a limited amount of funding, however, is available on the Georgian inter-bank market, and recourse to other funding sources may pose additional risks, including the possibility that other funding sources may be more expensive and less flexible. In addition, the Group's ability to access such external funding sources depends on the level of credit lines available to it, and this, in turn, is dependent on the Group's financial and credit condition, as well as general market liquidity.

In terms of current and short-term liquidity, the Group is exposed to the risk of unexpected, rapid withdrawal of deposits by its customers in large volumes. Circumstances in which customers are more likely to withdraw deposits in large volumes rapidly include, among others, a severe economic downturn, a loss in consumer confidence, an erosion of trust in financial institutions or a period of social, economic or political instability. If a substantial portion of customers rapidly or unexpectedly withdraw their demand or term deposits or do not roll over their term deposits upon maturity, this could have a material adverse effect on the Group's business, financial condition and results of operations.

Furthermore, should the COVID-19 pandemic continue to cause disruption to economic activity in Georgia and globally, there could be adverse impacts on the Group's liquidity and funding positions.

Mitigation

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

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

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

Client deposits and notes are one of the most important sources of funding for the Group. As at 31 December 2020, 2019 and 2018, 88.7%, 90.4%, and 90.8%, respectively, of client deposits and notes had contractual maturities of one year or less, of which 48.2%, 55.2%, and 55.1%, respectively, were payable on demand. As of the same dates, the ratio of net loans to client deposits and notes was 101.2%, 118.4%, and 115.5%, respectively, and the ratio of net loans to client deposits and notes and DFIs was 89.4%, 103.2%, and 99.6%, respectively.

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

Furthermore, as part of its updated supervisory plan for the Georgian banking sector, aimed at elevating the negative financial and economic challenges created by the COVID-19 in Georgia, the NBG announced the readiness to revisit and reduce LCR requirements (on 1 May 2020, the NBG temporarily cancelled the 75% LCR requirement for local currency for a one-year period, or until further communicated by NBG), as well as mandatory reserve requirements, if necessary. Furthermore, the NBG has also introduced the FX swap instruments, and already extended the eligibility criteria for repo-eligible securities and this may be revisited further, if necessary, to support the local currency liquidity.

Principal Risks and Uncertainties continued

Capital risk

Principal risk/ uncertainty

The Bank faces the risk of not meeting the minimum capital adequacy requirements set by the NBG.

The Bank, like all regulated financial institutions in Georgia, is required to comply with certain capital adequacy ratios set by the NBG. The failure to maintain the minimum capital adequacy requirements may have a material adverse effect on the Group and may compromise its strategic targets.

Key drivers/ trends

Since December 2017, the Bank is subject to NBG capital adequacy regulation, which is based on the Basel III guidelines of the Basel Committee of Banking Supervision, with regulatory discretion applied by the NBG due to the specifics of the local banking industry. The new increased requirements are phased-in gradually with fully loaded requirement of capital adequacy ratios of risk-weighted assets effective by end of March 2023 (as amended in March 2020, and subsequently, as described below as part of the NBG's response to the COVID-19 pandemic outbreak).

Our ability to comply with existing or amended the NBG requirements may be affected by a number of factors, including those outside of our control, such as an increase in the Bank's risk-weighted assets, our ability to raise capital, losses resulting from deterioration in our asset quality and/or a reduction in income levels and/or an increase in expenses, local currency volatility, as well as weakening of global and Georgian economies.

In March 2020, as a response to the emerging COVID-19 pandemic, in agreement with the NBG, the Bank created a c.GEL 400 million general provision under the Bank's local regulatory accounting basis that is used to calculate the capital adequacy ratios. This provision covers the NBG's expectation of estimated credit losses on the Bank's lending book for the full economic cycle. This resulted in a decline in capital ratios in 2020, which still stood comfortably above the minimum regulatory requirements.

That said, should the COVID-19 pandemic continue to cause disruption to economic activity in Georgia and globally, there could be further adverse impact on the Bank's capital adequacy position.

Capital risk continued

Mitigation

The Group maintains an actively managed capital base to cover risks inherent to its business. As part of our capital adequacy management framework, we continuously monitor market conditions and review market changes, and perform stress and scenario testing to test our position under adverse economic conditions, market and regulatory developments. Capital position is continuously monitored by the management, as well as the Board, to ensure prudent management and timely actions, when necessary.

In 2019, we underwent the capital optimisation exercise to strengthen the Bank's capital position and enable the realisation of the potential upsides. For that, in March 2019, the Bank issued inaugural US$ 100 million Additional Tier 1 Capital Notes, which marks the first ever AT1 transaction from Georgia. This issuance helped Bank of Georgia optimise its capital structure from a foreign currency perspective, and provided a natural hedge against operating in a dollarised economy. Further, in December 2019, the Bank signed a ten-year US$ 107 million subordinated syndicated loan agreement arranged by FMO – Dutch entrepreneurial development bank in collaboration with other participating lenders, which qualifies for the Tier 2 capital instrument under the NBG Basel III framework. In addition, in December 2020, the Bank signed an amendment to the syndicated Tier 2 facility on increasing the loan exposure by additional US$ 20 million.

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

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

- Combined buffer – the conservation buffer requirement of 2.5% of risk-weighted assets has been reduced to 0%.
- Pillar 2 requirements:
  - Currency induced credit risk buffer (CICR) requirement reduced by two-thirds.
  - The phase-in of additional credit portfolio concentration risk buffer (HHI) and net general risk assessment programme (GRAPE) buffer requirements on Common Equity Tier 1 (CET1) and Tier 1 capital, planned at the end of March 2020, has been postponed indefinitely; however, the phase-in of additional HHI and GRAPE buffer requirements were postponed till end of March 2021 as subsequently instructed by the NBG.
  - The possibility of fully or partially releasing the remaining requirements of Pillar 2 buffers (HHI, CICR, net GRAPE), if necessary, remains open.
- During the period the banks are allowed to partially or fully use the Pillar 2 and conservation buffers, the banks are restricted to make capital distribution in any form.
- The banks will be given sufficient time to build up capital buffers back to pre-crisis level.

The Group's capital position remains robust, and comfortably above our minimum regulatory requirements. At 31 December 2020, having absorbed the full upfront c.GEL 400 million local regulatory accounting general provision, the Bank's Basel III Common Equity Tier 1, Tier 1 and Total capital adequacy ratios stood at 10.4%, 12.4% and 17.6%, respectively, all comfortably above the minimum required levels of 7.4%, 9.2% and 13.8%, respectively.

Principal Risks and Uncertainties continued

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

Principal risk/ uncertainty

We are at risk of experiencing cyber-attacks, attempts to gain unauthorised access to our systems, and financial crime, as well as failures in our banking activity processes or systems or human error, which could disrupt our customer services, result in financial loss, have legal or regulatory implications and/or affect our reputation.

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

We may be adversely affected if we fail to mitigate the risk of our products and services being used to facilitate a financial crime.

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

Key drivers/ trends

Information-security threats have continued to increase over the past few years and we have seen a number of major organisations subject to cyber-attacks. Fortunately, our operations have not been materially affected and we have not suffered a data breach. The external threat profile is continuously changing, and we expect threats to continue to increase.

Over the past few years, as our operations have expanded and our focus has been directed towards more digitalisation of banking products and services, we have seen an increase in electronic crimes, including fraud, although losses have not been significant. Money laundering (ML) and Terrorism financing (FT) risks, which the Bank has measures in place to guard against, continue to evolve globally. The Bank continues to face stringent regulatory and supervisory requirements related to the fight against ML/TF. Failure to comply with these requirements may lead to enforcement action by the regulator, which can result in a pecuniary penalty and negatively impact the Group's reputation.

Mitigation

We have an integrated control framework encompassing operational risk management, IT systems, and corporate and other data security, each of which is managed by a separate department.

We have an anti-money laundering (AML)/counter-terrorist financing (CTF) framework which includes a risk-based approach (RBA) towards the ML/FT risks, Know Your Customer (KYC), transaction monitoring, sanctions and transaction screening, transaction reporting, correspondent relationship assessment and monitoring, and training programmes. The framework is designed to comply with the local legislation, international standards (Financial Action Task Force (FATF) recommendations), and international financial sanctions programmes. We continue to enhance our AML compliance function by strengthening the Bank's AML compliance framework, policies and procedures (including ML/FT risk management policy, KYC and Customer Acceptance Policy). We have invested significant resources to further improve our ML/FT risk management capabilities, including transaction monitoring solutions. We have a regulatory change management process in place ensuring timely compliance with the new regulations.

We identify and assess operational risk categories within our risk management framework, identify critical risk areas or groups of operations with an increased risk level, and develop policies and security procedures to mitigate these risks.

In a view of continuous technological advancements, which inevitably lead to the change of the cyber-threat landscape, we are committed to implementing preventive and reactive measures to protect information in all of its forms from loss, unauthorised access, use, disclosure, modification or destruction. To this end, we have established a rigorous information security programme, which is aligned with current business and regulatory requirements, and an emerging threat landscape.

Policies and standards: Designated Governance and Risk Management unit develops and maintains a comprehensive set of information security policies and standards, which are regularly reviewed by this unit to ensure that they are up to date. These policies and standards are reviewed and approved by the relevant governance bodies on an annual basis, are aligned with recognised industry standards, such as those determined by the National Institute of Standards and Technology (NIST) and the International Organisation for Standardisation (ISO), and are made available to all relevant personnel through internal channels.

Internal and external information security checks: To ensure the adequacy and effectiveness of our risk management, internal controls and systems in place, we carry out regular information security checks internally, and with the assistance of external consultants. Our Internal Audit department independently evaluates the Bank's overall control environment, issues recommendations and monitors the implementation of control measures. Once a year, we engage external auditors to conduct a cyber-security audit. In addition, we regularly initiate authorised simulated attacks on our system, have an internationally recognised vendor conduct a penetration test once a year, and carry out vulnerability assessments on a quarterly basis.

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

Mitigation

Access management: We have access controls in place that are based on general principles such as least privilege access, separation of duties, defence in depth, and privileges commensurate with a particular role's duties. We continuously strive towards keeping the existing controls up to date. In response to our employees working remotely due to the COVID-19 pandemic outbreak, to address remote-work-related information and cyber-security risks, we developed new monitoring rules and alerts, and modified thresholds to detect anomalous activity, while working from unprotected home networks, and we tightened security requirements for gaining remote access.

Vendor security: While the effective relationships with vendors are essential for our continued success, we understand that they can pose significant risks to our information security. We have established a comprehensive procedure for evaluating the maturity of vendors' information security and business continuity practices. As part of the selection process, vendors are subject to information security due diligence assessment. In line with the findings of vendors' information security due diligence assessment, necessary contractual and technical controls are implemented. Existing vendor relationships are subject to, at a minimum, annual monitoring and review to determine their fulfilment of information security requirements. Termination of a relationship with a vendor is subject to exit procedures to ensure protection of our information's confidentiality, integrity, availability and accountability.

Awareness programmes: We conduct awareness campaigns to help personnel recognise information security concerns and respond accordingly. Information security training is a requirement for all of our personnel as part of the onboarding process, and afterwards once a year. On a quarterly basis, the Information Security department initiates a phishing campaign to test the ability of our personnel to detect phishing attacks and respond duly. On a periodic basis, the Information Security department sends awareness emails and shares posts through internal channels regarding current information security threats.

In response to the COVID-19 pandemic outbreak, we developed a mandatory specialised training course for our personnel about working remotely in a secure manner, to protect themselves against the emerging information security threats (phishing emails claiming to contain information about COVID-19, among others).

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

The Bank's Internal Audit function provides assurance on the adequacy and effectiveness of our risk management, internal controls and systems in place. These types of operational risk are on the Audit and Risk Committees' regular agenda and are also frequently discussed at the Board level.

COVID-19 pandemic impact risk

Principal risk/ uncertainty

The COVID-19 outbreak was declared as a global pandemic at the beginning of 2020 and continues to rapidly spread throughout the world. The spread of the virus has led to global shutdowns. Full lockdown in Georgia was introduced on 21 March 2020, and a state of emergency declared in the country, which lasted for around two months, after which the Government started to gradually release restrictions and open the economy.

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

There is still uncertainty over the magnitude of the global slowdown that will result from this pandemic. The Georgian economy is well-diversified, both by sector and in terms of trading partner country dependence; however, if the virus leads to a continued global shutdown, then a significant negative impact on the hospitality sector in Georgia is expected. This may also impact other areas of the Georgian economy, such as real estate. A prolonged COVID-19 spread, protectionism, and a protracted slowdown in major trading partners, along with intensified regional conflicts and security risks could harm investment and reduce external demand, especially tourism, for longer. Delays in structural reforms may deepen the damaging effects from the crisis. An opposition boycott of the new Parliament may exacerbate uncertainty and harm the recovery.

Principal Risks and Uncertainties continued

COVID-19 pandemic impact risk continued

Key drivers/ trends

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

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

At the end of March 2020, the NBG introduced an updated supervisory plan for the Georgian banking sector, aimed at alleviating the negative financial and economic challenges created by the global COVID-19 pandemic in Georgia. The measures, which were introduced with immediate effect, were mainly focused on capital adequacy and liquidity initiatives that allow banks to use existing regulatory capital buffers to support customers in the current financially stressed circumstances, to continue normal business activities as far as possible, and to support the economy through ongoing lending operations.

See pages 17 to 18 for a detailed outline of initiatives implemented by the Government of Georgia and the National Bank of Georgia as a response to the COVID-19 pandemic outbreak.

Mitigation

The Group has introduced a number of resilience protocols and a comprehensive Business Continuity Plan (BCP) aimed at curbing the spread of COVID-19 in Georgia and mitigating the negative impact on our business and the community. We started developing the BCP at the end of January 2020, such that all of our operations would be successfully adapted to the new operating environment, while establishing the health and safety of all our staff and customers as the number one priority. Our BCP was focused on four main pillars: operational continuity (employees and customers), supporting the public health system and communities, abundant liquidity, and strength of capital.

Operating continuity and supporting communities: We have put in place a number of initiatives to reduce physical interaction and prevent the spread of the COVID-19, whilst maintain the full banking capability required to support and assist our customers. This included additional safety measures and protocols introduced in everyday working environment, moving back office staff to working from home, significantly enhancing the capacity of the call centre, temporarily closing the customer service support areas of express branches, with only the self-service terminals and ATM areas remaining open, implementing a three-month grace period on principal and interest payments on all retail loans to significantly reduce the requirement for customers to physically visit branches, incentivising the offloading of customer activity to digital channels, among others. In the fourth quarter of 2020, following the emergence of the second wave of the COVID-19 cases, the Bank again adjusted accordingly, moving a large part of its back office staff to remote work and reintroducing two-week shifts for certain departments and the front office staff. See pages 21 to 23 for a detailed outline of initiatives implemented as part of the BCP by the Group to respond to the COVID-19 pandemic outbreak.

COVID-19 pandemic impact risk continued

Mitigation

Capital, liquidity and funding positions: As a result of extensive stress and scenario testing analysis, we have put in place certain initiatives to ensure the Group has sufficient liquidity and capital to meet regulatory requirements and to ensure the operational continuity of the business and the financial support of its customers. Furthermore, the NBG implemented countercyclical measures to support the financial stability of the banking system to be able to adequately respond to the crisis. See detailed plans and initiatives put in place by the Bank to further strengthen our capital and liquidity and funding positions, as well as the NBG's response to the COVID-19 crisis, above, in the sections on Mitigation of Capital risk and of Liquidity risk.

Furthermore, as mentioned above, through mobilisation of financing from international organisations and through its anti-crisis stimulus plan, the Government announced a series of support measures and packages for individuals and businesses to mitigate the negative economic impact of COVID-19.

We are monitoring the developing economic trends on the back of the COVID-19 pandemic and its impact on our business, customers and employees on an ongoing basis. There is still significant uncertainty over the magnitude of the global slowdown that will result from this pandemic, and we will continue to take appropriate actions to proactively manage evolving circumstances.

Emerging risk – Climate change

Principal risk/ uncertainty

Financial risks resulting from the process of adjustment towards a lower-carbon economy and from weather-related events both extend across multiple categories such as revenues, expenditures, assets and liabilities, capital and financing and operations.

Key drivers/ trends

We consider sustainability to be integral to the growth of business. We are pioneering sustainability practices in operations in Georgia, for example through our Environmental and Social Risk Management System. We also understand that it is increasingly important to integrate climate risk to improve overall credit risk and responsible decision-making process.

There is increased focus on these risks by key stakeholders such as international institutions, customers and investors. Further the regulatory landscape is evolving to reflect climate change risk and will become subject to new reporting requirements and regulatory guidance.

Mitigation

We are raising climate awareness across the Group and deepening our understanding of climate risks and opportunities. The Group's Environmental and Social Policy governs its environmental and social risk management procedures that allow identifying, assessing, managing and monitoring environmental and social risks.

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

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

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

An initial Road Map has been prepared by the Bank in 2020 for implementation in 2021 and beyond. See page 127 for further information on these initiatives.

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

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

Going Concern and Viability Statements

Going concern statement

In adopting the going concern basis for preparing the consolidated financial statements, the Directors have considered the Group's business activities, objectives and strategy, principal risks and uncertainties in achieving its objectives, and performance that are set out on pages 28 to 99 and pages 132 to 149. The Directors have performed a robust assessment of the Group's financial forecasts across a range of scenarios over a 12 months period from the date the financial statements are authorised for issue by carrying out stress testing, incorporating extreme downside scenario and reverse stress testing, which involved examining the level of disruption that may cause the Group to fail. The assessment specifically incorporated analysis of the COVID-19 pandemic impact implications on the Group's projected performance, capital, liquidity and funding positions, including the impact of scheduled repayment of borrowings and other liabilities. Based on these, the Directors confirm that they have a reasonable expectation that the Company and the Group, as a whole, have adequate resources to continue in operational existence for the 12 months from the date the financial statements are authorised for issue. Therefore, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the accompanying consolidated financial statements.

Viability statement

The Directors performed a robust assessment of the Group's prospects to meet its liabilities by taking into account its current financial position and principal risks over a three-year period beginning 1 January 2021, being the first day after the end of the financial year to which this report relates.

In determining the appropriate period over which to make their assessment, the Directors considered the duration of strategic plans and financial forecasts, which are usually set and prepared for a three-year period, the nature of the Group's activities, as well as the evolving nature of the regulatory and macroeconomic environment in which the Group operates. A period of three years beyond the balance sheet date was therefore considered the most appropriate viability period for the Group.

In order to consider the Group's viability, the Board considered a number of key factors, including:

- the Group's financial and operational position, including capital allocation and other key financial ratios;
- the Group's risk appetite;
- the Group's business model and strategy, as set out on pages 28 to 29;
- the Group's principal risks and uncertainties, including emerging risks, as set out on pages 86 to 99;
- the effectiveness of the Group's risk management framework and internal control processes; and
- stress testing and reverse stress testing, as described below.

The key factors above have been reviewed in the context of the Group's current financial position and strategic plan, financial budgets and forecasts, assessed annually and on a three-year basis.

The viability assessment involved a risk identification process which included recognition of the principal risks to viability (risks that could impair the Group's business model, future performance, solvency or liquidity), including the impact of the COVID-19 pandemic, excluding risks not sufficiently severe over the period of assessment.

The principal risks and uncertainties, including emerging risks, are set out on pages 86 to 99. We also identified other risks which, while not necessarily severe in themselves, could escalate when combined with others. For each risk, we considered our risk appetite and tolerance, as well as risk proximity and momentum.

For those risks considered sufficiently severe to affect our viability, we performed stress testing for the assessment period, which involved modelling the impact of a combination of severe and plausible risks. In addition, we performed reverse stress testing, which involved examining the level of disruption that may cause the Group to fail. The Group has examined, among others, the impact of the following risks over the assessment period: the risk of macroeconomic environment and regional instability (decline in growth rate of the economy, Georgian Lari depreciation against US Dollar; increase in unemployment rate; increase in inflation rate; change in real estate prices; increase in market interest rates on attracted funds, as a result of increase in NBG's monetary policy rate, US Fed rate, and ECB rate); liquidity risk (one-off withdrawal of customer funds); the risk of non-compliance with regulatory requirements (capital adequacy and liquidity); and operational risk, including cyber-security risk in connection with our digitalisation strategy. Each of these stress and reverse stress testing scenarios are referred to in our principal risks and uncertainties. The test scenarios were then reviewed against the Group's current and projected capital adequacy position and solvency, and liquidity position, considering current committed funding. The testing also took into account the availability and likely effectiveness of mitigating actions that could be taken to avoid or reduce the impact or occurrence of the identified underlying risks to which the Group is exposed, such as a decline in lending activity, partial or full suspension of share buybacks for the share-based compensation scheme and dividend distribution, and decrease in excess liquidity via release of customer deposits. It also took into account the assumption that the Group will be able to prolong or refinance existing borrowings, or increase the financing from DFIs, on terms similar to existing ones. In relation to the reverse stress testing scenario, we also took into account the write-down of the Bank's AT1 capital notes, use of mandatory reserves placed in NBG, and the release of all Pillar 1 and Pillar 2 buffers under the Basel III capital requirements set by NBG.

The Directors have also satisfied themselves that they have the necessary evidence to support the statement in terms of the effectiveness of the Group's risk management framework and internal control processes in place to mitigate risk.

Based on these analyses, the Directors confirm that they have a reasonable expectation that the Group will be able to continue operation and meet its liabilities as they fall due over the three-year period from 1 January 2021 to 31 December 2023.

Responsible Business

Sustainability at the heart of our business

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

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

Evolving strategy

In 2020, the Bank aligned its corporate purpose and mission with the UN Sustainable Development Goals 2030 (SDGs). Recognising that each of the 17 SDGs have some relevance to the Bank's direct or indirect activities, particular focus is given to the five goals which we consider material to our business. See more details on the selected SDGs on page 27. The Bank's contributions to these goals in 2020 are signposted by the relevant icons throughout this report.

The information throughout this section is presented in relation to Bank of Georgia, unless otherwise indicated.

External recognition of our performance

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

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

The Bank's ESG performance in 2020 has also been given high scores by the independent ratings agencies.

ISS*

ENVIRONMENT	SOCIAL	GOVERNANCE
3	2	4

MSCI**

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

CCC	B	BB	BBB	A	AA	AAA
LAGGARD		AVERAGE			LEADER	

2X CHALLENGE FINANCING FOR WOMEN

In 2020, Bank of Georgia was recognised by its lending partner Development Finance Institutions (DFIs) as meeting the criteria of the 2X Challenge for women's economic empowerment and gender equality.

The 2X Challenge was launched in June 2018 as a major new commitment of the DFIs from the G7 countries to unlock resources that will help advance women's economic empowerment and gender equality.

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

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

** MSCI score is as of 18 November 2020.

Customer empowerment

Success of our customers and their businesses is our success.

Supporting customers through the pandemic

2020 was an overwhelming year for our customers. The new reality and the economic fallout of the COVID-19 pandemic meant that we had to promptly address new needs and unique challenges facing our customers. We anticipated hard lockdown in March 2020 and quickly adapted our operations and service model to ensure uninterrupted delivery of our products and services. Most of the branches remained open with robust health and safety measures in place. At the same time, we accelerated digitalisation and launched initiatives to support more customers to use digital channels. To mitigate the pandemic-induced anxiety and give customers time to deal with and adapt to the new environment, we also offered three-month payment holidays on retail loans. See pages 20 to 23 for more information.

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

In the wake of the COVID-19 pandemic, the Group's digital ecosystem arm, Digital Area, has launched a unique digital solution – **adapter.ge**, combining **Optimo**, an inventory and order management platform, with **extra.ge**, a digital marketplace, to enable merchants to undergo fast and efficient transformation to digital sales with just a simple plug-in. To date, more than 600 businesses have been onboarded to the solution.

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

For more information on how we have supported our customers during the pandemic, see pages 20 to 23.

Digital acceleration

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

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

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

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

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

For more information on the features added to mBank/iBank in 2020, see pages 54 to 59.

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

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

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

Data and cybersecurity

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

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

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

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

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

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

Data privacy roles and responsibilities

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

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

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

Financial health

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

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

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

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

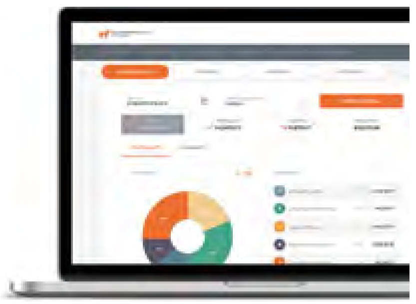
The features that we added to mBank in 2020 further simplify day-to-day financial management. For more information on our digital channels, see pages 54 to 59.

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

Our investment banking and brokerage arm Galt & Taggart has recently launched a video series to increase awareness of investing basics and investment products. The project is ongoing in 2021, with more content to be developed and shared during the year.

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

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



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

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

Banking safely

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

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

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

Responsible communications

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

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

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

Customer feedback

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

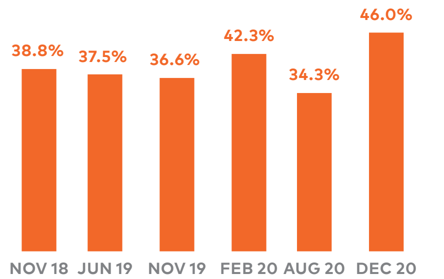
We collect, measure, and review customer feedback across all segments, channels, products, and customer journeys. In 2019, the Bank invested in the world's leading Customer Experience (CX) management platform, Medallia. With Medallia we collect and analyse customer feedback, respond to issues as they arise, and implement projects to make systemic improvements and create more positive and personalised customer experiences. For more details on Medallia, see page 39.

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

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

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

NPS



Empowering business customers

Client at the centre of everything

Data behind every decision

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

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

By ensuring that comprehensive environmental and social risk assessments and the necessary action plans are undertaken, we support our customers to comply with the national environmental and social legislation. During site visits, we provide our customers with advice and guidance on best practices and standards in these areas. We update them on environmental, health and safety, as well as labour and human rights issues, and we monitor their compliance with environmental and social legislation. In many non-compliance cases, our management of environmental and social risks has helped our customers, and MSMEs in particular, address the issues that would otherwise have led to financial and legal sanctions from the state enforcement agency. For more information on environmental and social risk management, see page 99.

MSMEs

MSMEs are the drivers of Georgian economy and sustainable development. We provide financing and value-added services to MSMEs that constitute c.23% of the Group's total gross loan portfolio.

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

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

Empowering businesses – value-added services

Women in business

Empowering women entrepreneurs with educational and coaching programmes

#Icreate

Promoting ideas and businesses

Advisory services New

Network of credible advisory service providers for businesses

Business support New

Programmes in:

- Sales
- Digitalisation
- Lean operations

Support for business development

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

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

Keeping our business customers informed has been especially crucial throughout the turbulence of the COVID-19 pandemic. We have organised webinars for clients to discuss the impact of the COVID-19 pandemic on the Georgian economy and economic scenarios for 2020, as well as other key issues, such as taxes, operational excellence, human capital, marketing and sales, and digitalisation, among others. Our priority has been to help businesses deal with the crisis, successfully adapt to the new reality, and better prepare for the future. **Up to 4,000 MSME customers have attended these webinars.**

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

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

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

Supporting women entrepreneurs

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

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

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

Corporate and Investment Banking

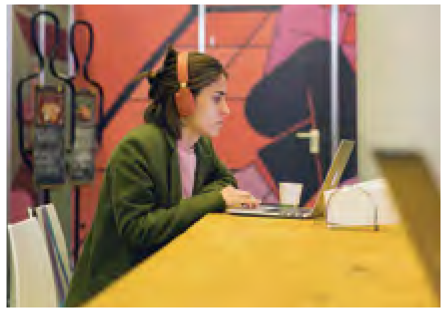
Bank of Georgia is a leading corporate lender in the country with deep industry knowledge backed by quality research of our investment banking arm, Galt & Taggart.

Our CIB loan book reached GEL 4.7 billion at 31 December 2020, up 22.5% year-on-year. We work with and finance c.3,100 corporate businesses in Georgia. For more information on Corporate and Investment Banking business, see pages 48 to 53. Representative examples of CIB customer projects that demonstrate the Bank's Mission and alignment with the SDGs are presented below.

Education

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

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



Infrastructure

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

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

Healthcare

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

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

Manufacturing

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

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

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

Agriculture

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

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

Employee empowerment

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

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

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

Our policies

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

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

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

- Code of Conduct and Ethics (https://bankofgeorgiagroup.com/governance/documents)
- Human Rights and Grievance Policy
- Anti-Bribery and Anti-Corruption Policy (https://bankofgeorgiagroup.com/governance/documents)
- Diversity Policy (https://bankofgeorgiagroup.com/governance/documents)
- Employee Corporate Handbook, including Employee Code of Conduct
- Whistleblowing Policy (https://bankofgeorgiagroup.com/governance/documents)

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

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

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

Culture and conduct

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

Our Code of Conduct is fundamental to fostering the culture of **teamwork, development, fairness, customer centricity, operational excellence, and innovation.** It clearly sets the expectation that all employees act legally, ethically, and transparently in all their dealings. The Code of Conduct represents an integral part of an employment agreement between the Bank and an employee. Employees joining the Bank acknowledge their obligations under the Code of Conduct. Non-observance of such obligations or any failure to observe them can result in a disciplinary action up to and including the termination of employment.

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

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

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

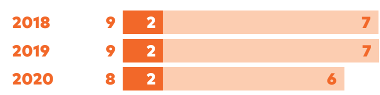
In July 2020, our efforts to address barriers to the employment of women were recognised by 2X Challenge, an initiative that seeks to empower women as entrepreneurs, as business leaders, as employees and as consumers of products and services that enhance their economic participation. The Bank signed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

The percentage of women in the Executive Committee equivalent and Direct Reports for the Group is 45.2% as at 31 October 2020 (date of Hampton-Alexander Review submission). According to the statistics in the 2020 Hampton-Alexander report, if we were in the FTSE 250, this would place the Group in the number 1 spot for the banking sector.

Our employees

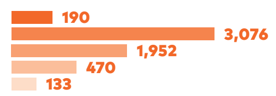
Directors
Group headcount

8



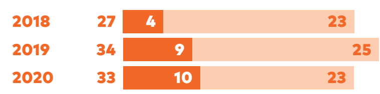
Employee headcount by age
Bank of Georgia

5,821



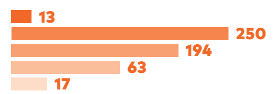
Senior managers
Group headcount

33



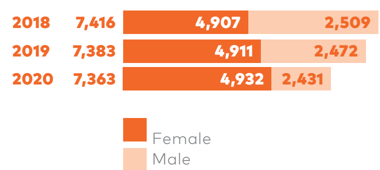
Employee headcount by age
BNB

537



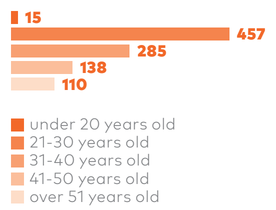
All employees
Group headcount

7,363



Employee headcount by age
Others

1,005



Talent attraction and retention

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

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

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

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

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

60%

of the Group's total new hires were women in 2020
(62% in 2019)

237

(130 women and 107 men)
Group's employees were promoted to managerial positions in 2020

New positions filled in 2020 with

54%

internal candidates
(10 ppts increase from 2019)

23%

internal mobility rate* in 2020
(22% in 2019)

83%

employee retention rate in 2020**
in line with the market benchmark

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

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

* Internal mobility rate: total number of promotions and lateral moves during the entire measurement period divided by average monthly number of employees for the period.
** Retention rate: percentage of employees who remained employed during the entire measurement period, calculated on an annual basis.

39

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

72

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

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

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

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

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

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

-1%

Equal Pay Gap (EPG)

Encouraging lifelong learning

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

Bank of Georgia's continuous professional development:

Career entry programmes – Talent attraction:

- Leaderator
- Internship by career field

Professional programmes for front and back office employees:

- Onboarding package
- Risks and compliance programmes
- Banking products and services
- Software-related programmes
- Communication skills programmes
- High-potential employees programmes

Management programmes:

- Management skills (leadership and management, team management, delegation, among others)
- Effective feedback skills programme
- Leadership Development Executive Coaching programme (individual and team coaching sessions)

Executive programmes:

- Leadership Development Executive Coaching programme (individual and team coaching, mentoring sessions)
- Individual Business Coaching programme

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

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

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

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

More than 3,000 employees accessed the platform in 2020.

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

Talent management process

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

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

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

Renewed talent programmes will be launched in 2021.

Our 2020 training statistics

5,481
unique employees attending trainings in 2020
(5,723 employees in 2019)

23.1
average training hours **per employee in 2020**
(27.5 average training hours in 2019)

36.1
average training hours **per new hire in 2020**
(37.3 average training hours in 2019)

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

Learning with customer feedback

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

The Employee Experience Management and the Customer Experience Management teams often work together to refine their approaches and implement joint initiatives. The Customer Experience Management team tracks and regularly analyses customer feedback from Medallia (see details on page 39), and shares insights and potential upsides with the Employee Experience Management team. The latter converts this information into specific initiatives for relevant business lines to empower employees with knowledge and enable them to capture opportunities to improve overall performance. This approach encourages employees to be more engaged with their work, leading to better customer experiences across businesses and channels. We also use customer feedback gauged through Medallia to update and design trainings to help employees better respond to evolving customer needs.

Meaningful employee experiences

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

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

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

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

Culture of recognition

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

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

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

Engaging with and listening to our employees

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

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

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

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

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

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

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

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

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

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

Measuring employee empowerment

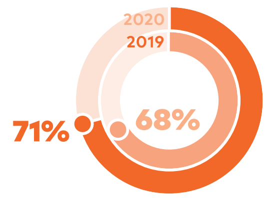
To measure the effectiveness of employee empowerment initiatives and monitor their sustainability, we closely track employee engagement and internal culture via internal and external surveys. Specifically:

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

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

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

Korn Ferry Engaged Performance™



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

+13%
Bank shows care and concern for its employees

+3%
I receive recognition when I do a good job

+8%
Bank has the right strategic priorities

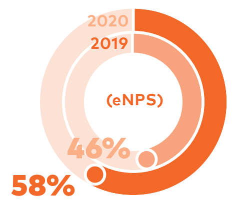
+7%
Conditions allow me to be as productive as possible

+6%
Bank is innovative in how the work is done

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

Employee Net Promoter Score (eNPS)

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



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

Health, safety and security

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Details on the measures taken by the Group to protect the health and wellbeing of its employees during the COVID-19 pandemic are outlined on page 22.

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

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

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

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

Communities

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

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

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

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

Education

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

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

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

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

Scholarships

Fulbright master's programme

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

Chevening scholarship programme

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

San Diego State University in Georgia

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

Miami Ad School – Nika Gujejiani scholarship

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

Improving educational infrastructure

Ideathecas – multifunctional libraries in schools

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

Social space for students

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

Solar panels in mountain regions

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

Other educational opportunities

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

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

Employment

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

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

Supporting MSMEs

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

In 2020, Bank of Georgia Group, in collaboration with the Georgian Innovation and Technology Agency (GITA), brought 500 Startups, the world's biggest business accelerator, to Georgia. 500 Startups stimulates the development of Georgian startups, strengthening the country's business ecosystem and boosting its investment potential as a result. This programme has offered Georgian startups a unique opportunity to refine business ideas with the support of successful business founders and a group of mentors and take part in a four-month acceleration programme. See pages 63 to 64 for more details.

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

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

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

For more information on how we have stood by businesses during the pandemic, see pages 22 to 23.

Support for social entrepreneurship

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

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

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

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

Charity

Supporting Protected Areas of Georgia

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

https://vimeo.com/478074502

Fight against COVID-19
To help fight COVID-19 in the initial phase of the pandemic outbreak in Georgia, Bank of Georgia purchased 20,000 laboratory tests, ten ventilators, 50,000 face masks and 60,000 pairs of single-use gloves, which were donated to the Ministry of Health of Georgia. See pages 20 to 23 for more details on COVID-19-related initiatives.

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

supergmiri.ge

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

supergmiri.ge identifies children in adverse conditions and connects them to people who can change their lives for the better. Beneficiaries are vulnerable children aged 3-16. The platform creates their profiles, and publishes their stories and matches children with their "superheroes". Children receive a monthly package from their superheroes including products and service vouchers tailored to a child's development needs and interests. In addition, superheroes can provide mentoring support.

Bank of Georgia supports supergmiri.ge in financing administrative costs and marketing communications to improve platform efficiency and increase awareness through social media and marketing campaigns.

The platform currently has 185 sponsored children and 192 superheroes/donors.

Environment

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

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

Indirect environmental and social impact through business operations

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

Environmental and Social Management System

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

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

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

The following policies define Bank of Georgia's sustainability approach, and some of them can be accessed on the website at https://bankofgeorgiagroup.com/governance/documents:

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

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

Environmental and social procedures

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

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

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

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

Environmental and social risk assessment

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

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

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

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

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

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

Environmental and social monitoring

The Bank regularly monitors the E&S risks associated with the Bank's activities by assessing clients' compliance and ensuring E&S commitments are met. The frequency and type of monitoring is determined according to the type of transaction being financed and the level of E&S risk. Our E&S team conducts portfolio-wide reviews of specific sectors, where E&S risks are considered high and, in some cases, the Bank's staff visit high-risk customers on a regular basis. Monitoring of Category A projects (developments on greenfield land, or major extension or transformation-conversion projects, which may give rise to significant or long-term environmental and social risks and impacts) and IFC PS triggered transactions are undertaken on an annual basis. Where necessary, the Bank may use independent external E&S professionals to monitor these projects implementation and progress. All high-risk clients are required to provide the Bank with an annual report on their environmental and social performance, and the implementation of applicable Environmental and Social Action Plans. Any Category A project is required to provide the Bank with an annual E&S performance report. Such projects will have annual monitoring visit by our E&S staff during the construction period and/or until major E&S issues are resolved and satisfactorily monitored by the customer.

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

The Bank's Environmental and Social Risk Unit

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

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

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

Reporting to our supranational stakeholders

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

External communications – grievance mechanism

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

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

Internal training events

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

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

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

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

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

Employees attended training on environmental and social topics in 2020

41

Training hours spent on environmental and social topics in 2020

262

Climate change-related risk management

The Bank has identified Climate Risk as an emerging risk (see page 99). As such, we intend to integrate climate change-related risks into our credit risk framework and our business resilience assessments. We will be describing and managing climate-related risks in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

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

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

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

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

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

Direct environmental impact

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

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

Energy consumption

Greenhouse gas (GHG) emissions and calculating methodology

The Bank measures its GHG emissions annually. We have reported our GHG emissions and energy use consistent with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. In addition, we have reported on the Scope 3 emissions related to our business travel. All reported sources fall within our Consolidated Financial Statements, which can be found on pages 214 to 343. We do not have responsibility for the emission sources that are not included in our Consolidated Financial Statements.

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

Emissions and energy data

	2018	2019	2020
Total tCO_2E	**4,089**	**3,551**	**4,141**
tCO_2E / employee	**0.702**	**0.604**	**0.711**
Scope 1 tCO_2E	2,034	1,508	1,835
Scope 2 tCO_2E	1,484	1,508	1,559
Scope 3 tCO_2E	571	535	746
Gas (m3)	458,475	292,741	389,429
Electricity (MWh)	15,622	15,874	16,418
Full-time employees	5,828	5,879	5,821

The data is collected and reported in respect of the Bank as the main operating unit and the core entity of the Group, including its offices and retail branches where the Bank has operational control.

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

In addition to our operations in Georgia, we utilise a small amount of shared office space in the UK (total annual electricity consumption less than 5,000 kWh), and also in Belarus. In addition, given the limited operations in the UK it has not been practicable to calculate the exact emissions generated in the UK. We do not consider these as material (i.e. they are substantially less than 2% total emissions**) in the context of emission sources for the Group's main operations in Georgia.

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

** Page 47, HMRC Department for Environment and Rural Affairs (Defra), Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance. March 2019 (Updated Introduction and Chapters 1 and 2) https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/850130/Env-reporting-guidance_inc_SECR_31March.pdf

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

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

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

- used electricity at owned and controlled sites.
- We have used the 2018 JRC conversion factor (0.095 tCO_2-eq/MWh for our Scope 2 emissions.

Scope 3 includes emissions from:

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

Energy consumption

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

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

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

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

Water consumption

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

Paper consumption

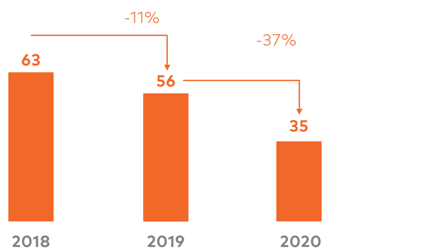
In addition to digital records, the Bank retains paper records of certain transactions in line with regulatory requirements. In all other cases, we reduce the paper consumption through the greater use of digital media and more efficient printing. In 2020, the Bank implemented a new paper consumption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

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

We increased our paper recycling rate during 2020:

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

Paper usage (kg) per FTE



Waste management

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

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

Working with suppliers

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

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

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

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

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

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

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

Non-financial information statement

This section of the Strategic Report constitutes the Group's non-financial information statement, in accordance with sections 414CA and 414CB of the Companies Act 2006, which outline requirements for non-financial information reporting. The table below is intended to provide our stakeholders with the content they need to understand our development, performance, position and the impact of the Group's activities with regards to specified non-financial matters.

Reporting requirement	Where to find the information in the Annual Report	Page(s)	Some of our relevant policies
Environmental matters	Environment	124 to 130	Environmental and Social Policy
Employees	Employee empowerment	112 to 120	Code of Conduct and Ethics
	Directors' Governance Statement – shareholder and stakeholder engagement	159	Diversity Policy
			Whistleblowing Policy
	Nomination Committee Report	170	Human Rights Policy
			Anti-Nepotism Policy
			Employee Corporate Handbook
Social matters	Communities	121 to 123	Environmental and Social Policy
			Sponsorship and Charity Policy
Human rights	Employee empowerment	112 to 120	Human Rights Policy
	Customer empowerment	104 to 111	Code of Conduct and Ethics
			Remuneration Policy
			Grievances and Personal Data Protection Policy
Anti-bribery and anti-corruption	Code of ethics, anti-bribery and anti-corruption policies	112	Code of Conduct and Ethics
			Anti-Bribery and Anti-Corruption Policy
			Whistleblowing Policy
Business model	Business model and strategy	26 to 29	
	Delivering on our strategy	30 to 67	
Non-financial KPIs	Key performance indicators	68 to 73	
Principal risks	Risk Management	74 to 85	
	Principal risks and uncertainties	86 to 99	

Overview of Financial Results

Robust performance notwithstanding the impact of the COVID-19 pandemic

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

Having taken a significant upfront COVID-19-related expected credit loss provision for the full economic cycle in the first quarter of 2020, the quality of our loan book has remained robust throughout the second-round lockdown in December 2020 and January 2021. For all the challenges of the pandemic and significantly reduced levels of economic activity, our customer franchise has been resilient, translating into strong customer lending and deposit growth during the year. Our operating income has been robust, costs remained well-controlled, and our loan book has been performing better than expected in terms of portfolio quality. As a result, we delivered a return on average equity of 13.0% in 2020, and a return on average equity in excess of 20% in each of the last three quarters of the year, while maintaining strong liquidity and capital positions.

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

Income statement highlights[1]

GEL thousands	2020	2019	Change y-o-y
Net interest income	777,642	789,419	-1.5%
Net fee and commission income	165,503	180,014	-8.1%
Net foreign currency gain	99,040	119,363	-17.0%
Net other income	48,474	21,474	125.7%
Operating income	**1,090,659**	**1,110,270**	**-1.8%**
Operating expenses	**(432,635)**	**(419,946)**	**3.0%**
Profit from associates	782	789	-0.9%
Operating income before cost of risk	**658,806**	**691,113**	**-4.7%**
Cost of risk	(300,997)	(107,584)	NMF
Net operating income before non-recurring items	**357,809**	**583,529**	**-38.7%**
Net non-recurring items	(41,311)	(10,723)	NMF
Profit before income tax and one-off costs	**316,498**	**572,806**	**-44.7%**
Income tax expense	(21,555)	(58,619)	-63.2%
Profit adjusted for one-off costs	**294,943**	**514,187**	**-42.6%**
One-off termination costs of former CEO and executive management (after tax)	–	(14,236)	NMF
Profit	**294,943**	**499,951**	**-41.0%**

1 The income statement adjusted profit in 2019 excludes GEL 14.2mln one-off employee costs (net of income tax) related to former CEO and executive management termination benefits. The amount is comprised of GEL 12.4mln (gross of income tax) excluded from salaries and other employee benefits, GEL 4.0mln (gross of income tax) excluded from non-recurring items and GEL 2.2mln tax benefit excluded from income tax expense.

Overview of Financial Results continued

Balance sheet highlights

GEL thousands	31 Dec 20	31 Dec 19	Change y-o-y
Liquid assets	6,531,357	5,559,500	17.5%
Cash and cash equivalents	*1,970,955*	*2,153,624*	*-8.5%*
Amounts due from credit institutions	*2,016,005*	*1,619,072*	*24.5%*
Investment securities	*2,544,397*	*1,786,804*	*42.4%*
Loans to customers and finance lease receivables	14,192,078	11,931,262	18.9%
Property and equipment	387,851	379,788	2.1%
Total assets	**22,035,920**	**18,569,497**	**18.7%**
Client deposits and notes	14,020,209	10,076,735	39.1%
Amounts owed to credit institutions	3,335,966	3,934,123	-15.2%
Borrowings from DFIs	*1,848,473*	*1,486,044*	*24.4%*
Short-term loans from central banks	*590,293*	*1,551,953*	*-62.0%*
Loans and deposits from commercial banks	*897,200*	*896,126*	*0.1%*
Debt securities issued	1,585,545	2,120,064	-25.2%
Total liabilities	**19,486,005**	**16,418,589**	**18.7%**
Total equity	**2,549,915**	**2,150,908**	**18.6%**

Key ratios

	2020	2019
ROAA (adjusted)[1]	1.5%	3.1%
ROAA (reported)	1.5%	3.1%
ROAE (adjusted)[1]	13.0%	26.1%
ROAE (reported)	13.0%	25.4%
Net interest margin	4.6%	5.6%
Liquid assets yield	3.4%	3.5%
Loan yield	10.5%	11.7%
Cost of funds	4.7%	4.6%
Cost/income (adjusted)[2]	39.7%	37.8%
Cost/income (reported)	39.7%	38.9%
NPLs to gross loans to clients	3.7%	2.1%
NPL coverage ratio	76.3%	80.9%
NPL coverage ratio, adjusted for discounted value of collateral	128.8%	139.6%
Cost of credit risk ratio	1.8%	0.9%
NBG (Basel III) CET1 capital adequacy ratio	10.4%	11.5%
NBG (Basel III) Tier I capital adequacy ratio	12.4%	13.6%
NBG (Basel III) Total capital adequacy ratio	17.6%	18.1%

1 The income statement adjusted profit in 2019 excludes GEL 14.2mln one-off employee costs (net of income tax) related to former CEO and executive management termination benefits. The amount is comprised of GEL 12.4mln (gross of income tax) excluded from salaries and other employee benefits, GEL 4.0mln (gross of income tax) excluded from non-recurring items and GEL 2.2mln tax benefit excluded from income tax expense. 2019 ROAE and ROAA have been adjusted accordingly.
2 Cost/income ratio in 2019 is adjusted for GEL 12.4mln one-off employee costs (gross of income tax) related to termination benefits of former executive management.

Results highlights

- **Solid performance despite the impact of the COVID-19 pandemic.** The Group generated profit of GEL 294.9 million with profitability at 13.0% ROAE in 2020, notwithstanding the slowdown of economic activity.
- **Net interest margin.** NIM was down 100 bps y-o-y in 2020, largely reflecting the decline in retail lending activity on the back of the economic slowdown, and high levels of liquidity.
- **Net fee and commission income** decline in 2020 was mainly driven by the decrease of income from settlement and cash operations, due to slower customer activity as a result of the COVID-19 pandemic, partially offset by the strong net fees and commission income generation from guarantees and letters of credit issued by our Corporate and Investment Banking business.
- **Operating expenses.** The Group continued its investment in IT-related resources, digitalisation and marketing, as part of its key strategic priorities, at the same time maintaining its focus on efficiency and cost control (the Group implemented a number of cost optimisation initiatives following the COVID-19 pandemic outbreak), which resulted in largely flat (up 3.0% y-o-y) operating expenses in 2020.
- **Loan book increased by 18.9% y-o-y at 31 December 2020.** Growth on a constant currency basis was 10.2% y-o-y. The y-o-y loan book growth partially reflected continued strong loan origination levels in Corporate, MSME and the mortgage segments during the pre-COVID-19 period, coupled with increased level of economic activity since June 2020, notwithstanding the slowdown following the restrictions tightening in 4Q20.
- **Client deposits and notes increased by 39.1% y-o-y at 31 December 2020.** On a constant currency basis, client deposits and notes grew by 28.6% y-o-y. This strong deposit franchise growth reflects a consistent increase in monthly deposit balances of both our individual and business customers since May 2020.
- **Cost of credit risk.** The cost of credit risk ratio was 1.8% in 2020, compared to 0.9% in 2019. The y-o-y increase in the cost of credit risk ratio in 2020 was primarily driven by the significant ECL provision on loans to customers and finance lease receivables, created for the full economic cycle during the first quarter of 2020. Our ECL assumptions were revisited to reflect the macroeconomic forecast scenarios published by the NBG in May 2020 in the second quarter, and better visibility of the portfolio and the detailed review of creditworthiness of the borrowers in the third and fourth quarters. As a result of these analyses, the provisions recorded in 1Q20 proved overall to be sufficient. See details on page 138.
- **Asset quality.** NPLs to gross loans were 3.7% at 31 December 2020, compared to 2.1% at 31 December 2019, which is in line with the upfront ECL provision recorded for the full economic cycle in 1Q20. The NPL coverage ratio was 76.3% at 31 December 2020, compared to 80.9% at 31 December 2019, and the NPL coverage ratio adjusted for a discounted value of collateral was 128.8% at 31 December 2020, compared to 139.6% at 31 December 2019. The y-o-y decline in NPL coverage ratio reflects the portfolio mix shift from high-yielding unsecured to more secured consumer lending, and is supported by the high level of collateralisation of our loan book.
- **Strong capital adequacy position.** The Bank's capital adequacy ratios have remained robust, and comfortably above the minimum regulatory requirements. The Bank's Basel III Common Equity Tier 1, Tier 1 and Total capital adequacy ratios stood at 10.4%, 12.4% and 17.6%, respectively, all well above the minimum required levels of 7.4%, 9.2% and 13.8%, respectively, at 31 December 2020. The y-o-y decline in capital ratios was primarily due to a c.GEL 400mln general provision created in March 2020 under the local regulatory accounting basis in agreement with the NBG (and consistent with the NBG's guidance for the Georgian banking sector in general) that covers its current expectations of estimated credit losses on the Bank's lending book for the whole economic cycle. See details on capital adequacy ratio movement during 2020 on page 141.
- **Strong liquidity and funding positions.** As at 31 December 2020, the Bank's liquidity coverage ratio stood at 138.6% and net stable funding ratio at 137.5%, compared to the 100% minimum required level. The Bank maintained substantial excess liquidity in 2020, primarily for 1) the repayment of local currency bonds in June 2020; and 2) risk mitigation purposes on the back of the ongoing COVID-19 crisis, as outflow of customer funds was possible at the early stage of the pandemic outbreak, which however did not materialise. Client deposit balances continue to grow strongly, despite two rounds of decrease of interest rates on foreign currency denominated customer deposits in the second half of 2020.

Overview of Financial Results continued

Discussion of results

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

Operating income

GEL thousands, unless otherwise noted	2020	2019	Change y-o-y
Interest income	1,595,427	1,437,161	11.0%
Interest expense	(817,785)	(647,742)	26.3%
Net interest income	**777,642**	**789,419**	**-1.5%**
Fee and commission income	274,458	284,193	-3.4%
Fee and commission expense	(108,955)	(104,179)	4.6%
Net fee and commission income	**165,503**	**180,014**	**-8.1%**
Net foreign currency gain	99,040	119,363	-17.0%
Net other income	48,474	21,474	125.7%
Operating income	**1,090,659**	**1,110,270**	**-1.8%**

Net interest margin	4.6%	5.6%	
Average interest-earning assets	16,870,166	14,054,069	20.0%
Average interest-bearing liabilities	17,292,171	14,203,556	21.7%
Average net loans and finance lease receivables, currency blended	12,966,440	10,563,962	22.7%
Average net loans and finance lease receivables, GEL	5,193,750	4,229,668	22.8%
Average net loans and finance lease receivables, FC	7,772,690	6,334,294	22.7%
Average client deposits and notes, currency blended	11,773,198	9,076,632	29.7%
Average client deposits and notes, GEL	4,104,920	2,904,441	41.3%
Average client deposits and notes, FC	7,668,278	6,172,191	24.2%
Average liquid assets, currency blended	5,691,417	4,767,599	19.4%
Average liquid assets, GEL	2,401,482	2,106,672	14.0%
Average liquid assets, FC	3,289,935	2,660,927	23.6%
Liquid assets yield, currency blended	3.4%	3.5%	
Liquid assets yield, GEL	7.6%	6.6%	
Liquid assets yield, FC	0.3%	1.1%	
Loan yield, currency blended	10.5%	11.7%	
Loan yield, GEL	15.3%	17.0%	
Loan yield, FC	7.4%	8.1%	
Cost of funds, currency blended	4.7%	4.6%	
Cost of funds, GEL	7.9%	7.0%	
Cost of funds, FC	3.0%	3.2%	
Cost/income[1]	39.7%	37.8%	

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

Performance highlights

- **The Group generated solid operating income of GEL 1,090.7mln in 2020, down 1.8% y-o-y.** The decrease in operating income was primarily driven by the slowdown in economic activity due to the COVID-19 pandemic, particularly affecting the Retail Banking segment.
- **Our NIM was 4.6% in 2020, down 100 bps y-o-y.** The NIM decrease primarily reflected a decline in currency blended loan yields (down 120 bps y-o-y in 2020), on the back of the slower consumer lending activity due to the COVID-19 pandemic, and the effect of change in portfolio mix resulting in higher level of secured mortgage lending. In addition, cost of funds was up by 10 bps y-o-y, which reflected the increase in client deposits and notes and higher levels of liquidity, coupled with the NBG's monetary policy rate changes, partially offset by the impact of the GEL 500 million local currency bonds repayment in June 2020.
- **Liquid assets yield.** Currency blended liquid assets yield was 3.4% in 2020, down 10 bps y-o-y. The 100 bps increased in local-currency-denominated liquid assets yield directly reflected the NBG's monetary policy rate changes (NBG increased monetary policy rate by cumulative of 250 bps since September 2019, although reduced the policy rate three times by a cumulative 100 bps in the second and third quarters of 2020). The 80 bps y-o-y reduction in foreign-currency-denominated liquid assets yield largely reflected the cut in the US Fed rate in March 2020 (NBG accrues interest rate on banks' obligatory US Dollar reserves at US Fed rate upper bound minus 50 bps).
- **Cost of funds.** Cost of funds was 4.7% in 2020, up 10 bps y-o-y. This was primarily driven by a 90 bps y-o-y increase in the local-currency-denominated cost of funds, which reflected the NBG's monetary policy rate change, and the impact of the repayment of the GEL 500 million local currency bonds due in the beginning of June 2020. The 20 bps y-o-y decrease in the foreign-currency-denominated cost of funds was in line with the Libor rate decline during 2020.
- **Net fee and commission income.** Net fee and commission income was GEL 165.5mln in 2020, down 8.1% y-o-y. The decline in net fee and commission income was mainly driven by the decrease of income from settlement and cash operations, due to slower customer activity as a result of the COVID-19 pandemic in 2Q20 and the temporary removal of fees on transactions executed through our mobile and internet banking platforms during the hard lockdown in the spring of 2020, for a two-month period, aimed at incentivising the use of digital channels. This decline was partially offset by the strong net fees and commission income generation from guarantees and letters of credit issued by our Corporate and Investment Banking business.
- **Net foreign currency gain.** Net foreign currency gain was down 17.0% y-o-y in 2020. The movement in net foreign currency gain directly reflected the level of currency volatility and customer-driven flows. Lower net foreign currency gain from our subsidiary in Belarus also contributed to the overall y-o-y decline both in 2020.
- **Net other income.** Net other income increased significantly in 2020, primarily reflecting GEL 20.3mln net gains recorded as a result of the revaluation of investment property, mainly driven by the local currency devaluation in 2020. In addition, higher income from operating leases, as well as higher net gains from the sale of investment property also contributed to y-o-y increase in net other income in 2020. Furthermore, the Group recorded net losses from derivative financial instruments (interest rate swap hedges) in 2019.

Overview of Financial Results continued

Net operating income before non-recurring items, cost of risk, and profit[1]

GEL thousands, unless otherwise noted[2]	2020	2019	Change y-o-y
Salaries and other employee benefits	(239,607)	(231,443)	3.5%
Administrative expenses	(105,531)	(106,157)	-0.6%
Depreciation, amortisation and impairment	(82,937)	(78,118)	6.2%
Other operating expenses	(4,560)	(4,228)	7.9%
Operating expenses	**(432,635)**	**(419,946)**	**3.0%**
Profit from associate	782	789	-0.9%
Operating income before cost of risk	**658,806**	**691,113**	**-4.7%**
Expected credit loss on loans to customers	(236,983)	(94,155)	151.7%
Expected credit loss on finance lease receivables	(8,025)	(885)	NMF
Other expected credit loss and impairment charge on other assets and provisions	(55,989)	(12,544)	NMF
Cost of risk	**(300,997)**	**(107,584)**	**NMF**
Net operating income before non-recurring items	**357,809**	**583,529**	**-38.7%**
Net non-recurring items	(41,311)	(10,723)	NMF
Profit before income tax and one-off costs	**316,498**	**572,806**	**-44.7%**
Income tax expense	(21,555)	(58,619)	-63.2%
Profit adjusted for one-off costs	**294,943**	**514,187**	**-42.6%**
One-off termination costs of former CEO and executive management (after tax)	–	(14,236)	NMF
Profit	**294,943**	**499,951**	**-41.0%**

- **Operating expenses** amounted to GEL 432.6mln in 2020, up 3.0% y-o-y. In 2020, we continued investments in IT-related resources as part of the agile transformation process, focus on digitalisation and investments in marketing. In addition, we incurred extraordinary expenses during 2020 in relation to the safety measures implemented as a response to the COVID-19 outbreak. That said, in the second quarter of 2020, we initiated a number of cost optimisation measures, which enabled us to maintain operating expenses largely flat y-o-y in 2020.
- **Cost of risk.** The cost of credit risk ratio was 1.8% in 2020, compared to 0.9% in 2019. The significant increase in cost of credit risk ratio in 2020 was driven by the 1Q20 reserve builds, created for the full economic cycle, primarily related to the deterioration in the macroeconomic environment and expected creditworthiness of borrowers due to the impact of the COVID-19 pandemic. As a result of these assumptions, we created additional reserves of GEL 220.2mln in the first quarter of 2020. In the second quarter, management revisited the assumptions used to estimate the amount of ECL provision to reflect the better visibility and the macroeconomic forecast scenarios published by the NBG in May 2020 (see the Group's 2Q20 and 1H20 results announcement for details of assumptions used). In the third and fourth quarters of 2020, the Group has completed additional in-depth analysis of the financial standing and creditworthiness of all corporate and SME borrowers, and a significant portion of retail and micro segment customers. Given that we are operating in a rapidly changing environment with a high level of uncertainty with regard to both the length and the severity of the COVID-19 second-wave impact, we will continue to monitor new facts and circumstances.

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

1 In 2020, the Group allocated holding company operation results to the respective segments (Retail Banking, Corporate and Investment Banking, and BNB). The comparative periods were not restated as the change was not material and the information is deemed still comparable.
2 The adjusted profit in the table in 2019 excludes GEL 14.2mln one-off employee costs (gross of income tax) related to the former CEO and executive management termination benefits. The amount is comprised of GEL 12.4mln (gross of income tax) excluded from salaries and other employee benefits, GEL 4.0mln (gross of income tax) excluded from non-recurring items and GEL 2.2mln tax benefit excluded from income tax expense.

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

  The y-o-y decline in NPL coverage ratio reflects the shift of portfolio mix from high-yielding unsecured to more secured consumer lending, and is supported by the high level of collateralisation of the loan book. The NPL coverage ratio adjusted for discounted value of collateral was 128.8% at 31 December 2020.

Non-performing loans

GEL thousands, unless otherwise noted	31 Dec 20	31 Dec 19	Change y-o-y
NPLs	545,837	252,695	116.0%
NPLs to gross loans	3.7%	2.1%	
NPLs to gross loans, RB	3.5%	1.5%	
NPLs to gross loans, CIB	3.9%	3.0%	
NPL coverage ratio	76.3%	80.9%	
NPL coverage ratio adjusted for the discounted value of collateral	128.8%	139.6%	

- **BNB – the Group's banking subsidiary in Belarus – continues to remain strongly capitalised,** with capital adequacy ratios well above the requirements of the National Bank of the Republic of Belarus (NBRB). At 31 December 2020, Total capital adequacy ratio was 13.9%, well above the 12.5% minimum requirement, while Tier I capital adequacy ratio was 9.3%, again above the NBRB's 7.0% minimum requirement. ROAE was 8.4% in 2020 (14.5% in 2019), reflecting the impact of the COVID-19 pandemic. We continue to monitor the political situation in Belarus closely. There has so far been no material impact on the performance of our business in Belarus.
- **Net non-recurring items.** Significant y-o-y increase in net non-recurring items during 2020 was primarily attributable to GEL 39.7mln one-off net losses on modification of financial assets recorded in March and April of 2020. These losses related to the three-month payment holidays on principal and interest payments offered to our retail banking clients, in order to reduce the requirement for customers to physically visit Bank branches and reduce the risk of COVID-19 virus spread. In addition, in 1Q20, the Bank incurred GEL 1.2mln one-off costs to finance and donate 20,000 COVID-19 laboratory tests, 10 ventilators, 50,000 face masks and 60,000 gloves to the Ministry of Health of Georgia, to support the battle to prevent the virus spread. These costs are classified as non-recurring items.
- **Income tax expense.** Relatively high income tax rate in 2019 was primarily driven by a one-off GEL 8.5mln additional tax expense posted in the third quarter of 2019 as a result of reassessment of deferred tax balances. See the Group's Annual Report 2019 for details.
- **Overall, the Group recorded profit** of GEL 294.9mln in 2020, compared to profit adjusted for one-off costs of GEL 514.2mln[1] in 2019. The Group's ROAE was 13.0% in 2020, compared to 26.1%[1] in 2019.

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

Overview of Financial Results continued

Balance sheet highlights

GEL thousands, unless otherwise noted	31 Dec 20	31 Dec 19	Change y-o-y
Liquid assets	6,531,357	5,559,500	17.5%
Liquid assets, GEL	2,694,091	2,245,740	20.0%
Liquid assets, FC	3,837,266	3,313,760	15.8%
Net loans and finance lease receivables	14,192,078	11,931,262	18.9%
Net loans and finance lease receivables, GEL	5,803,576	4,946,387	17.3%
Net loans and finance lease receivables, FC	8,388,502	6,984,875	20.1%
Client deposits and notes	14,020,209	10,076,735	39.1%
Amounts owed to credit institutions	3,335,966	3,934,123	-15.2%
Borrowings from DFIs	1,848,473	1,486,044	24.4%
Short-term loans from central banks	590,293	1,551,953	-62.0%
Loans and deposits from commercial banks	897,200	896,126	0.1%
Debt securities issued	1,585,545	2,120,064	-25.2%

Liquidity and capital adequacy ratios

Net loans / client deposits and notes	101.2%	118.4%	
Net loans / client deposits and notes + DFIs	89.4%	103.2%	
Liquid assets / total assets	29.6%	29.9%	
Liquid assets / total liabilities	33.5%	33.9%	
NBG liquidity coverage ratio	138.6%	136.7%	
NBG (Basel III) CET1 capital adequacy ratio	10.4%	11.5%	
NBG (Basel III) Tier I capital adequacy ratio	12.4%	13.6%	
NBG (Basel III) Total capital adequacy ratio	17.6%	18.1%	

Our balance sheet remains highly liquid (NBG liquidity coverage ratio of 138.6%) and strongly capitalised (NBG Basel III Tier I capital adequacy ratio of 12.4%) with a well-diversified funding base (client deposits and notes to total liabilities of 72.0%) at 31 December 2020.

- **Liquidity.** Liquid assets reached GEL 6,531.4mln at 31 December 2020, up 17.5% y-o-y. The notable increase over the year was in investment securities, combined with excess liquidity deployed with credit institutions. The Bank maintained substantial excess liquidity since the second quarter of 2020 primarily for 1) the repayment of local currency bonds in June 2020; and 2) risk mitigation purposes on the back of the current COVID-19 crisis, as outflow of customer funds was possible at the early stage of the pandemic outbreak, which however did not materialise. Client deposit balances continue to grow to date, despite two rounds of decrease of interest rates on foreign-currency-denominated customer deposits in the second half of 2020. The NBG liquidity coverage ratio was 138.6% at 31 December 2020 (136.7% at 31 December 2019), well above the 100% minimum requirement level.
- **Loan book.** Our net loan book and finance lease receivables amounted to GEL 14,192.1mln at 31 December 2020, up 18.9% y-o-y. As of 31 December 2020, the retail loan book represented 65.2% of the total loan portfolio, compared to 66.0% at 31 December 2019. Both local and foreign currency portfolios experienced strong y-o-y growth of 17.3% and 20.1% respectively. The local currency loan portfolio growth was partially driven by the Government's de-dollarisation initiatives and our goal to increase the share of local currency loans in our portfolio.
- **Net loans to customer funds and DFI ratio.** Our net loans to customer funds and DFI ratio, which is closely monitored by management, stood at 89.4% at 31 December 2020, compared to 103.2% at 31 December 2019.
- **Diversified funding base.** Debt securities issued decreased by 25.2% y-o-y at 31 December 2020. The decrease was attributable to the repayment of GEL 500mln local currency bonds at the beginning of June 2020.
- **Solid capital position.** At 31 December 2020, following the measures put in place by the NBG as part of the COVID-19 supervisory plan in March 2020, the Bank's Basel III Common Equity Tier 1, Tier 1 and Total capital adequacy ratios stood at 10.4%, 12.4% and 17.6%, respectively, all comfortably above the minimum required levels of 7.4%, 9.2% and 13.8%, respectively. The movement in capital adequacy ratios in 2020, and the potential impact of an additional 10% devaluation of local currency on different levels of capital is as follows:

	31 Dec 19	Business growth	2020 Profit (excluding NBG general provision)	NBG general provision – COVID-19 impact	GEL devaluation	New Tier 2 facility impact	31 Dec 20	Potential impact of additional 10%GEL devaluation
CET1 capital adequacy ratio	11.5%	-1.1%	3.5%	-2.6%	-0.9%	–	10.4%	-0.7%
Tier I capital adequacy ratio	13.6%	-1.4%	3.5%	-2.5%	-0.8%	–	12.4%	-0.6%
Total capital adequacy ratio	18.1%	-1.8%	3.5%	-2.4%	-0.7%	0.9%	17.6%	-0.5%

Discussion of segment results

Retail Banking (RB)

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

Income statement highlights[1]

GEL thousands, unless otherwise noted	2020	2019	Change y-o-y
Net interest income	473,738	545,701	-13.2%
Net fee and commission income	120,985	136,510	-11.4%
Net foreign currency gain	56,879	51,009	11.5%
Net other income	23,390	8,230	NMF
Operating income	**674,992**	**741,450**	**-9.0%**
Salaries and other employee benefits	(167,696)	(147,982)	13.3%
Administrative expenses	(80,169)	(70,968)	13.0%
Depreciation, amortisation and impairment	(69,031)	(66,136)	4.4%
Other operating expenses	(2,696)	(2,286)	17.9%
Operating expenses	**(319,592)**	**(287,372)**	**11.2%**
Profit from associate	782	789	-0.9%
Operating income before cost of risk	**356,182**	**454,867**	**-21.7%**
Cost of risk	(183,061)	(89,879)	103.7%
Net operating income before non-recurring items	**173,121**	**364,988**	**-52.6%**
Net non-recurring items	(39,811)	(846)	NMF
Profit before income tax and one-off costs	**133,310**	**364,142**	**-63.4%**
Income tax expense	(4,724)	(35,396)	-86.7%
Profit adjusted for one-off costs	**128,586**	**328,746**	**-60.9%**
One-off termination costs of former CEO and executive management (after tax)	–	(10,142)	NMF
Profit	128,586	318,604	-59.6%

1 The income statement adjusted profit in 2019 excludes GEL 10.1mln one-off employee costs (net-off income tax) related to the former CEO and executive management termination benefits. The amount is comprised of GEL 8.6mln (gross of income tax) excluded from salaries and other employee benefits, GEL 2.9mln (gross of income tax) excluded from non-recurring items and GEL 1.4mln tax benefit excluded from income tax expense.

Overview of Financial Results continued

Balance sheet highlights

GEL thousands, unless otherwise noted	31 Dec 20	31 Dec 19	Change y-o-y
Net loans, currency blended	8,734,706	7,427,721	17.6%
Net loans, GEL	4,809,383	4,181,192	15.0%
Net loans, FC	3,925,323	3,246,529	20.9%
Client deposits, currency blended	7,101,743	5,712,535	24.3%
Client deposits, GEL	2,224,163	1,829,133	21.6%
Client deposits, FC	4,877,580	3,883,402	25.6%
of which:			
Time deposits, currency blended	4,262,597	3,221,741	32.3%
Time deposits, GEL	1,025,442	817,879	25.4%
Time deposits, FC	3,237,155	2,403,862	34.7%
Current accounts and demand deposits, currency blended	2,839,146	2,490,794	14.0%
Current accounts and demand deposits, GEL	1,198,721	1,011,254	18.5%
Current accounts and demand deposits, FC	1,640,425	1,479,540	10.9%

Key ratios

	2020	2019
ROAE[1]	10.0%	28.6%
Net interest margin, currency blended	4.5%	6.1%
Cost of credit risk ratio	2.1%	1.2%
Cost of funds, currency blended	5.7%	5.2%
Loan yield, currency blended	11.4%	12.9%
Loan yield, GEL	15.4%	17.6%
Loan yield, FC	6.5%	7.3%
Cost of deposits, currency blended	2.9%	2.6%
Cost of deposits, GEL	6.1%	5.1%
Cost of deposits, FC	1.4%	1.5%
Cost of time deposits, currency blended	4.1%	3.9%
Cost of time deposits, GEL	9.9%	8.6%
Cost of time deposits, FC	2.2%	2.3%
Current accounts and demand deposits, currency blended	1.0%	1.0%
Current accounts and demand deposits, GEL	2.3%	2.2%
Current accounts and demand deposits, FC	0.2%	0.2%
Cost/income ratio[2]	47.3%	38.8%

1 The income statement adjusted profit in 2019 excludes GEL 10.1mln one-off employee costs (net-off income tax) related to the former CEO and executive management termination benefits. The amount is comprised of GEL 8.6mln (gross of income tax) excluded from salaries and other employee benefits, GEL 2.9mln (gross of income tax) excluded from non-recurring items and GEL 1.4mln tax benefit excluded from income tax expense. 2019 ROAE has been adjusted accordingly.
2 The cost/income ratio in 2019 is adjusted for GEL 8.6mln one-off employee costs (gross of income tax) related to termination benefits of former executive management.

Performance highlights

- **Retail Banking generated operating income of GEL 675.0mln in 2020,** down 9.0% y-o-y, mostly reflecting the impact of the COVID-19 pandemic since March 2020 and improving trends in key economic indicators and rebound in customer activity since June 2020, albeit this recovery slowed down in 4Q20 following the new restrictions put in place by the Government to respond to emerging increase in COVID-19 cases.
- Retail Banking net interest income was down 13.2% y-o-y in 2020. **RB NIM was 4.5% in 2020,** down 160 bps y-o-y. The decline in NIM was mostly attributable to lower loan yields (down 150 bps y-o-y), primarily reflecting the slowdown of economic activity on the back of COVID-19 pandemic outbreak in March 2020, as well as the effect of change in portfolio mix resulting in a higher level of secured mortgage lending. Retail Banking net interest income still benefited from the growth of the local-currency-denominated loan portfolio, which generated 8.9 ppts higher yield than the foreign currency loan portfolio in 2020. In addition, cost of funds increased by 50 bps y-o-y in 2020, primarily on the back of an increase in the cost of local-currency-denominated client deposits and notes, and high levels of liquidity.
- **Retail Banking net loan book reached GEL 8,734.7mln at 31 December 2020, up 17.6% y-o-y.** On a constant currency basis, the retail loan book increased by 11.0% y-o-y. The local-currency-denominated loan book increased by 15.0% y-o-y, while the foreign-currency-denominated loan book grew by 20.9% y-o-y. As a result, the local-currency-denominated loan book accounted for 55.1% of the Retail Banking loan book at 31 December 2020, compared to 56.3% at 31 December 2019. The consumer loan portfolio, which is potentially most sensitive to foreign currency risk, is now largely de-dollarised, while the share of retail mortgage loans in local currency was 45.7% at 31 December 2020.
- The y-o-y loan book growth primarily reflected continued strong loan origination levels in the secured consumer and mortgage segments, on the back of the recovery of customer activity levels since June 2020:

Retail Banking loan book by products

GEL million, unless otherwise noted	2020	2019	Change y-o-y
Loan originations			
Consumer loans	1,473,388	1,604,892	-8.2%
Mortgage loans	1,429,682	1,438,383	-0.6%
Micro loans	1,045,992	1,313,371	-20.4%
SME loans	1,118,559	1,093,744	2.3%
Outstanding balance			
Consumer loans	1,763,017	1,592,454	10.7%
Mortgage loans	3,733,658	3,042,506	22.7%
Micro loans	1,701,501	1,491,951	14.0%
SME loans	1,424,330	1,031,475	38.1%

- **Retail Banking client deposits increased to GEL 7,101.7mln at 31 December 2020, up 24.3% y-o-y.** The dollarisation level of deposits stood at 68.7% at 31 December 2020, compared to 68.0% at 31 December 2019. The cost of foreign-currency-denominated deposits stood at 1.4% in 2020, down 10 bps y-o-y, while the cost of local-currency-denominated deposits increased by 100 bps y-o-y in 2020. The spread between the cost of RB's client deposits in GEL and foreign currency widened to 4.7 ppts in 2020 (GEL: 6.1%; FC: 1.4%), compared to 3.6 ppts in 2019 (GEL: 5.1%; FC: 1.5%).
- **Retail Banking net fee and commission income.** The y-o-y decrease in net fee and commission income was primarily driven by slower customer activity due to the COVID-19 pandemic and temporary removal of fees on transactions executed through our mobile and internet banking platforms from mid-March 2020, for a two-month period, in order to decrease customer visits to branches and incentivise the transfer of customer activity to digital channels. Furthermore, the lack of external tourism, and of Georgians travelling abroad, resulted in a decline in net fees charged on currency conversion operations.
- **RB's asset quality.** Cost of credit risk ratio was 2.1% in 2020, up from 1.2% in 2019. The increase in cost of credit risk ratio in 2020 was due to the IFRS 9 reserve builds, created for the full economic cycle in 1Q20, primarily related to deterioration of the macroeconomic environment and of the expected creditworthiness of borrowers as a result of the COVID-19 impact. These assumptions were further revisited to reflect the better visibility and the macroeconomic forecast scenarios published by the NBG in May, and an in-depth review of a significant proportion of borrowers in the second half of 2020, resulting in additional ECL reserves in the following quarters.

Overview of Financial Results continued

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

Retail Banking performance indicators

Volume information in GEL thousands	2020	2019	Change y-o-y
Retail Banking customers			
Number of new customers	156,343	178,857	-12.6%
Number of customers	2,616,480	2,540,466	3.0%
Cards			
Number of cards issued	714,272	766,653	-6.8%
Number of cards outstanding	2,137,744	2,145,060	-0.3%
Express Pay terminals			
Number of Express Pay terminals	3,020	3,217	-6.1%
Number of transactions via Express Pay terminals	80,295,072	108,329,849	-25.9%
Volume of transactions via Express Pay terminals	8,559,210	8,244,816	3.8%
POS terminals			
Number of desks	21,331	15,592	36.8%
Number of contracted merchants	11,763	7,519	56.4%
Number of POS terminals	27,184	21,869	24.3%
Number of transactions via POS terminals	99,895,533	83,054,544	20.3%
Volume of transactions via POS terminals	2,670,672	2,555,076	4.5%
Internet banking			
Number of active users[1]	142,832	294,081	-51.4%
Number of transactions via internet bank	4,218,690	5,302,066	-20.4%
Volume of transactions via internet bank	2,459,137	2,269,103	8.4%
Mobile banking			
Number of active users[1]	717,599	513,677	39.7%
Number of transactions via mobile bank	62,525,478	35,938,168	74.0%
Volume of transactions via mobile bank	8,940,584	4,646,167	92.4%

- **The growth in our client base to 2.6 million customers at 31 December 2020** was due to the increased offering of cost-effective remote channels and substantially improving our positioning in many key areas. Based on the independent research conducted in fall 2020, Bank of Georgia is regarded as the most trusted financial institution and as top-of-mind in Georgia.
- **The number of outstanding cards** was largely flat y-o-y at 31 December 2020. The number of loyalty programme Plus+ cards reached 1,161,948 at 31 December 2020, up 35.3% y-o-y.
- **Digital channels.** We have actively continued the further development of our digital strategy and more than 95% of the total daily transactions of individuals were executed through digital channels during 2020
  - **mBank and iBank digital offloading.** The Bank continued to develop digital products and upgrade digital channels' functionalities to refine end-to-end digital journeys and incentivise transferring customer activity to digital channels. In 2020, new innovative products and features were introduced, including digital card, peer-to-peer payments, bill splitting and money request, fully digital consumer lending process, embedded online chat, and fully redesigned iBank, among others. As a result of increased investments and efforts in this direction, the number of active users, as well as the number and volume of transactions through these channels, particularly mBank, continued to expand rapidly.
  - **The utilisation of Express Pay terminals**. The Bank has a large network of SSTs throughout Georgia, which are used extensively by its customers. SSTs are viewed as a key transition channel from physical to digital, and the migration has been significant over the past few years. The decline in number of transactions y-o-y in 2020 was primarily due to the continuous migration of customers activity to the mobile banking platform, as well as slowdown in economic activity since March 2020.

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

- **Business iBank.** In 2019, the Bank released a new business internet banking platform for MSME and corporate clients, with features designed to make its use an intuitive and smooth experience. Since then, we have focused our efforts on making the Business iBank even more useful for business transactions to further incentivise the transfer of client activity to digital channels. The number and volume of transactions through Business iBank grew by 3.9% and 7.8% y-o-y in 2020, respectively, and 96% of daily transactions of legal entities were executed through the internet bank in 2020.
- In December, 2020 *The Banker* named Bank of Georgia Bank of the Year 2020 in Georgia. In August 2020, *Global Finance Magazine* named Bank of Georgia Best Consumer Digital Bank in Georgia in 2020, including regional awards in sub-categories such as Best Online Product Offering, Best Online Investment Management Services, Best Digital Bank in Lending and Best Trade Finance Services in Central and Eastern Europe for 2020.
- **SOLO, our premium banking brand, was the least impacted business from our Retail Banking segments, and continued its growth and investment in its lifestyle brand.** We have 11 SOLO lounges, of which nine are located in Tbilisi, the capital of Georgia, and two in major regional cities of Georgia. The number of SOLO clients reached 60,330 at 31 December 2020, compared to 54,542 at 31 December 2019. At 31 December 2020, the product to client ratio for the SOLO segment was 4.8, compared to 2.0 for our retail franchise. While SOLO clients currently represent 2.3% of our total retail client base, they contributed 30.4% to our retail loan book, 38.5% to our retail deposits, 24.4% and 28.5% to our net retail interest income and to our net retail fee and commission income in 2020, respectively. The fee and commission income from the SOLO segment was GEL 27.4mln in 2020, up 7.4% y-o-y. SOLO Club, a membership group within SOLO, which offers exclusive access to SOLO products and offers ahead of other SOLO clients at a higher fee, continued to increase its client base. At 31 December 2020, SOLO Club had 5,565 members, up 1.5% y-o-y.
- **MSME banking.** The number of MSME segment customers reached 229,780 at 31 December 2020, up 4.2% y-o-y. MSME's gross loan portfolio reached GEL 3,295.5mln (up 22.2% y-o-y) and client deposits and notes amounted to GEL 958.3mln (up 18.6% y-o-y) at 31 December 2020. The MSME segment generated operating income of GEL 198.5mln in 2020, down 4.7% y-o-y, with the decline primarily driven by the slowdown in business activity on the back of the COVID-19 pandemic.
- **Our digital ecosystem** has played an important role in supporting the Georgian economy through the COVID-19 pandemic, by both enhancing digitisation of businesses and partnering with the local startup ecosystem. It rests on four main business verticals: real estate, e-commerce, logistics, and point of sale. In 2019-2020, we launched three platforms – real estate platform area.ge, online marketplace extra.ge and inventory management and point-of-sale solution for MSMEs Optimo. Key developments during 2020 are described below:
  - In 1Q20, the Group in response to the COVID-19 outbreak accepted the social and commercial challenge to play a vital role in addressing accelerated digital service demand. Due to social distancing and restrictions imposed on commercial activities, the Group's digital ecosystem arm proactively restructured its operations and commercial offerings to adapt to the changing environment. The core focus fell on extra.ge, which after its acquisition in 2Q19 has been transformed into one of the largest full-scale digital marketplaces in Georgia, and the full-scale re-launch was completed in 1Q20. In 2Q20 and 3Q20, extra.ge mainly focused on the acquisition of market share. 4Q20 was a very strong quarter on the back of the tightened restrictions put in place at the Government at the end of November, which stimulated online sales. The number of extra.ge visitors increased by 50% q-o-q, total registered users increased by 109%, and the number of completed orders more than doubled. extra.ge also launched the first e-commerce mobile app in Georgia in 4Q20. Through different active campaigns and initiatives, the platform doubled the network of merchants to 400+ vendors and 7,000+ private sellers, selling 110,000+ products and services, and significantly increased the number of registered users, delivering a 62% increase in cashless payments.
  - Following the COVID-19 outbreak, the Group structured a unique digital solution for merchants who faced customer scarcity and a heavy burden of restrictions. With the best-in-class solution, Adapter, merchants can now undergo fast and efficient transformation to digital sales with just a simple plug-in. Adapter combines Optimo, an effective inventory and order management platform, with extra.ge, a digital marketplace, through which merchants can sell their products directly to remote customers. Adapter quickly gained popularity amongst market players, small merchants, and large physical marketplaces. Adapter was accepted by hundreds of retailers and producers, exceeding initial targets.
  - The COVID-19 outbreak significantly decreased activity in the real estate sector, which directly impacted area.ge's operations. In 2020, area.ge refocused its strategy towards facilitating and accelerating real estate sales, developing multiple solutions for real estate development companies, which connect them closely with brokers and other market players, such as banks and financial institutions. In response to the Government's new subsidised mortgage loan programme, the Group launched a solution, subsidireba.ge, one of the top visited websites on this programme.

Overview of Financial Results continued

- At the beginning of 2020, the Group reassessed its strategy, and in order to be able to meet the wide range of customer needs, we decided to partner with others. With this aim, the Group partnered with the 500 Startups and Georgia's Innovation and Technology Agency, and launched 500 Georgia Acceleration programme. The programme focuses on accelerating the development of Georgian and international early stage startups operating in the region. In 2020, 28 companies from ten different business verticals (fintech, healthcare, lifestyle, accounting services, auto and transportation, HR services, travel and hospitality, Adtech, Agtech, Natural Language Processing (NLP), and communications) completed the programme, and currently are candidates to join our Digital Area ecosystem. Since the launch, the startups have raised more than US$ 5.5 million from external international investors and venture capital funds. In 2Q21, four of the 28 startups will complete the final acceleration stage in San Francisco.
- During 2018-2020, the Group has invested c.US$ 6.5 million in the development of the Digital Area Ecosystem, of which investment in 2020 amounted US$ 2.7 million. The Group plans an additional investment in the range of US$ 3-10 million during 2021-2023.

- **Retail Banking recorded a profit** of GEL 128.6mln in 2020, compared to profit adjusted for one-off costs of GEL 328.7mln[1] in 2019. RB ROAE was 10.0% in 2020, compared to 28.6%[1] in 2019. The reduced profitability in 2020 reflected the lower NIM and operating income, and increased cost of risk and non-recurring costs relating to the COVID-19 pandemic.

Corporate and Investment Banking (CIB)

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

Income statement highlights[2]

GEL thousands, unless otherwise noted	2020	2019	Change y-o-y
Net interest income	267,641	217,874	22.8%
Net fee and commission income	38,585	37,018	4.2%
Net foreign currency gain	35,959	49,355	-27.1%
Net other income	24,342	13,506	80.2%
Operating income	**366,527**	**317,753**	**15.3%**
Salaries and other employee benefits	(52,352)	(57,975)	-9.7%
Administrative expenses	(17,652)	(22,886)	-22.9%
Depreciation, amortisation and impairment	(9,659)	(8,437)	14.5%
Other operating expenses	(1,231)	(1,042)	18.1%
Operating expenses	**(80,894)**	**(90,340)**	**-10.5%**
Operating income before cost of risk	**285,633**	**227,413**	**25.6%**
Cost of risk	(113,955)	(14,548)	NMF
Net operating income before non-recurring items	**171,678**	**212,865**	**-19.3%**
Net non-recurring items	(1,375)	(293)	NMF
Profit before income tax and one-off costs	**170,303**	**212,572**	**-19.9%**
Income tax expense	(14,097)	(19,819)	-28.9%
Profit adjusted for one-off costs	**156,206**	**192,753**	**-19.0%**
One-off termination costs of former CEO and executive management (after tax)	–	(4,094)	NMF
Profit	**156,206**	**188,659**	**-17.2%**

1 Profit and ROAE in 2019 exclude GEL 10.1mln one-off employee costs (net of income tax) related to termination benefits of the former CEO and executive management.
2 The income statement adjusted profit in 2019 excludes GEL 4.1mln one-off employee costs (net-off income tax) related to the former CEO and executive management termination benefits. The amount is comprised of GEL 3.8mln (gross of income tax) excluded from salaries and other employee benefits, GEL 1.1mln (gross of income tax) excluded from non-recurring items, and GEL 0.8mln tax benefit excluded from income tax expense.

Balance sheet highlights

GEL thousands, unless otherwise noted	31 Dec 20	31 Dec 19	Change y-o-y
Net loans and finance lease receivables, currency blended	4,662,273	3,804,448	22.5%
Net loans and finance lease receivables, GEL	947,036	720,375	31.5%
Net loans and finance lease receivables, FC	3,715,237	3,084,073	20.5%
Client deposits, currency blended	6,394,734	3,824,667	67.2%
Client deposits, GEL	3,346,032	1,305,230	156.4%
Client deposits, FC	3,048,702	2,519,437	21.0%
Time deposits, currency blended	3,322,179	1,349,969	146.1%
Time deposits, GEL	2,299,346	366,847	526.8%
Time deposits, FC	1,022,833	983,122	4.0%
Current accounts and demand deposits, currency blended	3,072,555	2,474,698	24.2%
Current accounts and demand deposits, GEL	1,046,686	938,383	11.5%
Current accounts and demand deposits, FC	2,025,869	1,536,315	31.9%
Letters of credit and guarantees, standalone (off-balance-sheet item)	1,585,421	1,376,196	15.2%
Assets under management[1]	2,769,192	2,490,144	11.2%

Key ratios

	2020	2019
ROAE[2]	18.1%	25.6%
Net interest margin, currency blended	4.7%	3.6%
Cost of credit risk ratio	1.4%	0.2%
Cost of funds, currency blended	3.6%	4.1%
Loan yield, currency blended	8.6%	9.1%
Loan yield, GEL	12.8%	12.0%
Loan yield, FC	7.7%	8.6%
Cost of deposits, currency blended	4.4%	3.3%
Cost of deposits, GEL	7.7%	5.8%
Cost of deposits, FC	1.7%	1.8%
Cost of time deposits, currency blended	6.6%	5.4%
Cost of time deposits, GEL	8.9%	7.2%
Cost of time deposits, FC	3.8%	4.3%
Current accounts and demand deposits, currency blended	2.5%	2.1%
Current accounts and demand deposits, GEL	6.1%	4.9%
Current accounts and demand deposits, FC	0.5%	0.3%
Cost/income ratio[3]	22.1%	28.4%
Concentration of top ten clients	9.7%	9.9%

1 We have amended the Assets under management definition in 2020 to exclude certain illiquid assets that we hold in custody, and include only the most liquid assets that are being traded on an ongoing basis, and where we earn material fees on holding or trading such assets. The previous year balance has been restated accordingly.
2 The income statement adjusted profit in 2019 excludes GEL 4.1mln one-off employee costs (net-off income tax) related to the former CEO and executive management termination benefits. The amount is comprised of GEL 3.8mln (gross of income tax) excluded from salaries and other employee benefits, GEL 1.1mln (gross of income tax) excluded from non-recurring items, and GEL 0.8mln tax benefit excluded from income tax expense. The 2019 ROAE has been adjusted accordingly.
3 The cost/income ratio in 2019 is adjusted for GEL 3.8mln one-off employee costs (gross of income tax) related to termination benefits of the former executive management.

Overview of Financial Results continued

Performance highlights

- **Corporate and Investment Banking delivered strong results.** CIB was least affected by the COVID-19 pandemic outbreak in terms of operating activity in 2020 and generated solid net interest income and net fee and commission income throughout the period, coupled with efficient cost discipline. This resulted in y-o-y increase in operating income before cost of risk, which was up 25.6% y-o-y in 2020.
- CIB's net interest income demonstrated outstanding growth of 22.8% y-o-y in 2020. **CIB NIM was 4.7% in 2020, up 110 bps y-o-y.** Increase in NIM was primarily driven by 50 bps y-o-y decrease in cost of funds, partially offset by 50 bps y-o-y decline in currency blended loan yields.
- **CIB's net fee and commission income reached GEL 38.6mln in 2020, up 4.2% y-o-y.** The growth was largely driven by increased fees generated from guarantees and letters of credit issued and brokerage service fees.
- **CIB's loan book and dollarisation.** CIB's loan portfolio reached GEL 4,662.3mln at 31 December 2020, up 22.5% y-o-y. On a constant currency basis, CIB's loan book was up 10.4% y-o-y. The concentration of the top 10 CIB clients was 9.7% at 31 December 2020, compared to 9.9% at 31 December 2019. Foreign-currency-denominated net loans represented 79.7% of CIB's loan portfolio at 31 December 2020, compared to 81.1% a year ago. At 31 December 2020, 39.1% of total gross CIB loans were issued in foreign currency with exposure to foreign currency risk with regard to income, while 40.9% of total gross CIB loans were issued in foreign currency with no or minimal exposure to foreign currency risk.
- **Dollarisation of CIB deposits** decreased to 47.7% at 31 December 2020 from 65.9% a year ago. De-dollarisation of CIB's deposit portfolio was primarily supported by a significant, 156.4% y-o-y increase in local-currency-denominated deposits and only 21.0% y-o-y growth in foreign-currency-denominated deposits in 2020. The interest rates on local currency deposits increased significantly by 190 bps y-o-y in 2020, while interest rates on foreign currency deposits were down 10 bps y-o-y in 2020, and the cost of deposits in local currency remained well above the cost of foreign currency deposits during 2020. The increase in interest rates on local currency deposits during 2020 were mainly driven by the pressure on local currency funding during the first half of the year; however, this impact was subsequently stabilised to more normal levels as a result of the new local currency funding instruments introduced by the NBG to the market, as well as the deposits of the Ministry of Finance of Georgia placed with banks starting from the end of the second quarter of 2020. These represent lower-yielding funds provided to the banking system in order to support the local currency liquidity on the market.
- **Net other income.** Significant y-o-y increase in net other income during 2020 was mainly related to a gain on revaluation of investment property recorded in 4Q20, largely driven by the local currency devaluation in 2020, coupled with higher income from operating leases. Furthermore, the Group recorded net losses from derivative financial instruments (interest rate swap hedges) during 2019.
- **Cost of risk.** CIB's cost of credit risk ratio was 1.4% in 2020, compared to 0.2% in 2019. The significant increase in the cost of credit risk ratio in 2020 was driven by the IFRS 9 ECL reserve builds, created for the full economic cycle in 1Q20, primarily related to deterioration of the macroeconomic environment and expected creditworthiness of borrowers as a result of the impacts of the COVID-19 pandemic. This reflected additional reserves for borrowers operating across multiple sectors of the Georgian economy, with the largest impacts in tourism, trade, transportation, construction and real estate industries. These assumptions were further revisited during the second quarter to reflect the better visibility and the macroeconomic forecast scenarios published by the NBG in May 2020. Furthermore, in the second half of 2020, the Group has completed an in-depth analysis of financial standing and creditworthiness of all corporate borrowers. Based on the analysis, the additional reserves booked in the first quarter proved largely sufficient.

  As for the other expected credit loss and impairment charge on other assets and provisions, this mainly comprised reserves recorded by the Group in respect of assets held for sale, guarantees issued and other financial assets, and expenses accrued for certain legal fees.
- As a result, **CIB recorded a profit** of GEL 156.2mln in 2020, compared to profit adjusted for one-off costs of GEL 192.8mln[1] in 2019. CIB's ROAE was 18.1% in 2020, compared to 25.6%[1] in 2019.

1 Profit and ROAE in 2019 are adjusted for GEL 4.1mln one-off employee costs (net of income tax) related to termination benefits of the former CEO and executive management.

Performance highlights of Investment Management operations

- Our strong Investment Management franchise comprises the **Bank's regional Wealth Management practice** and **the leading investment bank in Georgia, Galt & Taggart.** Our strategic objective in Investment Management is to focus on profitable growth through diversifying our Wealth Management offerings, unlocking the retail brokerage potential, and fully digitalising brokerage services.
- **The Investment Management's AUM increased to GEL 2,769.2mln as at 31 December 2020, up 11.2% y-o-y.** This includes a) deposits of Wealth Management franchise clients, b) assets held at Bank of Georgia Custody, c) Galt & Taggart brokerage client assets, and d) Global certificates of deposit held by Wealth Management clients. The y-o-y increase in AUM mostly reflected increase in client deposits of Wealth Management franchise customers and client assets at Galt & Taggart, as well as depreciation of the local currency during 2020.
- **Strong international presence and diversified customer base across multiple geographies.** We served 1,578 wealth management customers from 78 countries as at 31 December 2020, compared to 1,557 customers as at 31 December 2019.
- **Wealth Management deposits reached GEL 1,506.7mln as at 31 December 2020, up 7.3% y-o-y, growing at a compound annual growth rate (CAGR) of 8.0% over the last five-year period.** The cost of deposits stood at 3.1% in 2020, down 10 bps y-o-y.
- **Galt & Taggart, which brings under one brand corporate advisory, debt and equity capital markets research and brokerage services, continues to develop local capital markets in Georgia.**
- **Our brokerage business demonstrated a remarkable growth in 2020.** At 31 December 2020, the number of online brokerage customers increased to 876, up 70.8% y-o-y. Gross revenue of brokerage business reached GEL 6.5mln in 2020, up 75.4% y-o-y. This was mostly driven by our online brokerage, offered in partnership with Saxo Bank under a white label offering, which generated gross revenue of GEL 5.0mln in 2020, up 165.6% y-o-y.
  - We see significant upsides in the brokerage business in Georgia. Historically, we have focused on providing brokerage services to our wealth management customers, whereas the retail investor participation in the securities market has been limited. **Going forward, we aim to extend our offerings to the wider retail and mass affluent segment**.
  - In line with the Group's overall digital strategy, we are working on digitalising our brokerage offerings. Over the past few years we have made significant enhancements to our back and front-end processes to improve customer experience and engagement in brokerage services. **In 2020, we launched a single-view client dashboard**, a product combining investment banking products into a single channel, which has improved overall customer experience and reporting tools. **In 2021, we also plan to launch the mobile application** to increase the usage and participation of the retail segment in this business and to enhance customer experiences.
- In 2020, Galt & Taggart facilitated c.GEL 100mln local private bond issuance of IFIs and the placement of c.GEL 70mln local public and private bonds of several Georgian corporates. In addition, Galt & Taggart acted as a rating advisor for two microfinance organisations, assisting in obtaining credit rating from Scope Ratings, and acted as an advisor for several Georgian corporates during admission of their shares to trading on the Georgian Stock Exchange.
- **Galt & Taggart is a top-of-mind research house in Georgia** supporting our brokerage business and CIB activities with an in-depth quality research coverage. In order to expand our brokerage efforts, we recently introduced our Global Market Watch coverage, which is our first step towards increasing retail investor participation in this segment. In 2020, Galt & Taggart published more than 70 research reports on Georgia's and regional economies, key sector coverage in Georgia, regional fixed income securities, and global macro trends. we had more than 6,500 unique subscribers as at 31 December 2020.

Governance

Directors' Governance Statement

Neil Janin
Chairman of the Board

Hanna Loikkanen
Senior Independent Non-Executive Director

Chairman and Senior Independent Non-Executive Director's introduction

Dear Shareholders,

We are pleased to present the third Governance Statement of the Bank of Georgia Group PLC.

Your Board is responsible for ensuring sound management and long-term success of the Group, which can only be achieved with an appropriate governance framework. During the year we have continued to operate in accordance with the UK Corporate Governance Code (the "Code").

The Board is entirely committed to the principles of good corporate governance and is of the view that good governance delivers a series of strategic and organisational benefits. Good governance gives, us as a Board, confidence that we are making the right decisions, keeping in mind what is truly in the Group's long-term interest. It allows us to consider the opinions of our stakeholders, including our shareholders, our customers, our employees and our suppliers. It enables us to be a driver for the banking sector and for Georgia.

We are pleased to report that we have made very good progress in delivering on our key corporate governance commitments in 2020, including a committee structure with terms of reference that are compliant with the Code, with each committee composed to ensure that we have the right skill set for it to operate effectively. In addition to which, the Supervisory Board of JSC Bank of Georgia has implemented a number of changes to governance standards set by the National Bank of Georgia ("NBG"), which aimed to align Georgia with internationally recognised practices including: the Basel Committee's guidelines on Corporate Governance Principles for Banks; requirements of EU Directives (CRD IV – CRR); and recommendations of the European Banking Authority and European Central Bank. During 2020, the Bank's Supervisory Board undertook a review of all policies to ensure they reflected the required standards of the NBG's Compliance Code. At the end of 2021 and 2022, some new amendments to the NBG Compliance Code will come into force which will affect the Supervisory Board and its committees composition – please see the Nomination Committee report for further information on Board succession planning.

During 2020, the Board has focused on the evolving challenges presented by the unique circumstances of the global COVID-19 pandemic. We have adapted our ways of working to ensure that we as a Board can continue to provide effective oversight and support management in their efforts. We also engaged with a wide range of stakeholders, including customers, employees and the Georgian Government to ensure we responded appropriately to their needs during this difficult period. Further information on the operation of the Board in response to the pandemic can be found further on in this report.

Although our response to the COVID-19 pandemic has been the central priority of the Board this year, the Board has given additional focus to developing, monitoring and assessing our corporate culture, and has given consideration to the Group's values and purpose. More information on this is provided later within this Statement.

We remain committed to working with our management to ensure that our high standards extend beyond the boardroom and are implemented throughout the business in the successful delivery of the Group's strategic priorities.

Finally, we are delighted to report on the recent addition of Mariam Megvinetukhutsesi to our Board. Mariam strengthens our Board in terms of experience and diversity, and is already adding value to our discussions.

Neil Janin
Chairman of the Board
30 March 2021

Hanna Loikkanen
Senior Independent Non-Executive Director
30 March 2021

Directors' Governance Statement continued

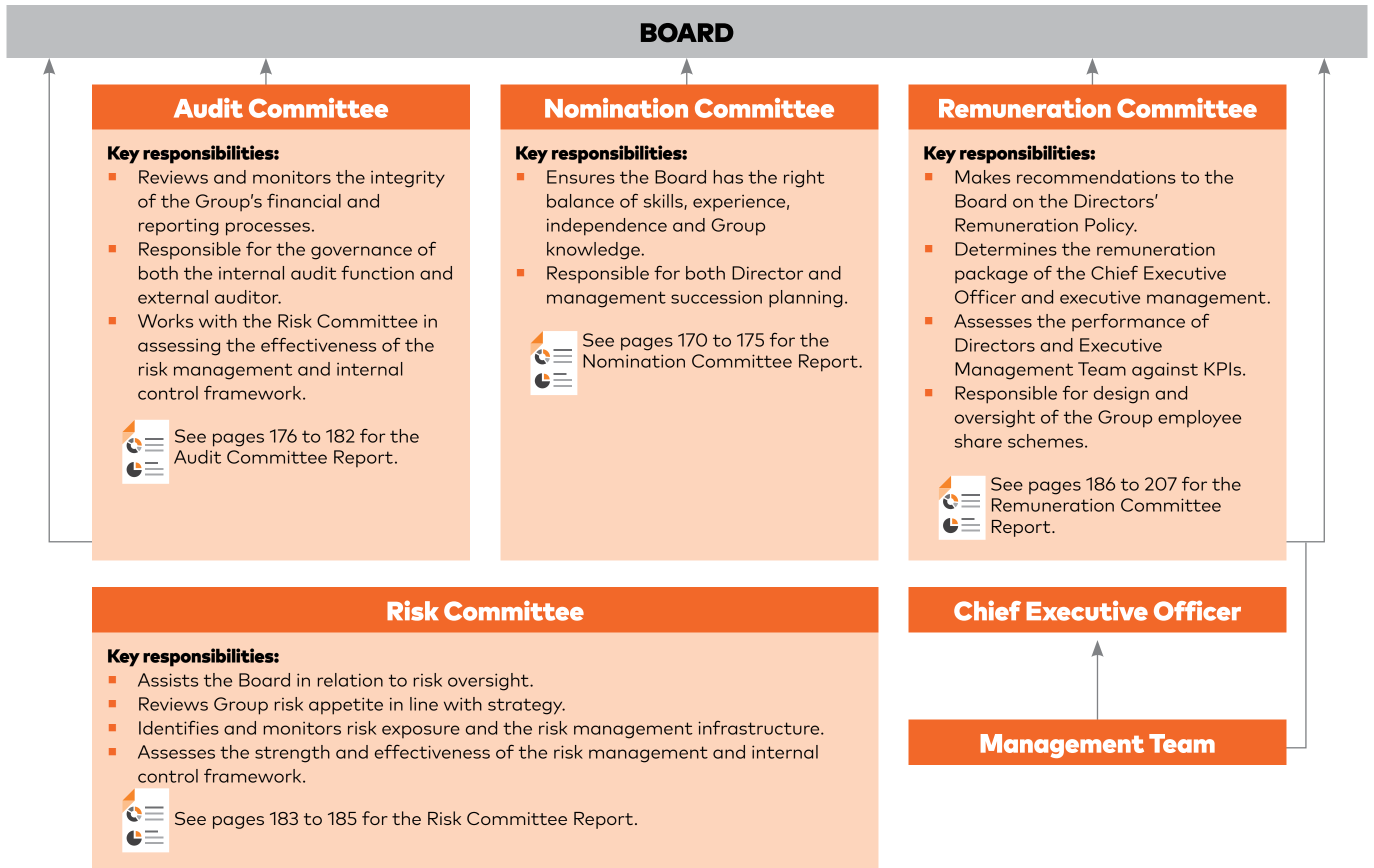
Statement of Compliance with the UK Corporate Governance Code
The Company is subject to the principles and provisions of the UK Corporate Governance Code 2018 (the "Code"). We have undertaken a number of steps to ensure ongoing compliance with the Code, including receiving an analysis from the Company Secretary on the Company's application of the provisions and principles throughout the year.

Throughout the year ended 31 December 2020, the Board is of the view that we applied all of the Main Principles and complied with all the provisions of the Code. This statement, and the reports from the Board Committees, set out how we applied the Main Principles of the Code as required by LR 9.8.6.

The Code is publicly available at the website of the Financial Reporting Council at www.frc.org.uk.

Bank of Georgia Group's governance structure
The Board is composed of nine Directors, eight of whom are independent Non-Executive Directors. The Board is assisted in fulfilling its responsibilities by four principal committees: Audit, Nomination, Remuneration and Risk. Their terms of reference are reviewed annually to ensure they are functioning correctly, and aligned with the most recent version of the Code, with any amendments approved by the relevant Committee and the Board. The current versions are published at: https://www.bankofgeorgiagroup.com/governance/documents. For further information about the Committees see the Nomination Committee Report on page 170, the Audit Committee Report on page 176, the Risk Committee Report on page 183 and the Directors' Remuneration Report on page 186.

The role of the Board
The Board is responsible to shareholders for creating and delivering sustainable shareholder value through the management of the Group's business. Among our responsibilities are setting and overseeing the execution of the Company's strategy within a framework of effective risk management and internal controls, demonstrating ethical leadership and upholding best practice corporate governance. The Board recognises its duties under the UK Companies Act to promote the long-term success of the Company, taking into account not only the views and interests of our shareholders but also our various stakeholders, such as our employees, our customers, and the environment and our community as a whole.



Each Director also recognises their statutory duty to take into account and represent the Company's various stakeholders in its deliberations and decision-making. You can read more about how our Directors had regard to their duties under Section 172 of the Companies Act 2006 later on in this Report. Particular discussion concerning our social responsibility and sustainability initiatives is found in the Responsible Business section on pages 102 to 130.

We also monitor management's execution of strategy and financial performance. As a Board, we recognise the need to ensure that management strikes the right balance between delivering on short-term objectives and ensuring sustainable long-term growth.

In order to ensure that we meet our responsibilities, specific key decisions have been reserved for approval by the Board. A full formal schedule of matters specifically reserved for the Board can be found on our website at: https://www.bankofgeorgiagroup.com/governance/documents.

Outside these matters, the Board delegates authority for the day-to-day management of the business to the CEO. The CEO, in turn, delegates aspects of his own authority, as permitted under the corporate governance framework, to the Management Board of the Bank.

Operation of the Board
The Board usually meets four times a year in Georgia, although due to the global COVID-19 pandemic and ensuing travel restrictions, this has not been possible in 2020, and the Board met by video conference, both for its scheduled meetings and those meetings convened to monitor the impact of the COVID-19 pandemic. Although this year Board deliberations were led by our response to the pandemic (as detailed specifically below), each quarter the following topics are usually discussed in the Board meeting:

- updates from different areas of the Group's operations, including Retail and Corporate and Investment Banking, lending and asset quality and performance;
- financial performance update, including a review on capital and liquidity levels (with formal financial results announcements typically being approved in separate video conferences);
- information technology and risks;
- the development of the Group's change management function with particular focus on the growth of our digital proposition;
- regulatory updates; and
- updates from the Committee meetings, typically including at least an Audit Committee report on accounting issues and internal audit and compliance matters.

In addition, amongst the Board's responsibilities are:

- oversight of the Group;
- strategy and assessment of the principal risks and risk appetite;
- the governance structure;
- setting the overall purpose, values and culture of the Bank; and
- accountability to shareholders for the Group's long-term success.

Due to the magnitude and unprecedented nature of the COVID-19 pandemic, the Board convened on a number of occasions to discuss the impact of the pandemic. During such meetings, the Board and its Committees considered matters including:

- the implementation of employee-focused protective measures, including providing clear communications to employees on protective measures being introduced to ensure their safety and wellbeing;
- consideration of the duty of care to customers, and how working practices could adapt to suit their needs during the changing circumstances;
- the operational and financial performance of the Group, and consideration of its liquidity and capital position;
- the decision not to recommend a 2019 dividend, further information on which can be found on page 13 of this report;
- consideration of operational and technology solutions where adaptive measures might be needed arising from home working by employees; and
- the Bank's participation in any Georgian Government coronavirus loan schemes and engagement with the regulator on matters including the options for Georgian banks to make use of capital buffers, and updates on management's engagement with the regulator. Further information on these measures can be found on page 17 of this report.

The Senior Independent Non-Executive Director supports the Chairman in his role, acts as an intermediary for other Non-Executive Directors where necessary and liaises with the Non-Executive Directors outside of the Board and Committee meetings.

In 2020, as per good practice, the Chairman met with the Non-Executive Directors without the CEO present and the Senior Independent Non-Executive Director held a meeting with the Non-Executives without the Chairman.

What was on the Board's agenda during 2020
As well as the issues detailed above regarding the pandemic, the Board adhered to its annual schedule of rolling agenda items which are designed to ensure that all matters are given due consideration and are reviewed at the appropriate point in the financial and regulatory cycle. The Board had an extensive agenda of items of business during 2020:

Financial and corporate reporting	■ Quarterly, half-year and full-year results ■ Annual Report discussion and updates and recommendations (from the Audit Committee and Risk Committee) ■ Notice of AGM
Strategy	■ Reviewed the Company's core values, mission and strategy ■ Reviewed performance against strategy ■ Regular reviews of the Georgian macroeconomic environment, particularly in light of the COVID-19 pandemic ■ Adjustment of strategy and the 2020 budget in light of the COVID-19 pandemic ■ Project updates ■ Feedback from the Board Committees ■ Considered how to further improve our ESG reporting and to strengthen our ESG framework and to ensure the support and participation of the workforce
Governance and policies	■ Assessed the culture and worked to reinforce the desired culture of the Group ■ Considered external legislative and governance developments ■ Board succession ■ Policy reviews ■ Board's and Committees' effectiveness ■ Committees' terms of reference reviews
Stakeholder engagement	■ Actively engaged with shareholders (and our other stakeholders) to ensure that the Board understands the views of shareholders (and our other stakeholders) on some of our most critical decisions (further details of our stakeholder engagement methods are set out later in this report) ■ Reports from the designated Non-Executive Director for engagement with the workforce ■ Directors met virtually with a range of stakeholders, including employees at different levels of the Group, including representatives from subsidiary companies ■ Hosted an Investor Day

The Chairman and CEO seek input from the Non-Executive Directors ahead of each Board meeting in order to ensure that any matters raised by the Non-Executive Directors are on the agenda to be discussed at the meeting.

Culture
By setting the tone at the top, promoting an open and agile culture, establishing the core values of Bank of Georgia Group PLC and demonstrating our leadership, management is able to create and implement key policies and procedures in a manner that clearly sets an expectation that every employee acts ethically and transparently in all of their dealings. This, in turn, fosters an environment where business and compliance are interlinked.

In terms of our overall culture, the Group's mission is: helping people achieve more of their potential; and to achieve this by ensuring a culture of teamwork across the organisation. By working to ensure our practices and processes drive the execution of values, we aim to create a culture that really demonstrates our values, providing equal opportunities for professional and personal advancement and building a high-trust, values-based organisation where employees can achieve more of their potential is a priority for the Company.

Our CEO has made culture one of his leadership priorities, including "employee engagement" and "developing ESG and gender diversity", which are included in his KPIs. The percentage of women in the Executive Committee equivalent and Direct Reports for the Group increased to 45.2% as at 31 October 2020 (date of Hampton-Alexander review submission). According to the statistics in the 2020 Hampton-Alexander report, if we were in the FTSE 250, this would place the Group in the number one spot for the banking sector.

To encourage all employees to participate in the development of culture, our CEO takes the following active steps to promote engagement: writes a blog for employees, updates the Group with examples of employees going the extra mile to inspire and highlights where employees have shown potential; and employees have the opportunity to ask the CEO questions and talk directly with him. In addition, he has encouraged employees to engage in the talent development and management process, more information on which can be found below.

More information on our employee engagement initiatives can be found on pages 112 and 120, and later in this report.

Following the feedback received and output from both our eNPS surveys and Barrett Organisational Culture and Values Assessment, and the Board's ongoing emphasis on our culture, the following core values were identified which are driven by, and serve to complement, our strategic and operational needs:

- motivation;
- support;
- creation and action; and
- courage.

The Board, with management input, further identified several business principles designed to support the organisational values, as well as reinforcing our message of risk mitigation within the Group. Our business principles are:

- teamwork;
- development;
- fairness;
- customer-centricity;
- operational excellence; and
- innovation.

The Board considered these core values and business principles again in early 2021, took into account employee feedback including as raised in the Employee Voice (see below for details on this forum), considered how they were being embedded to date and confirmed that they continue to be appropriate.

The Board's ongoing focus on our culture, and the endeavours invested in employee matters during 2020, were reflected in the increased eNPS and Employee Engagement scores (the details of which can be found on page 119 in our Responsible Business Report).

Every employee is encouraged to participate in the development of our culture, and the Board has received updates on the processes by which the culture is being shaped. Foundations of our culture are embedded across various activities related to employee engagement and empowerment: for example, an updated Talent Assessment system was launched in 2020 based on our business principles, and employees were involved in developing this system. Other examples of providing employees with opportunities to provide feedback and direct communication are outlined in the Responsible Business section of this annual report.

In line with the recommendations of the Code, Hanna Loikkanen has been appointed as the designated Non-Executive Director to engage with the workforce.

In 2018, the Board introduced a new initiative, Employee Voice – a quarterly informal discussion forum for the Board to engage with the workforce. These meetings are facilitated by Hanna Loikkanen as the designated Non-Executive for workforce engagement, and all Board members are invited to participate in these meetings, which aim to facilitate the exchange of opinions, ideas and views between the Board and employees. Over the course of 2020, Employee Voice meetings were held with three groups to discuss the current employee experience, challenges and opportunities, and what the future might look like after COVID-19 restrictions were lifted. The meetings were held virtually due to the ongoing restrictions.

In addition, several Board members provide regular mentoring to members of the Management Board and to senior management on leadership, employee engagement and culture creation.

In 2020, the Board continued to monitor and assess our culture, and reviewed the metrics and output from the Barrett Organisational Culture and Values Assessment (undertaken in 2019), the Employee Engagement Survey undertaken by Korn Ferry, and eNPS survey. We were pleased to see increasing levels of engagement with the survey. This year we have worked to further improve the employee experience through a number of initiatives, including: HR meeting with every employee to consider their specific experiences; enhancing the onboarding process; developing the exit interview process to better capture feedback from employees; and encouraging talent development, specifically for young talent and those with high potential. We also received regular reports on whistleblowing to help inform the Board's assessment of the development of the Group's culture.

The Board believes that there is significant value in these actions, both in allowing Directors to gain further insight into the Group's culture and employee issues, and in providing employees with further opportunities to engage with the Board. The above disclosures reflect how our employees are taken into account in our board decision-making.

Looking ahead to 2021, the Board will continue to embed our culture, and monitor and assess its development by considering the metrics and output from the eNPS survey; to further improve the employee experience and enhance the talent development platform; and we will receive further reports from Hanna Loikkanen on employee matters.

We will report in our 2021 Annual Report on the ways in which we have developed these initiatives over the forthcoming year.

Strategic Report | Overview
Strategic Report | Strategy
Strategic Report | Performance
Governance
Financial Statements
Additional Information

Directors' Governance Statement continued

Board and Committee meeting attendance

Details of Board and Committee meeting attendance in 2020 are as follows:

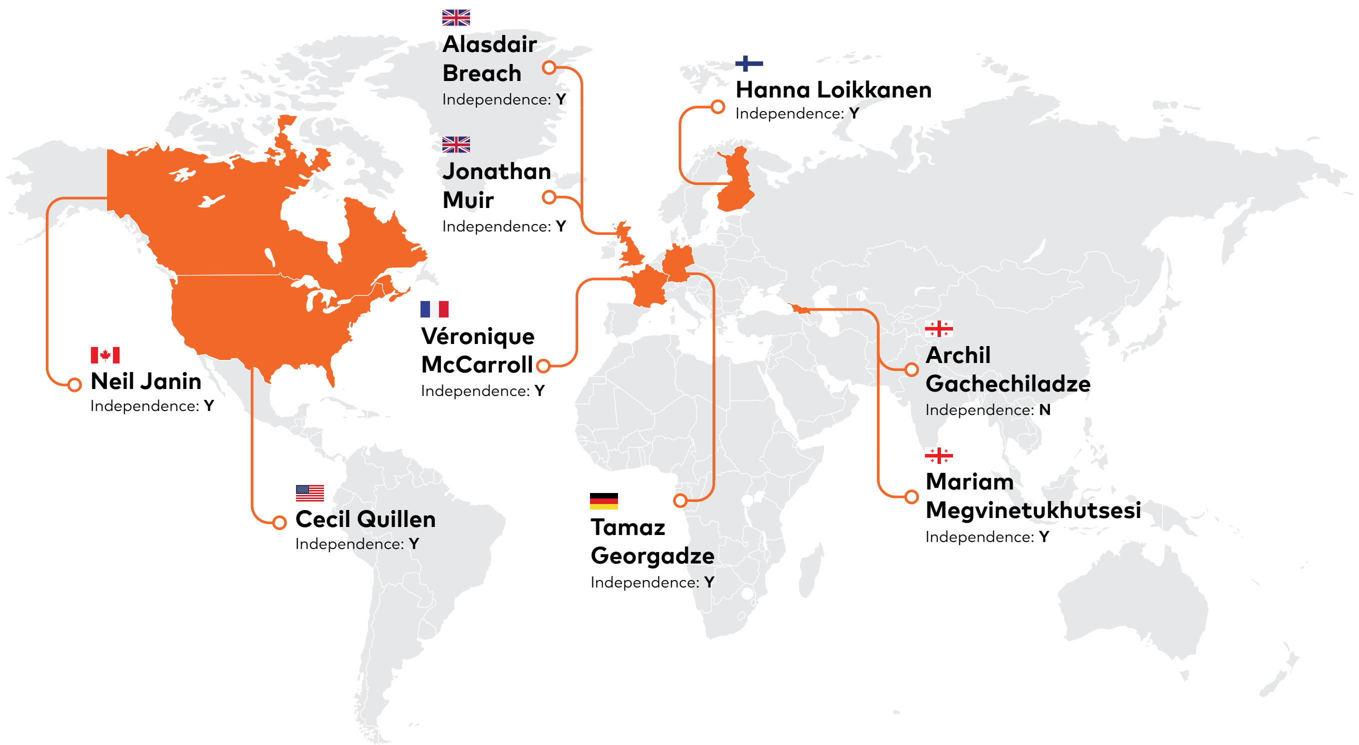
Members	Board	Audit Committee	Nomination Committee	Remuneration Committee	Risk Committee
Neil Janin*	8 of 8 scheduled 2 of 2 ad hoc	N/A	3/3	5/5	N/A
Alasdair Breach*	8 of 8 scheduled 2 of 2 ad hoc	N/A	3/3	5/5	4/4
Tamaz Georgadze*[1]	8 of 8 scheduled 1 of 2 ad hoc	N/A	3/3	5/5	4/4
Archil Gachechiladze	8 of 8 scheduled 2 of 2 ad hoc	N/A	N/A	N/A	N/A
Hanna Loikkanen*	8 of 8 scheduled 2 of 2 ad hoc	8 of 8 scheduled 1 of 1 ad hoc	3/3	5/5	N/A
Véronique McCarroll*	8 of 8 scheduled 2 of 2 ad hoc	N/A	3/3	N/A	4/4
Jonathan Muir*	8 of 8 scheduled 2 of 2 ad hoc	8 of 8 scheduled 1 of 1 ad hoc	3/3	N/A	N/A
Cecil Quillen*	8 of 8 scheduled 2 of 2 ad hoc	8 of 8 scheduled 1 of 1 ad hoc	3/3	5/5	N/A
Andreas Wolf**	N/A	N/A	N/A	N/A	N/A

* denotes Independent Director
** stepped down from the board on 31 January 2020
1 Mr Georgadze was unable to attend one ad hoc Board meeting due to a prior commitment; however, he provided full comments on the materials discussed to the Board ahead of the meeting.
2 Mariam Megvinetukhutsesi joined the board on 12 March 2021.

In addition, there were three joint meetings of the Audit Committee and Risk Committee at which all members of each Committee were present. The joint meetings aimed to further improve communication and collaboration between the Audit Committee and the Risk Committee, particularly within the context of the COVID-19 pandemic. The meetings considered: the viability statement, going concern statement, review of principal risks, and a review of the effectiveness of internal controls ahead of the approval of the 2019 Annual Report; an overview of operational risk; scenario testing for challenging but plausible risks to the Company; and climate-related disclosures. In each case, the COVID-19 pandemic was a central consideration during the joint meetings, particularly with regard to the viability statement, the going concern statement and the review of principal risks.

Board size, composition, tenure and independence

We consider that a diversity of skills, backgrounds, knowledge, experience, geographic location, nationalities and gender is important to effectively govern the business. The Board and its Nomination Committee will work to ensure that the Board continues to have the right balance of skills, experience, knowledge and independence necessary to discharge its responsibilities in accordance with the highest standards of governance.



The Board is mindful of developing diversity both at Board level and at other levels in the Group. According to the statistics in the 2020 Hampton-Alexander report, if we were in the FTSE 250, the Group would place in the number one spot for the banking sector for percentage of women in the Executive Committee equivalent and Direct Reports for the Banking sector.

Female representation on the Board is at 33%. More information in regard to our targeted improvement of this representation can be found on page 172 of this report. Although we are not currently a FTSE 350 company, the Board is also mindful of the aims of the Parker Review, for companies to have at least one director from an ethnic minority background by 2024, and our approach to diversity is further driven by the need to be representative of Georgian society.

In March 2021, we announced the appointment of Mariam Megvinetukhutsesi. Following Mariam's appointment, we believe our overall size and composition to be appropriate, having regard in particular to the independence of character and integrity of all of the Directors. Each of our Non-Executive Directors occupies, and/or has previously occupied, senior positions in a broad range of relevant associated industries, bringing valuable external perspective to the Board's deliberations through their experience and insight from other sectors enabling them to contribute significantly to decision-making. No individual, or group of individuals, is able to dominate the decision-making process and no undue reliance is placed on any individual.

The Board has assessed the independence of the Chairman and each of the seven other Non-Executive Directors in line with principle G and provision 9 of the Code and are of the opinion that the Chairman and each Non-Executive Director act in an independent and objective manner. We consider that, under the Code, all of our Non-Executive Directors are independent and free from any relationship that could affect their judgement.

Taking into account the matters above, the Board considers that all current directors have retained their independence and that it is appropriate to put them forward for election or re-election. The Board is however working on the succession of the Chair and intends to replace the Chair by the end of the year. The process will be managed by our Senior Independent Director and Jonathan Muir. More information on our work on succession planning can be found on page 173 in the Nomination Committee section of this Annual Report.

Directors' Governance Statement continued

Board induction, ongoing training, professional development and independent advice
On appointment, each Director takes part in an induction programme, during which they meet members of senior management and receive information about the role of the Board and individual Directors, and each Board Committee and their respective delegated powers. They are also advised by the UK General Counsel and Company Secretary of the legal and regulatory obligations of a director of a company listed on the London Stock Exchange. Induction sessions are designed to be interactive and are tailored to suit the needs of the individual's previous experience and knowledge.

We are committed to the continuing development of our Directors so that they may build on their expertise and develop an ever more detailed understanding of the business and the markets in which Group companies operate. All of our Directors participated in ongoing training and professional development throughout 2020, which included briefings and presentations by the UK General Counsel, our Company Secretary, members of management and our professional advisors. During the year, our UK General Counsel and Company Secretary provided updates on regulatory and legislative changes, including: changes to disclosure requirements of the UK Listing Rules; refresher training on the dealing disclosure provisions of the Market Abuse Regulations; refresher training on appointment processes and renewal of the Board and independence criteria; and an update on the Task Force on Climate-Related Financial Disclosures (TCFD). Audit Committee members also received training on developments in audit and accounting.

All Directors have access to the advice of the UK General Counsel and Company Secretary as well as independent professional advice, at the Company's expense, on any matter relating to their responsibilities.

Statement by the Directors in performance of their statutory duties in accordance with Section 172(1) of the Companies Act 2006
Section 172 of the Act requires Directors to act in good faith and in a way that is the most likely to promote the long-term success of the Company. In discharging this duty, Directors must take into consideration the interests of the various stakeholders of the Company. This will include the impact the Company has on the workforce, community and the environment. Directors will also take a long-term view on the consequences of decisions they make. In addition, Directors must aim to maintain the Company's reputation for high standards of business conduct and to ensure fair treatment between the shareholders of the Company.

The Board of Directors consider that they, both as a whole and individually, have acted in a way that they consider, in good faith, would be most likely to promote the success of Bank of Georgia Group PLC for the benefit of its members as a whole (having regard to the stakeholders and matters set out in Section 172 (1) (a-f) of the Companies Act 2006).

The Board works hard to ensure that the expectations, needs, concerns and thoughts of our shareholders and stakeholders are taken into consideration, and is of the view that their feedback is invaluable in helping formulate the longer-term strategy of Bank of Georgia Group PLC.

The Board also encourages management to consider Section 172 matters. This includes requesting management to consider and bring to the Board's attention relevant Section

172 matters when presenting or submitting a paper to the Board, particularly where a decision is required.

Two examples of principal decisions taken by the Board that relate to the Company's shareholders are set out below.

Decision with respect to 2019 dividend
In March 2020, the Board took the decision not to recommend a dividend to shareholders for the 2019 financial year, recognising the ongoing uncertainty and challenges raised by the COVID-19 pandemic. Although the Company has a strong track record of profitability and capacity to generate high levels of internal capital, the Board agreed that taking this decision would increase the Company's ability to respond to the pandemic, and would promote the success of the Company for the benefit of its members as a whole in the longer term. The Board stated it would keep the matter under review. The Group reconfirmed in the first quarter results that there would not be a dividend and that as part of the NBG's COVID-19 supervisory plan, during the period that banks partially or fully utilise Pillar 2 or conservation buffers, they are restricted from any form of capital distribution. Over time, the Group's dividend policy remains unchanged, and the Board has communicated that it plans to return to a targeted payout ratio range of 25-40% as soon as practically possible.

COVID-19 people considerations
We were able to successfully implement our business continuity plan in response to the COVID-19 pandemic during 2020, which saw the majority of our employees move to remote working from the safety of their homes. Our priority has been protecting the health and safety of all our employees and customers, and we continue to monitor best practice and Government advice and provide regular updates to employees on such matters. More detail on this can be found on pages 20 to 25 of this report.

Other steps the Board has taken to meet its Section 172 responsibilities:

- Board papers include information, where appropriate, for Directors on each of the provisions of Section 172 within the Act.
- The Board considers long-term value generation opportunities, taking into account likely macroeconomic changes and stakeholder considerations.
- The Board continues to reflect regularly on the quality of Board and Committee meeting materials, and will continue to consider whether further information is required within such materials on stakeholder considerations.
- The Board continues to actively engage, both as a whole and on an individual basis, with employees across the Group, with a view to further understanding their views. This has continued despite the impact of the COVID-19 pandemic.

Further information on how we engage with our shareholders, and wider stakeholder engagement, highlighting specific examples of engagement, can be found below, and on pages 102 to 130 of our Annual Report.

Shareholder and stakeholder engagement
In addition to the engagement efforts specifically in response to the COVID-19 pandemic as detailed earlier in this Report and in the Responsible Business section, the Board recognises the importance of considering all stakeholders in its decision-making, and the following section outlines some of our main activities in this regard, and how the outcomes of those activities influenced our decision-making.

Response to 2020 AGM voting outcome
At our AGM held on 18 May 2020, the Directors' Remuneration Report was approved by 70% of shareholders. Given that a significant minority voted against this resolution, the Board undertook to engage with shareholders specifically with regard to this issue (in addition to our regular shareholder engagement and communication programme). Following consultation, it was proposed that further disclosure around the rationale of payment of the discretionary deferred shares in accordance with the Investment Association Principles of Remuneration be provided to shareholders. In the Directors' Remuneration Report, we have included target ranges for key performance indicators, as well as disclosing the weightings for each indicator. There is also increased explanation on the indicators in response to further feedback. We were pleased with the positive views on our proposed approach to remuneration and on our overall remuneration structure.

How we engage with our shareholders
The Company has a comprehensive shareholder engagement and communication programme and encourages an open and transparent dialogue with existing and potential shareholders. The programme covers all results, performance and strategy issues, as well as discussions relating to ongoing corporate governance and other ESG topics. The Group has been taking into account matters which shareholders have indicated are of importance to them in written communications to their wider issue base, and also in individual phone calls with shareholders. You can read more about this enhanced approach to ESG in the Responsible Business section. This dialogue will be continuing during 2021.

The Board's primary contact with institutional shareholders is through the Chairman, CEO, Chief Financial Officer and Head of Investor Relations, each of whom provides a standing invitation to shareholders to meet and discuss any matters they wish to raise. Our Committee Chairs also make themselves available to answer questions from investors. Hanna Loikkanen is the Board's Senior Independent Director, whose role includes acting as an intermediary for shareholders.

We will engage with shareholders, including through the Company's forthcoming AGM to be held in May 2021, and will also continue to communicate with shareholders on important developments throughout the year. Our annual results announcement, half-year results and quarterly results are supported by a combination of presentations and telephone briefings. Over the course of 2020, we have engaged with over 400 institutional investors, and participated in more than 20 investor conferences and road shows, most of which were virtual. Throughout the year, our Directors and management met with or held video conferences with our existing and potential shareholders in Georgia, the UK, Europe, North America, Singapore and South Africa.

In November 2020, the company hosted a virtual Investor Day in Tbilisi, Georgia, which was open to all investors and analysts. The virtual event was hosted by the Company's management team, and attended by the Board. This Investor Day provided an opportunity for investors to receive an update from the Board and management on strategy and performance, and also to raise matters of interest. Questions were submitted through a "chat" function and therefore were visible to all participants. The Company was pleased to host more than 200 investors and analysts at the event and this has ensured that the views expressed by the investors and analysts in attendance were fully communicated back to the Board. The Company also engaged with shareholders following the significant advisory vote against the Remuneration Report at the AGM in May 2020 to understand shareholder views and to respond appropriately, and released a subsequent update statement to shareholders. Further information on this can be found in the Directors' Remuneration Report section on page 186.

In addition to our shareholders, we meet with or talk to stockbroker analysts throughout the year, hold regular meetings or discussions with the Group's existing lenders and actively engage with potential lenders to discuss our funding strategy. Our UK General Counsel and the Company Secretary have ongoing dialogue with the shareholder advisory groups and proxy voting agencies, which gives us a greater understanding into our investors' expectations.

The Chairman has overall responsibility for ensuring that the Board understands the views of major stakeholders. The full Board is regularly kept informed of these views by the Chairman as well as management and the Investor Relations team and, to the extent deemed appropriate, the Group has taken active steps to adopt different ways of working in response to feedback received from shareholders and other stakeholders. Informal feedback from analysts and the Group's corporate advisors is also shared with the Board.

Directors' Governance Statement continued

Our website, https://www.bankofgeorgiagroup.com, provides our shareholders with access to the Group's results, press releases, investor presentations, analyst reports, details on our engagement with communities and corporate and social responsibility framework, our leadership, as well as other information relevant to our shareholders. We also ensure that shareholders can access details of the Group's results and other news releases through our website as well as the London Stock Exchange's Regulatory News Service.

How we engage with our other stakeholders
Bank of Georgia Group PLC has a wide range of stakeholders with differing interests to consider. The Board has a number of mechanisms in place to ensure effective engagement with key stakeholders to ensure that we take those interests into consideration in Board deliberations and decision-making. During the COVID-19 pandemic, we recognise the need for regular, clear and transparent communications with all of our stakeholders, and more information on our efforts can be found below, and on pages 20 to 23 of this Report.

We detail in our Responsible Business section our engagement with customers, which includes:

- enabling businesses to adapt and continue operations during lockdown;
- enabling more retail customers to go digital; and
- collecting, measuring and reviewing customer feedback to respond to issues as they arise.

Our employees
We detail in our Responsible Business section and earlier in this report on our engagement with employees, which includes:

- half-yearly and annual performance reviews;
- employee engagement surveys;
- town Hall sessions with senior management;
- regular Q&A sessions with the CEO;
- a designated workforce engagement Non-Executive Director; and
- "Meet the Board" sessions.

Our Chief Executive Officer has encouraged employees to proactively engage with the talent management initiatives and processes, and to consider their professional development paths. We aim to reshape the employee end-to-end journey in order to create a positive employee experience, with diverse opportunities for development, and to ensure ongoing high levels of engagement. By encouraging employees to feedback on the talent management initiatives and processes we aim to help people, in this case our employees, achieve more of their potential. You can read more on how our employee experience management, and on how we measure employee empowerment, in our Responsible Business report.

In addition, in 2020 the CEO issued a video message to all employees at the beginning of the pandemic to provide reassurance on the Bank's ability to withstand the inevitable economic impact brought about by the pandemic, and has provided regular updates to ensure employees have clarity over the Company's ongoing response to the pandemic.

Although Hanna Loikkanen, the designated Non-Executive Director for workforce engagement, was not able to spend time in Georgia during the year due to the travel restrictions in place, Ms Loikkanen undertook a number of engagements via videolink where practical. More information on this engagement can be found on page 155.

The Georgian Government
We undertake regular liaison with Government departments, including Ministerial liaison, and NBG, as the Bank is regulated. As part of our communication programme with the regulator, we discuss the Bank's specific and banking system issues, and also use a banking association platform, together with other banks, to discuss wider banking system issues, such as regulations, macro issues, and the legal environment.

The Bank has taken significant steps towards strengthening its enterprise-wide compliance risk management framework. With the existing complex regulatory environment, the Bank has directed its resources and developed a robust tool kit for timely implementation of new regulatory requirements. The Bank has also established formal links and coordinated processes of regulatory communication.

Local communities
As we detail in our Responsible Business section, we have a range of initiatives including support of relevant charitable projects through selective partnerships and the regular review of additional ways we can provide support to the wider community and relevant charitable organisations.

Third-party suppliers
We undertake regular meetings and hold scheduled review sessions with key contacts of suppliers and their senior management teams. This allows us to ensure that we have a resilient supply chain, as well as a high quality of service which in turn helps foster the Company's business relationships.

Evaluation of Board performance
The Board continuously strives to improve its effectiveness and recognises that its annual evaluation process is an important tool in reaching that goal. In accordance with the Code, and following a tender process for suitable evaluators, in 2020 the Board engaged Farman & Partners, a specialist consultancy firm, to conduct a comprehensive review of the Board's composition, succession planning, expertise, dynamics, management and focus of meetings, support, culture, and risk management and oversight. The evaluation was conducted via a detailed questionnaire which sought to capture both quantitative and qualitative data on the Board's processes and behaviours, along with performance of the Committees, and also via a one to one discussion between each Board member and the external facilitator. The results of the evaluation were discussed by the Board both in a formal setting, and in ongoing informal discussions.

The evaluation highlighted areas in which the Board was operating well and also identified areas of focus for the coming year. Overall, it was the view of the Directors that the Board and Board Committees discharge their respective responsibilities effectively, which is supported by good working relationships, both between Directors, as well as between the Board and management. Farman & Partners has no other connection with the Company.

The Board further took part in an exercise facilitated by COCREA to ensure the ongoing culture of openness and debate between Board members. As part of this process, Board members undertook an extensive one on one interview process and also a group discussion facilitated by COCREA. More detail on this process can be found in the Nomination Committee's report on pages 171 and 172. COCREA has no other connection with the Company.

The Board also recognised the areas for further improvement and set objectives for 2021 to address those recommendations arising from the evaluation. Based on the evaluation, the Board's objectives for 2021 are:

- to further improve and strengthen succession planning and diversity at the Board and at the top levels of the organisation. This will include working closely with the Nomination Committee and HR;
- to further focus on the development of ESG matters and to create an appropriate framework for climate-related disclosures specifically; and
- to further improve Board and Committee support processes, including improvements to the consistency in quality of Board meeting materials.

These objectives are in addition to the priorities the Board has set for itself with regards to culture, and the embedding of our values and business principles across all parts of the Group, as detailed earlier in this report.

In line with best practice, in September 2020, the Non-Executive Directors met to evaluate the performance of the Chairman led by the Senior Independent Non-Executive Director, and concluded that the Chairman continues to show effectiveness in leadership. The Chairman also met with the Non-Executive Directors without the CEO present in December 2020.

Internal controls and risk management
The Group has a comprehensive system of internal controls in place, designed to ensure that risks are identified, recognised and mitigated and that the Group's objectives are attained. The Board recognises its responsibility to present a fair, balanced and understandable assessment of the Group's position and prospects. It is accountable for reviewing and approving the effectiveness of the internal controls operated by the Group, including financial, operational and compliance controls, and risk management. The Board recognises its responsibility in respect of the Group's risk management process and system of internal controls and oversees the activities of the Group's external auditor and the Group's risk management function (supported by the Audit and Risk Committees).

A review of the Group's risk management approach is further discussed in the Strategic Report on pages 74 to 85. For detail on the management and mitigation of each principal risk see pages 86 to 99. Please refer to pages 176 to 182 for further detail in relation to the role of the Audit Committee, and pages 183 to 185 for further detail in relation to the role of the Risk Committee.

The Group's governance structure for risk management is illustrated on page 78.

Diversity Policy
More information on the Company's Diversity Policy, its objectives, implementation and results can be found on pages 172 and 173.

Board of Directors

Diverse and balanced team who govern with experience.

Neil Janin

Non-Executive Chairman

Neil Janin was appointed Non-Executive Chairman of Bank of Georgia Group PLC on 24 February 2018. Mr Janin serves as Chairman of Bank of Georgia Group PLC's Nomination Committee, as well as a member of the Remuneration Committee. Mr Janin also serves as a member of the Supervisory Board of JSC Bank of Georgia. Mr Janin previously served as Chairman of BGEO Group PLC, which included positions on BGEO Group PLC's Nomination and Remuneration Committees. Mr Janin also served as a Non-Executive Director of Georgia Healthcare Group PLC, from September 2015 until April 2018.

Skills and experience:
Mr Janin serves as counsel to CEOs of both for-profit and non-profit organisations and continues to provide consulting services to McKinsey & Company. In 2010 he joined the Supervisory Board of JSC Bank of Georgia prior to which, Mr Janin was a Director of McKinsey & Company, based in its Paris office, for over 27 years, from 1982 until his retirement. At McKinsey & Company, he conducted engagements in the retail, asset management and corporate banking sectors, and was actively involved in every aspect of organisational practice, including design, leadership, governance, performance enhancement and transformation. Before joining McKinsey & Company, Mr Janin worked for Chase Manhattan Bank (now JP Morgan Chase) in New York and Paris, and Procter & Gamble in Toronto. Mr Janin has practised in Europe, Asia and North America. Mr Janin is also a Director of Neil Janin Limited, a company through which he provides his ongoing consulting services.

Education:
Mr Janin holds an MBA from York University, Toronto, and a joint honours degree in Economics and Accounting from McGill University, Montreal.

Reasons for appointment:
Neil Janin has a long and distinguished career, spanning the retail, asset management and corporate banking industries, and has conducted engagements in all areas of organisational practice, including design, leadership, governance, performance enhancement, culture, change and transformation. He has experience in Europe, Asia and North America, and he brings considerable insight of international strategic and commercial issues to the Board. Mr Janin is an experienced Chairman and is able to co-ordinate the knowledge and perspectives offered by the members of the Board.

Archil Gachechiladze

CEO

Archil Gachechiladze was appointed as Executive Director and CEO of Bank of Georgia Group PLC on 28 January 2019. Mr Gachechiladze serves as CEO of the Bank. Prior to his recent appointment Mr Gachechiladze served as CEO of Georgian Global Utilities (formerly part of BGEO Group PLC) from January 2017 to January 2019. Mr Gachechiladze joined the Bank in 2009 as Deputy CEO, Corporate Banking (2009-2013) and has since held various roles with the Bank and the Group, such as Deputy CEO, Investment Management (2013-2015), CFO of BGEO Group (2015-2016) and Deputy CEO, Corporate and Investment Banking (2016-2017).

Skills and experience:
Mr Gachechiladze has over 20 years of experience in financial services, including various senior positions in both local and international organisations, such as TBC Bank (2008-2009), Lehman Brothers Private Equity (currently Trilantic Capital Partners) (2006-2008), Salford Equity Partners (2002-2004), the European Bank for Reconstruction and Development (EBRD) (2001-2002), KPMG, and the World Bank's CERMA (1998-2000).

Education:
Mr Gachechiladze received his undergraduate degree in Economics from Tbilisi State University and holds his MBA with distinction from Cornell University. He is also a CFA Charterholder and a member of the CFA Society in the United Kingdom.

Reasons for appointment:
Archil Gachechiladze has broad and extensive experience in the financial services sector and brings significant insight into the local Georgian business market, as well as having international experience. Mr Gachechiladze has demonstrated leadership and vision in the development of the Group's strategy and promotion of its culture.

Hanna Loikkanen

Senior Independent Non-Executive Director

Hanna Loikkanen was appointed as the Senior Independent Non-Executive Director of Bank of Georgia Group PLC on 24 February 2018. Ms Loikkanen serves as Chair of the Remuneration Committee, as well as a member of the Audit Committee and Nomination Committee. Ms Loikkanen also serves as a member of the Bank's Supervisory Board. Ms Loikkanen previously served as an Independent Non-Executive Director of BGEO Group PLC, which included positions on their Nomination and Risk Committees.

Skills and experience:
Ms Loikkanen has over 25 years of experience working with financial institutions in Russia and Eastern Europe. She worked at the Moscow office of a Swedish asset management company East Capital from 2007 until 2015, managing a private equity fund focusing on investments in financial institutions in the region. During this period, she served on the boards of several regional banks, with special focus on corporate governance and business development. Prior to this, Ms Loikkanen held the position of CEO at FIM Group in Russia, a Finnish investment bank, where she was responsible for setting up and running FIM Group's brokerage and corporate finance operations in Russia. Earlier in her career, Ms Loikkanen worked for Nordea Finance in various senior management positions in Poland, the Baltic States and Scandinavia with a focus on business development, strategy and business integration; for SEB in Moscow where she was responsible for the restructuring of SEB's debt capital market operations in Russia; and for MeritaNordbanken in St Petersburg where she focused on trade finance and correspondent banking. In addition to her directorships at Bank of Georgia Group PLC, Ms Loikkanen serves as a Non-Executive Director, Chair of the Compensation and Remuneration Committee and a member of the Audit Committee of PJSC Rosbank, a universal bank listed on the Moscow Stock Exchange (Société Générale Group in Russia) and as a Non-Executive Director and a member of HR Committee at Finnfund, a Finnish state owned development financier. Since 2014, she has acted as Non-Executive Chairman of the Board of T&B Capital, an independent regulated wealth management company based in Helsinki.

Education:
Ms Loikkanen holds a Master's degree in Economics and Business Administration from the Helsinki School of Economics, and was a Helsinki School of Economics scholar at the University of New South Wales.

Reasons for appointment:
Hanna Loikkanen has extensive experience in financial institutions in Russia and Eastern Europe and has held a number of senior positions and advisory roles within the banking industry. In her role as senior independent Non-Executive Director, Ms Loikkanen brings her strong listed company board experience and valuable knowledge of the financial industry to the Board.

Alasdair (Al) Breach

Independent Non-Executive Director

Alasdair Breach was appointed as an Independent Non-Executive Director of Bank of Georgia Group PLC on 24 February 2018. Mr Breach serves as a member of Bank of Georgia Group PLC's Remuneration Committee, Risk Committee and Nomination Committee. Mr Breach also serves as a member of the Supervisory Board. Mr Breach previously served as an Independent Non-Executive Director of BGEO Group PLC, which included positions on their Remuneration, Nomination and Risk Committees.

Skills and experience:
In 2013, Mr Breach co-founded Gemsstock Limited, a UK FCA-regulated fund manager, where he also serves as an Executive Director. In 2010, Mr Breach also founded Furka Advisors AG, a Swiss-based asset management firm, and served as an Executive Director until founding Gemsstock Limited, which manages the Gemsstock Fund, which was previously called the Gemsstock Growth Fund and managed by Mr Breach at Furka Advisors AG. His previous career was in research in investment banks, principally in Russia. In January 2003, Mr Breach joined Brunswick UBS (later UBS Russia) as Chief Economist, and later was appointed Head of Research and Managing Director until October 2007. From 1998 to 2002, Mr Breach was a Russia and Former Soviet Union (FSU) economist at Goldman Sachs, based in Moscow. Mr Breach is also the co-founder of The Browser.com, a web-based curator of current affairs writing, established in 2008. Mr Breach serves as a Director of Gemsstock Limited, the Gemsstock Fund, The Browser and Furka Holdings AG, all of which are private entities. He is also an advisor to East Capital.

Education:
Mr Breach obtained an MSc in Economics from the London School of Economics and an undergraduate degree in Mathematics and Philosophy from Edinburgh University

Reasons for appointment:
Al Breach has extensive knowledge in asset management, analysis of investment banks and in economics. His experience of managing the investment fund brings strong strategic and critical evaluation skills to challenge and contribute to business strategy.

Board of Directors continued

Diverse and balanced team who govern with experience.

Tamaz Georgadze

Independent Non-Executive Director

Tamaz Georgadze was appointed as an Independent Non-Executive Director of Bank of Georgia Group PLC on 24 February 2018. Mr Georgadze serves as Chairman of Bank of Georgia Group PLC's Risk Committee, as well as a member of the Remuneration Committee and Nomination Committee. Mr Georgadze is also a member of the Bank's Supervisory Board. Mr Georgadze previously served as an Independent Non-Executive Director of BGEO Group PLC, which included positions on BGEO Group PLC's Audit, Nomination and Risk Committees.

Skills and experience:
In 2013, Mr Georgadze founded Raisin GmbH company which launched the first global deposit intermediation in Europe and he continues to serve as its CEO / Chairman. PayPal and Goldman Sachs are amongst shareholders of Raisin. Prior to founding this company, Mr Georgadze had a ten-year career at McKinsey & Company in Berlin, where he served as a Partner from 2009 to 2013. At McKinsey & Company, he conducted engagements with banks in Germany, Switzerland, Russia, Georgia and Vietnam, focusing on strategy, risk identification and management, deposit and investment products, operations and sales. Prior to joining McKinsey & Company, Mr Georgadze worked as an aide to the President of Georgia in the Foreign Relations Department from 1994 to 1995. Save for his role at Raisin GmbH, Mr Georgadze does not hold any other directorships.

Education:
Mr Georgadze holds two PhDs, one in Economics from Tbilisi State University and the other in Agricultural Economics from Justus-Liebig University Gießen, Germany. Mr Georgadze also studied Law at Justus-Liebig Universität Gießen and graduated with honours.

Reasons for appointment:
Tamaz Georgadze has a strong understanding of the banking industry, strategy and risks, and also brings his considerable experience of operating in the Georgian markets to his role on the Board.

Jonathan Muir

Independent Non-Executive Director

Jonathan Muir was appointed as an Independent Non-Executive Director of Bank of Georgia Group PLC on 24 February 2018. Mr Muir serves as Chairman of Bank of Georgia Group PLC's Audit Committee, as well as a member of the Nomination Committee. He was appointed as an Independent Non-Executive Director to BGEO Group PLC's Board of Directors after previously serving as an advisor to their Board since December 2016. Mr Muir also serves as a member of the Bank's Supervisory Board.

Skills and experience:
Mr Muir has over 30 years' experience working as a professional in accounting and finance. He is an executive director (CEO) of LetterOne Holdings SA and is CEO of LetterOne Investment Holdings. LetterOne is an international investment business consisting of two groups which target investments in the healthcare, energy, telecoms and technology, and retail sectors. Prior to joining LetterOne, Mr Muir was CFO (2008-2013) and Vice President of Finance and Control (2003-2008) of TNK-BP, which he joined after serving as CFO of SIDANCO, one of TNK-BP's heritage companies. Prior to this, he was a partner at the global audit and consulting company Ernst & Young (1985-2000).

Education:
Mr Muir graduated with first class honours from St. Andrews University in the UK. He is a British-qualified Chartered Accountant and a member of the Institute of Chartered Accountants of England and Wales.

Reasons for appointment:
Jonathan Muir brings a strong understanding of accounting practice and international finance issues, and has strong and comprehensive experience of audit issues. His wider experience o f working in different corporate and national cultures affords him a strong understanding of the Georgian political and economic experience, which in addition to his accounting experience and qualifications makes him ideally suited to chair the Group's Audit Committee.

Cecil Quillen

Independent Non-Executive Director

Cecil Quillen was appointed as an Independent Non-Executive Director of Bank of Georgia Group PLC on 24 February 2018. Mr Quillen also serves as a member of Bank of Georgia Group PLC's Audit Committee, Remuneration Committee and Nomination Committee. Mr Quillen is also a member of the Bank's Supervisory Board.

Skills and experience:
Mr Quillen is a lawyer and a London-based U.S. partner of Linklaters LLP, the global law firm. He is the leader of the firm's U.S. securities practice. Mr Quillen works on a broad spectrum of securities and finance matters. A particular focus of his practice has been transactions in the CIS and in central and eastern Europe. Mr Quillen is an officer of the Securities Law Committee of the International Bar Association and chairs its Regulatory Affairs sub-committee and sits on the Advisory Committee for Securities Regulation in Europe of the Practising Law Institute. He is a trustee of the University of Virginia Law School Foundation. Mr Quillen became a partner of Linklaters in 1996 and was resident in the firm's New York office before transferring to the London office in 2000. He is admitted to practice in New York and the District of Columbia and is a registered foreign lawyer in England and Wales.

Education:
Mr Quillen received his undergraduate degree from Harvard and his law degree from the University of Virginia.

Reasons for appointment:
Cecil Quillen is a legal professional of the highest level and brings a strong understanding of legal and regulatory issues, as well as corporate governance, to the Board. Mr Quillen's experience brings a distinct perspective to the Board, and his knowledge of established and emerging markets is highly valued by the Board.

Véronique McCarroll

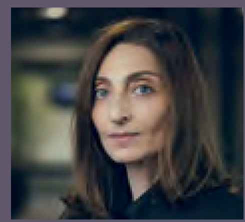
Independent Non-Executive Director

Véronique McCarroll was appointed as an Independent Non-Executive Director of Bank of Georgia Group PLC on 1 October 2018. Ms McCarroll also serves as a member of Bank of Georgia Group PLC's Risk and Nomination Committees, and as a member of the Bank's Supervisory Board.

Skills and experience:
Ms McCarroll has over 30 years' experience in Financial Services, with a strong focus on Corporate and Investment Banking, Risk Management and Digital banking. She is currently Deputy CEO at Orange Bank, with responsibility for finance, data office, risk and compliance, having previously headed Strategy and Innovation for Mobile Finance and Digital banking across Europe at Orange. Prior to this role, she has been an Executive Director at Crédit Agricole CIB, in charge of Strategy and Business Transformation, and has spent 19 years in consulting firms, helping large banking clients on financial matters, including as a Partner at McKinsey & Company, Oliver Wyman and Andersen/Ernst & Young. Ms McCarroll started her career with Banque Indosuez in Capital Markets in 1986, serving in various front office fixed income and then market risk management roles. Ms McCarroll also teaches Finance at Paris Dauphine University.

Education:
Ms McCarroll graduated from ESSEC (Ecole Supérieure des Sciences Economiques et Commerciales) in 1985.

Reasons for appointment:
Véronique McCarroll has developed an extensive career in consulting and Financial Services, and has significant understanding of risk management. She brings direct experience from her career in strategic consultancy and the banking sector to the Board.



Mariam Megvinetukhutsesi

Independent Non-Executive Director

Mariam Megvinetukhutsesi was appointed as an Independent Non-Executive Director of Bank of Georgia Group PLC on 12 March 2021. Ms Megvinetukhutsesi also serves as a member of Bank of Georgia Group PLC's Risk and Nomination Committees, and, subject to regulatory approval, will join the Bank's Supervisory Board.

Skills and experience:
Mariam Megvinetukhutsesi provides consulting services to businesses on governance and financial management. Previously she served as Head of Georgia's Investors Council Secretariat (2015-2019), promoting reforms for improvement of Georgia's investment climate. She has 20 years' prior experience in the financial services, including as Deputy CEO at TBC Bank (2009-2014) and banking appointments at the European Bank for Reconstruction and Development (1997-2007).

Education:
Ms Megvinetukhutsesi received her undergraduate degree in Banking and Finance from Tbilisi State University and holds an MSc in Finance and Investments from the University of Edinburgh.

Reasons for appointment:
Mariam Megvinetukhutsesi has an extensive career in governance and financial services, and brings a strong and significant understanding from her career in the banking sector to the Board.

Andreas Wolf

Former Independent Non-Executive Director

Andreas Wolf was appointed as an Independent Non-Executive Director of Bank of Georgia Group PLC on 1 October 2018. Mr Wolf stepped down from the Board on 31 January 2020 due to other business commitments.

Management Team

Highly experienced leadership who deliver our strategy

Archil Gachechiladze

CEO

See page 162 for his biography.

Sulkhan Gvalia

Deputy CEO,
Chief Financial Officer

Mr Gvalia was appointed as Deputy CEO, Chief Financial Officer of JSC Bank of Georgia in May 2019. Mr Gvalia has extensive experience in banking having worked in a number of senior management roles at the Bank, including Chief Risk Officer (2005-2013) and Head of Corporate Banking (2013-2016). Mr Gvalia previously served as Deputy CEO of TbilUniversalBank, prior to its acquisition by the Bank of Georgia in November 2004. Prior to his recent appointment, Mr Gvalia was the founder and CEO of E-Space Limited, Tbilisi – the only Georgian company developing the electric car charging infrastructure in Georgia. He also serves as a non-executive independent director at Inecobank (Armenia) since 2018. Mr Gvalia received a law degree from Tbilisi State University.

George Chiladze

Deputy CEO,
Chief Risk Officer

Mr Chiladze was appointed as Deputy CEO, Chief Risk Officer of JSC Bank of Georgia in September 2013. He re-joined the Bank having already served as Deputy CEO, Finance from 2008 to 2012. From 2012 to 2013, Mr Chiladze was Deputy CEO at the Partnership Fund, and he served as general director of BTA Bank (Georgia) from 2005 to 2008. Prior to joining BTA Bank, he was an executive member of the Supervisory Board of JSC Europace Insurance Company and a founding partner of the management consulting firm Altergroup Ltd. Mr Chiladze had previously worked in the US at the Programme Trading Desk at Bear Stearns in New York City, before returning to Georgia in 2003. Mr Chiladze received a PhD in Physics from Johns Hopkins University in Baltimore, Maryland, and an undergraduate degree in Physics from Tbilisi State University.

Levan Kulijanishvili

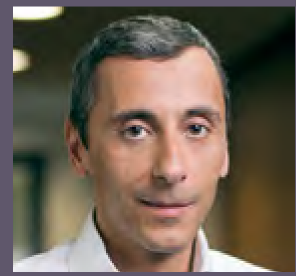
Deputy CEO,
Chief Operations Officer

Mr Kulijanishvili was appointed as Deputy CEO, Chief Operations Officer of JSC Bank of Georgia in September 2017, prior to which he served as BGEO Group PLC's CFO and as Deputy CEO, Finance of the Bank from February 2016. He has been with the Bank since 1997. During his over 20 years of service, Mr Kulijanishvili has held various senior positions, including Head of Compliance and Internal Control from 2009 until his appointment as Deputy CEO, Finance, Head of the Internal Audit department (2000-2009), Manager of the Financial Monitoring, Strategy and Planning department (1999-2000) and Head of the Financial Analysis division (1997-1999). Mr Kulijanishvili received his undergraduate degree in Economics and Commerce from Tbilisi State University and received his MBA from Grenoble Graduate School of Business.

Vakhtang Bobokhidze

Deputy CEO, Information Technology, Data Analytics, Digital Channels

Mr Bobokhidze was appointed as Deputy CEO of JSC Bank of Georgia in March 2018, prior to which he served as Head of IT since April 2016. Mr Bobokhidze joined the Bank in late 2005 as a Quality Control Manager through a progression of positions until he joined JSC Bank Republic in 2010. Mr Bobokhidze made his return to the Bank in December 2010 as IT Business Consultant and he currently holds the position of Deputy CEO in charge of Information Technology, Data Analytics and Digital Channels. Mr Bobokhidze received his undergraduate and MBA degrees from Tbilisi State University.



Mikheil Gomarteli

Deputy CEO, Mass Retail and Micro Business Banking

Following the split of Retail Banking into two segments in February 2017 due to significant growth in the Retail Banking business, Mr Gomarteli assumed the role of Deputy CEO responsible for Mass Retail and Micro Business Banking of JSC Bank of Georgia. Prior to this, Mr Gomarteli had served as the sole Deputy CEO of Retail Banking since February 2009. He has been with the Bank since December 1997. During his 25 years of service with the Bank, Mr Gomarteli has held various senior positions, including Co-Head of Retail Banking (March 2007 to February 2009), Head of Business Development (March 2005 to July 2005), Head of Strategy and Planning (2004 to 2005), Head of Branch Management and Sales Coordination (2003 to 2004), Head of Branch Management and Marketing (2002 to 2003) and Head of Banking Products and Marketing (2000 to 2002). Mr Gomarteli received his undergraduate degree in Economics from Tbilisi State University.

Management Team continued

Highly experienced leadership who deliver our strategy

Eter (Etuna) Iremadze

Deputy CEO, Premium Business Banking (SOLO)

Ms Iremadze was appointed as Deputy CEO, Premium Business Banking of JSC Bank of Georgia in January 2021, prior to which she served as Head of Premium Business Banking since May 2019.
Ms Iremadze has around 20 years of experience in financial services. She joined the Bank in 2006 and has held various senior positions, including Head of Blue Chip Corporate Banking Unit covering structured lending, M&As, significant buyouts in the country, as well as project financing. Ms Iremadze also served as Head of the Strategic Projects Department in Georgian Global Utilities (formerly part of BGEO Group PLC), where she was working under the direct supervision of the CEO (2017-2019).
Ms Iremadze received her undergraduate degree in Economics and Commerce from Tbilisi State University and received her MBA from Grenoble Graduate School of Business.

Zurab Masurashvili

Head of SME Business Banking

Mr Masurashvili was appointed as Head of SME Business Banking of JSC Bank of Georgia in May 2019. Prior to this appointment, Mr Masurashvili has held several senior positions in the Bank since 2015, including Head of Express Business, Head of MSME Business and Head of Retail Business Banking. Mr Masurashvili has extensive experience in financial services. During 2002-2007, he held several positions in international organisations such as EBRD's Small Enterprise Lending Programme, the World Bank's Access to Rural Finance in Bangladesh and GTZ's Micro Finance and Reform of Rural Finance Sector. During 2007-2015, prior to joining the Bank, he served as a Deputy Chairman of the Board of Directors in JSC Privatbank. Mr Masurashvili received his undergraduate degree in Geology from Georgian Technical University.

Zurab Kokosadze

Deputy CEO, Corporate Banking

Mr Kokosadze was appointed as Deputy CEO, Corporate Banking of JSC Bank of Georgia in January 2021, prior to which he served as Head of Corporate Banking under the direct supervision of CEO since May 2020. Mr Kokosadze has around 20 years of experience in financial services. He joined the Bank in 2003 as Junior Corporate Banker and since has held various senior positions, including Senior Corporate Banker (2006-2009), FMCG Sector Head (2009-2016), Deputy Head of Corporate Banking (2016-2017) and Head of Corporate Banking (2017-2020), under the supervision of Deputy CEO, Corporate and Investment Banking. Mr Kokosadze has been actively involved in shaping the Bank's Corporate Banking business platform since its launch. Mr Kokosadze received his undergraduate degree in business administration from Caucasus School of Business and his MBA degree from Grenoble Graduate School of Business.

Andro Ratiani

CEO of Digital Area

Mr Ratiani was appointed as CEO of JSC Digital Area in February 2021, prior to which he served as Head of Innovation of JSC Bank of Georgia since January 2018. Mr Ratiani has extensive experience in the global financial services sector, having worked for international banking institutions and financial service providers. Prior to joining the Bank, Mr Ratiani was Director – Global Head of Product Management at IHS Markit, a leading Financial Services Information provider, where he was based in New York (2014-2018). In his role at IHS Markit, he was overseeing and managing Global and US-based Strategic Technology projects for Syndication Lending. Prior to joining IHS Markit, Mr Ratiani spent six years in UBS AG Investment Bank and Wealth Management Bank in New York, where he led multiple strategic technology projects. Before his UBS roles, Mr Ratiani worked for Wells Fargo (2009-2011), during a major acquisition phase of Wachovia Bank.
Mr Ratiani started his banking career in Georgia, where he held various roles at Bank of Georgia's Corporate and Investment Banking Department (2002-2006). Mr Ratiani received his undergraduate degree in business administration from University of Hawaii and his Master's degree in technology management from Columbia University.

Levan Gomshiashvili

Chief Marketing Officer

Mr Gomshiashvili was appointed as Chief Marketing Officer of JSC Bank of Georgia in May 2019. Mr Gomshiashvili has extensive experience in marketing. He started his career in Georgian Railway, covering advertising and project management. Before joining the Bank, Mr Gomshiashvili was the founder of HOLMES&WATSON, creative agency, where he acted as Account Manager for clients operating in banking, as well as other sectors. Mr Gomshiashvili is also the founder of Tbilisi School of Communication, an educational facility with an emphasis on ExEd.
Mr Gomshiashvili received his MSc in Management from the University of Edinburgh.

Nutsa Gogilashvili

Head of Customer Experience and Human Capital Management

Ms Gogilashvili was appointed as Head of Customer Experience and Human Capital Management of JSC Bank of Georgia in August 2019. Ms Gogilashvili has ten years of experience in financial services, including various senior positions both in local and international organisations. She joined the Bank in May 2016 and has held various senior positions, including Head of Strategic Processes of Corporate and Investment Banking in 2016 and Head of Customer Experience Management since January 2017. Prior to joining the Bank, she served as Head of Strategic Planning and Budgeting of TBC Bank. Ms Gogilashvili had previously worked in London as analyst at JP Morgan covering several product control roles (2011-2014).
Ms Gogilashvili received her MSc in Finance from Cass Business School in London and an undergraduate degree in Economics from Moscow State Institute of International Relations.

* Giorgi Pailodze stepped down from his role as the Bank's Deputy CEO, Wealth Management and Investment Banking on 31 January 2021.

Nomination Committee Report

Neil Janin
Chairman of the Nomination Committee

Dear Shareholders,

I am pleased to present the report on the activities of the Nomination Committee.

The Board undertook an externally facilitated evaluation of its composition, succession planning, expertise, dynamics, management and focus of meetings, support, culture, and risk management and oversight. To complement this, members of the Board also underwent a deep dive exercise to ensure a culture of openness and debate and to recognise unconscious bias, to help the Board operate effectively and to prevent "group think". Board members then received coaching in a number of areas, including growth, leadership and personal development. More detail on both these activities can be found on pages 160 to 161 and also later on in this Nomination Committee report.

Following our report last year that Andreas Wolf had stepped down from the Board, the Nomination Committee has spent time this year considering future appointments, in line with our established succession plan. We have looked at the skills and experience across existing Board members, possible gaps to what we see as necessary for the future development of the business, and other matters including diversity, and concluded that the Board would benefit from more experience of governance and financial services. The Nomination Committee has adopted a model of identifying potential candidates and working with them over a period of time by inviting them to Board meetings and introducing them to senior management. This enables the Board and the candidates to establish suitability and fit. As a result of the adoption of this process, the Nomination Committee was able to recommend that the Board appoint Mariam Megvinetukhutsesi, and you can read more about Mariam's background and experience on page 165.

The Nomination Committee has this year maintained gender diversity as a key focus for both Board and management succession and rotation planning, and we continue to apply the Company-wide Diversity Policy.

Although we are no longer a FTSE 250 company, we remain committed to increasing gender diversity on the Board and working towards the targets set by the Hampton-Alexander Report. We have now reached 33% representation of women on the Board.

Following a review of senior management, the Nomination Committee also recommended the promotion to Deputy CEO level of Eter Iremadze, Head of Premium Business Banking (SOLO), in recognition of her strong performance and leadership, a decision which we consider an important step in the Company's commitment to achieve more diversity at the top levels of the organisation.

We are also mindful of the views of our shareholders, following engagement during 2020 and discussions on tenure and independence. Further, the amended NBG Code means that there are restrictions on who can sit on the Supervisory Board, as set out in the main body of this report.

Consequently as set out below in "Board level succession planning", the Nomination Committee, with the process lead by Hanna Loikkanen as our Senior Independent Director, will focus during 2021 on the recruitment of a new Chairman by the end of 2021.

In accordance with the amended NBG Code, the Nomination Committee continues to work on the Board succession planning, including the composition and chairmanship of the Risk Committee, and will carry out a review of the composition of all our committees in light of the new changes which will come into force in stages at the end of 2021 and 2022.

I invite you to read more about our work in the following report.

Neil Janin
Chairman of the Nomination Committee
30 March 2021

The role of the Nomination Committee
The role of the Nomination Committee is to assist in ensuring that the Board comprises individuals who are best able to discharge the responsibilities of Directors, having regard to the highest standards of governance, the strategic direction of the Group and ambitions of the Board in respect of diversity and inclusion. We also monitor the processes in place to ensure that the Group appoints excellent executive managers capable of successfully guiding their teams and delivering the Group's strategic objectives.

In summary, the key responsibilities of the Nomination Committee include:

- a regular review of the composition of the Board and its Committees, and that of senior management to ensure they are appropriately constituted and balanced in terms of diversity of skills, social and ethnic background, gender, nationality, experience, cognitive and personal strengths, outlook, approach, skills, experience, independence and knowledge;
- responsibility for identifying and nominating, for the approval of the Board, candidates to fill Board and senior management vacancies as and when they arise;
- giving full consideration to succession planning for Directors, including the Chairman and CEO and other senior executives taking into account the challenges and opportunities facing the Company, and the skills and expertise needed on the Board in the future;
- keeping under review the leadership needs of the Company, both executive and non-executive, with a view to ensuring the continued ability of the Company to compete effectively in the marketplace;
- making recommendations to the Board on the reappointment of any Non-Executive Director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the Board in light of the knowledge, skills and experience required and their independence; and
- making recommendations to the Board concerning the re-election by shareholders of Directors under the annual re-election provisions of the UK Corporate Governance Code or the retirement-by-rotation provisions in the Company's articles of association, having due regard to their performance and ability to continue to contribute to the Board in light of the knowledge, skills and experience required and their independence, bearing in mind the need for progressive refreshing of the Board.

The Nomination Committee's Terms of Reference were reviewed and approved by the Board in September 2020. The full Terms of Reference are available on our website at https://www.bankofgeorgiagroup.com/governance/documents.

Composition and members' meeting attendance
The composition of the Nomination Committee and the members' meeting attendance for the year are set out in the Board and Committee Meeting Attendance table on page 156, and the skills and experience that each member contributes can be found on pages 162 to 165.

All independent Non-Executive Directors of the Board are members of the Nomination Committee to ensure that the Board as a whole is involved in discussions relating to succession planning. The CEO, and other members of management, may be invited to attend meetings in order to provide a fuller picture and deeper level of insight into key issues and developments.

In order to maintain the right balance of skills and knowledge on our Board, the Nomination Committee keeps Board composition under continual review. In addition, as part of the Board effectiveness review, the Nomination Committee asks Board members to evaluate their own contribution. For each Non-Executive Director, the Nomination Committee reviews the time commitment required by them, taking into account any external directorships, and their length of service, as well as assessing their independence of character and integrity. It then recommends to the Board whether each Non-Executive Director should be reappointed.

Following careful consideration of a range of factors, including Directors' other commitments and the outcomes of this year's Board and Committee effectiveness review, which concluded that the Board functions as an effective and efficient team, and with regard to the required skills on the Board to meet current and future priorities, the Nomination Committee is pleased to recommend to shareholders, through the Board, the re-election of Al Breach, Archil Gachechiladze, Tamaz Georgadze, Neil Janin, Hanna Loikkanen, Véronique McCarroll, Jonathan Muir and Cecil Quillen and the election of Mariam Megvinetukhutsei at our 2021 Annual General Meeting.

Induction
Each Director, upon appointment, receives a tailored induction to the Company. This includes:

- meetings with senior management and employees across the business to understand the Company's strategy, structure, risk profile and risk management procedures;
- meetings with major shareholders and a range of stakeholders, including the Company's external advisors and senior governmental figures; and
- a session with the Company Secretary on the statutory and regulatory obligations upon the Company and upon themselves as a Director.

Continuing education and training
During the year, Nomination Committee members received training on recent developments in respect of diversity in the UK and wider diversity initiatives, and refresher training on appointment processes, renewal of the Board and independence criteria.

In addition to undertaking an externally facilitated Board and Committee evaluation during the year, Board members took part in an exercise facilitated by COCREA, a company providing coaching and training to boards in the areas of growth, leadership and personal development. The exercise was designed to ensure the ongoing culture of openness and debate between Board members and to

Nomination Committee Report continued

ensure all Directors felt able to effectively contribute to discussions. Each Board member underwent an examination of their personal emotional filters and unconscious behaviours, and looked in detail at how these might affect their approach to a variety of situations. Once these unconscious behaviours had been identified, Board members undertook to consider how to recognise and overcome these biases. The Board acknowledges that diversity of skills, backgrounds and personal strengths is an important driver of a board's effectiveness, and different perspectives among directors can break down a tendency towards "group think". The facilitated exercise aimed to ensure Board members could work together effectively in an atmosphere of trust in order to meet their wider responsibilities to shareholders and stakeholders.

Diversity Policy

The Board has adopted a Diversity Policy, mirroring current best practice, which was reviewed in September 2020.

As a Board, we are supportive of the ambition shown in recent reviews on diversity, including the Parker Review regarding ethnic diversity and the Hampton-Alexander Review regarding gender diversity. The Nomination Committee will continue to examine ways in which we can become an increasingly diverse Board, and we are also working to increase female representation at senior management level. In 2020 we committed to a target for diversity of 33% female representation on the Board. This was appropriate as the Board considers diversity in all its forms to be important for the future development of the business. The Board's approach to diversity is also driven by the need to be representative of Georgian society. As a consequence of Mariam Megvinetuhutsei's appointment, female representation on the Board is currently 33%, based on three female Directors and six male Directors, an improvement from last year.

Due to the unprecedented impact of COVID-19, the attention and focus of the Board and management this year has been to ensure the stability and viability of the Group in light of the pandemic. However, the Nomination Committee did spend considerable time reviewing the diversity of skills and experience, gender, social and ethnic backgrounds, cognitive and personal strengths, amongst other factors including merit and other objective criteria, which would be taken into consideration when seeking to appoint any further new Directors to the Board. We are also mindful that diversity of outlook and approach are equally as important.

We discussed suitable candidates with external consultants but did not engage the consultants. We also considered our wider network, for a candidate who had the requisite specific skills of governance and regulatory knowledge, ideally with experience of such in Georgia, whist taking into account the Diversity Policy.

We continue to score highly regarding the executive committee and direct reports (see below). We are also a highly diverse Board in terms of nationality: our nine Directors are citizens of seven different countries.

The Nomination Committee was pleased to note that, were the Company in the FTSE 250, the 2020 edition of the Hampton-Alexander Review report, indicated that the Bank of Georgia Group PLC would be the highest rated group in the banking sector in respect of the Group's female representation in executive committee and direct reporting positions, with a combined total of 45.2%, and an increase on our position in 2019. This is a tribute to some of the talent development and management processes and initiatives we have in place, detailed below.

In our 2019 Report, we reported on the following initiatives to help us further improve gender diversity at both the Board and senior management level, and we are pleased to report our progress on these as follows:

1. Women leaders mentoring programme: The programme's success was translated into a recent decision regarding the appointment of one of the participants to a Deputy CEO position, the first ever female deputy CEO in our Bank. We continue the development of the programme, closely monitoring its achievements, and adapting with the changing business environment. Thus, starting from 2020, the programme became more general, focusing on female participants as well as on all the leadership pool employees. The programme provides participants with individually tailored resources including coaching and mentoring, along with guidance and support from our senior management. Since 2014, Bank of Georgia has also run a Leadership Development Executive Coaching programme, providing our middle managers with an individualised approach to developing leadership skills. We focus on leadership skills to underpin a culture of feedback, customer-centricity, collaboration and development. In 2020, the Bank implemented a new talent management system and extended the leadership pool consisting of employees in managerial positions with employees in non-managerial positions, who had achieved high results in a talent assessment. All of them will participate in newly designed development programmes from 2021 (including coaching, training and mentorship). We also ensure that the pool remains diverse, encouraging managers to support and promote their female subordinates, whilst providing equal opportunities for both male and female employees. In 2020, the Bank prioritised different self-paced courses, which significantly influenced gender representation rates for business management skills programmes: 74% of participants were female. We also monitor the gender balance via the Hampton-Alexander Review. Our efforts towards supporting women were recognised by 2X Challenge in July 2020. We carry on our dedication to providing equal opportunities in the workplace, as well as to empowering female employees.
2. **Entrepreneurs' event and Sessions for staff with Board members and successful Georgian women leaders:** Due to pandemic restrictions in place during 2020, we transformed the Entrepreneurs' event and Sessions for staff with Board members and successful Georgian women leaders into a different format and provided Webinars for Women in Business focusing on self-confidence. Finances, bravery, courage and leadership in the new reality were the main themes of these webinars. 500 women entrepreneurs attended and feedback from the attendees was positive. We also dedicated the month of March to women and promoted our successful female clients, featuring them in video content, setting examples for other Georgian women who wish to go into business. These activities increased our share of women in our SME portfolio by 289 women in the business, which is 20% of our total new clients. In 2020, we also had a series of motivational Facebook campaigns including "Professions of the future"; "There is always a way"; and "Opportunities are not defined by gender, opportunities are endless", which included video releases about successful women who rise to challenges and aspire to achieve their goals.

In 2020, the Bank also signed a commitment with FMO – part of a syndicate of five European development finance institutions (EDFIs) – to the 2X Challenge, an initiative to increase access to finance for women-owned, women-led and women-supporting enterprises in developing and emerging countries. By joining the 2X Challenge, we indicated our objective of providing women in Georgia with improved access to quality employment and economic participation (details regarding equal opportunity and diversity will also be provided in the Responsible Business section under Culture and conduct).

Diversity remains an important area of focus, and we are committed to sustaining and developing our gender balance and wider diversity in 2021. We will oversee the following initiatives to help us further improve gender diversity at both the Board and senior management level:

- A continuation of our sessions for staff with successful Georgian women to build on the success of the initial event.
- During 2019, the Bank undertook to self-assess the Company's current position with regards to gender equality and women's empowerment in the marketplace. The project used the guidance provided by the Women's Empowerment Principles, which were established by UN Global Compact and UN Women. The recommendation from our self-assessment (received during 2020) was to maintain and strengthen our existing practices. Accordingly, in 2021 we will confirm our Equal Opportunity Employer approach for applicants during the recruitment process.
- From 2021, maternity leave will be substituted with parental leave of two types: comprising (i) exclusively for female employees relating to childbirth plus (ii) for childcare which can be used by the mother or father. The Board was particularly pleased with this progressive approach towards working parents, which may also reduce possible gender bias, particularly in regard to the recruitment or promotion of women.

Succession planning and talent development

We believe that effective succession planning mitigates the risks associated with the departure or absence of well qualified and experienced individuals.

We recognise this, and our aim is to ensure that the Board and management are always well resourced with the right people in terms of skills and experience, in order to effectively and successfully deliver our strategy. We also recognise that continued tenure brings a depth of Company-specific knowledge that is important to retain.

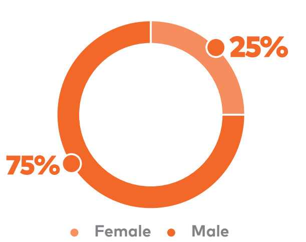
In addition to the responsibilities set out above, the Nomination Committee is responsible for both Director and executive management succession planning. There is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board, including a review of other significant commitments Directors may have.

Non-Executive Directors' terms of appointment

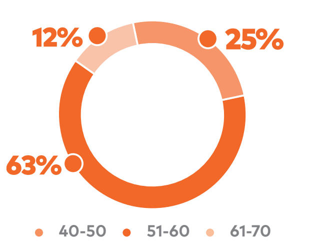
On appointment, our Non-Executive Directors are provided with a letter of appointment that sets out the terms and conditions of their directorship, including the fees payable and the expected time commitment. Each

The graphs below show, as at 31 December 2020, the gender and age diversity on the Board and at management level.

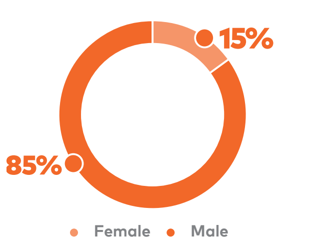
Board
Gender Diversity



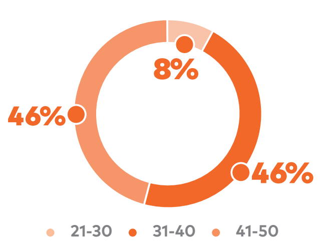
Board
Age Diversity



Management
Gender Diversity



Management
Age Diversity



Note: At the date of this Annual Report, female representation on the Board is 33%.

Nomination Committee Report continued

Non-Executive Director is expected to commit approximately 25-35 days per year to the role. An additional time commitment is required to fulfil their roles as Board Committee members and/or Board Committee Chairmen, as applicable. We are satisfied that all Non-Executive Directors dedicate the amount of time necessary to contribute to the effectiveness of the Board.

The letters of appointment for our Non-Executive Directors are available for inspection at the Company's registered office during normal business hours.

External appointments
Prior to accepting any external appointments, Directors are required to seek the Board's approval. The Board believes that other external directorships and positions help provide the Directors with valuable expertise which enhances their ability to act as a Non-Executive Director of the Company. The number of external directorships and positions should however, be limited, to ensure that Directors are able to dedicate the amount of time necessary to contribute effectively to the Board.

Board level succession planning
The Board has assessed the independence of the Chairman and each of the eight Non-Executive Directors in line with principle G and provision 9 of the Code and are of the opinion that the Chairman and each Non-Executive Director acts in an independent and objective manner. We consider that, under the Code, all of our Non-Executive Directors are independent and free from any relationship that could affect their judgement.

We note that Al Breach and Neil Janin were appointed to the Board of the Company on 24 February 2018, and meet the Code technical requirements in respect of circumstances to take into account for independence and the length of time in post as Chair.

However, as part of a wider assessment, we also took into consideration the extent to which the length of time on the board of a predecessor company, BGEO Group Limited ("BGEO"), could impact the independence of the independent directors and succession planning for the Chair.

Both Al Breach and Neil Janin were appointed to the board of the predecessor company Bank of Georgia Holdings PLC (later BGEO Group PLC, and now BGEO Group Limited) on 20 October 2011. We note that while Hanna Loikkannen was originally appointed to the Board of BGEO on 24 October 2011, she resigned from the Board on 19 December 2013. She was later appointed to the Board of BGEO again, on 12 June 2015 and so had an eighteen-month gap which is deducted from any tenure calculations.

We carried out a consultation with some of our major shareholders on this matter in November and December 2020. Shareholders were supportive, with most indicating that they considered the relevant date to be that of appointment to the Company Board in February 2018. There was also an overwhelming preference that, given the exceptional global circumstances at this point, any Board rotation should be gradual. There was also an encouraging degree of support for our current Directors arising from the consultation. The Company also had a helpful engagement in December 2020 with a proxy investor group on this matter.

We took into account their views, and also noted the following:

- No Director has served concurrently with the Executive Director for more than two years. Archil Gachechiladze was appointed in January 2019, with the previous Executive Director Kaha Kiknavelidze serving from May 2018 to December 2018.
- There have been substantial changes in the executive management in particular upon demerger in 2018 (only three out of the twelve executive managers have remained since early 2018).
- There were substantial changes in the nature of the business as well as management personnel upon the demerger in May 2018.
- There are no other factors that the Board considered could impinge on the independence of the Directors.

The Board also notes that in respect of succession and the recruitment of appropriate members to the Board in our particular geographical, geopolitical and market environment:

- Any new Board member must clearly understand the operating, economic and political environment in Georgia in order to give full and proper oversight.
- The Bank is a regulated company in Georgia so any Board members must meet the regulator's various requirements for the Supervisory Board, but also be willing to take responsibility for an emerging-markets-focused group.
- It is paramount that any Chairman is known to and trusted by the local Government and regulators and is prepared to actively engage with them.

Taking into account the matters above, the Board considers that all current Directors have retained their independence and that it is appropriate to put them forward for election or re-election.

However, following the publication by the NBG of new amendments to the NBG Code, the length of time that a member of the Supervisory Board is considered independent has been reduced to seven years, and further a Chair of the Board must now be independent. When the new Code comes into force at the end of 2021, several directors will no longer independent under the NBG regulations, although they remain independent under the UK Code and some of the other regulations on Committees do not come into effect until end of 2022. The NBG regulations on membership of Committees also differ from the UK Code.

The Board of the Company believes that the "mirror boards" structure, for which the same members sit on the Board and the Supervisory Board of JSC Bank of Georgia, with the same roles in the mirror committees, is the best structure for the governance for the Group.

Consequently, taking all of the foregoing on Board level succession planning into account, the Board is working on the succession of the Chair of the PLC and of the Supervisory Board and expects to replace Neil Janin's position as Chair by the end of 2021. The process will be managed by our Senior Independent Director and Jonathan Muir.

The Board will also undertake a review of the composition of all our committees, and will review suitable succession planning for the chairmanship of the Risk Committee in particular to ensure we comply with the future requirements of the NBG Code.

Senior and middle management succession planning
We are committed to talent development programmes and initiatives within the Group. We increase the skills of our existing executive managers and develop a pipeline of new executive, senior and middle managers through coaching, mentoring and leadership programmes. We continue to expand our programme year on year to include management at lower levels. Career progression is tangible if our managers have the right mindset and work ethic.

Our talent development programmes continue to be characterised by transparency, viewing oneself as part of a team of leaders, helping others to succeed and honest feedback. They are also focused on the promotion of teamwork and development of teams, aiming to teach managers to:

- have the courage to give and seek feedback;
- realise that "a stronger me plus a stronger you makes a stronger us";
- value meritocracy over favouritism;
- encourage and challenge dialogue instead of authoritative decision-making; and
- favour cooperation over individualistic or "heroic" behaviour.

During 2020, the Bank built on the work undertaken as part of its Agile transformation programme and embedded a number of initiatives to encourage talent development across the Group with a focus on young talent and high potential.

Those identified as young talent were offered a student programme, "Leaderator". This programme is designed to provide opportunities for young talent to develop competencies, explore the various business functions of the Company, and gain practical experience with real projects. The Leaderator-2020 was amongst the most extensive student programmes implemented by the Bank in recent years, and IT, Data Science, Business Development Analytics, Business Efficiency, Corporate and Investment Banking, Wealth Management, Financial Management, Retail Banking (RB and SOLO), Small and Medium Business, and Digital Products were included in the opportunities offered. Those participating in the programme were assigned mentors from within the Bank and from Galt & Taggart. Due to the impact of COVID-19, a new format was devised, blending online and digital learning with face-to-face meetings with mentors and project teams.

In 2020 we also extended our internal talent pool by identifying employees in non-managerial positions with potential for advancement to a higher level/broader role, or high potentials (HiPos). The HiPos were identified via our new Talent Management process, and undertook a Talent Assessment process including feedback for each HiPo. This process ensures a mutual understanding of the Talent/Success profile, feedback culture, and contributes to increased employee engagement, productivity and performance, talent retention, and streamlined corporate succession.

Further information on the above initiatives can be found in the Responsible Business report.

The focus of 2021 will be on the talent management of leadership roles as well as the further development of high potential. The talent management of leadership roles will focus on the development of key middle management into future leaders through coaching and other initiatives. We have already begun this process, and will ensure that it aligns with the strategic direction of the Company as we progress with it.

During 2020, the Nomination Committee received reports on the talent pipeline across the Group for senior management positions, and has, alongside the Board, dedicated time to strengthening the senior management team as part of the wider strategic development of the Group, and recommended the promotion to Deputy CEO level of Eter Iremadze, Head of Premium Business Banking (SOLO), in recognition of her strong performance and leadership.

The Nomination Committee will also devote its efforts to Board level succession planning, and will give consideration to local regulatory corporate governance requirements on board composition and independence to avoid any conflict between the NBG Code and the UK Code of Governance, in order to ensure effective governance of the PLC over the Bank.

Review of the Board's and Committees' effectiveness
As described in more detail on pages 160 to 161, an externally facilitated evaluation of the Nomination Committee's effectiveness was undertaken during 2020 as part of the wider Board evaluation. The findings of the review were considered by the Board at its September 2020 meeting. The review concluded that the Nomination Committee had the appropriate composition to fulfil its duties, and that the interaction between the Nomination Committee and the Board was appropriate and functioned well. It was noted that the Nomination Committee had improved in respect of being more thorough and systematic. Overall, the Nomination Committee was pleased with the results of the evaluation, and will continue to consider areas in which it can improve in the future to the benefit of the Company.

Looking ahead to 2021
in the coming year, the Nomination Committee will spend time on succession planning and diversity at Board and senior management level, including a review of committee composition, and the succession of the Chair and the Risk Committee chairmanship.

We will also focus on the talent management of leadership and high potential roles within the senior management team.

Audit Committee Report

Jonathan Muir
Chairman of the Audit Committee

As a Committee, we recommend the financial statements to the Board and review the Group's financial reporting and accounting policies, including formal announcements and trading statements relating to the Company's financial performance. We also oversee the relationship with Ernst & Young LLP (EY), the Group's external auditor, and the role and effectiveness of the Internal Audit function.

The challenges raised by the economic uncertainty on the Georgian economy caused by the COVID-19 has been the focus of much discussion by the Audit Committee, and in particular during the review of the quarterly, half-yearly and annual financial statements. We have devoted significant time to reviewing and challenging management across a number of areas during 2020, including the monitoring of the control framework during the changing environment. We have overseen work on critical areas such as loan loss provisions in relation to the COVID-19 pandemic, and the impact of this on various sectors. We have heard how management has approached assessing the ECL provision in light of the new economic conditions, as well as challenged the key assumptions and controls around the model used to asses their impact. This has been updated at the scheduled meetings of the Committee and at ad-hoc meetings to review and approve the regular quarterly and annual financial reports. Further, the Audit Committee has given considerable focus to reviewing management's work in addressing cyber-security and IT-related issues arising during the year, particularly in light of remote working and the potential for increased attacks on the infrastructure.

The Audit Committee has held regular discussions, and received reports on the impact of COVID-19 related economic matters with regard to the ongoing viability of the Company and its liquidity status. We have also continued to focus on the key issues relevant to the Group's financial reporting, and worked with management and the external auditor to review any changes required in response to the introduction of new accounting or regulatory guidance, particularly in response to the COVID-19 pandemic. At each meeting, the Audit Committee receives a report on specific areas of accounting and quality of earnings and where material judgement has been applied. These areas are discussed, challenged and the opinion of the external auditor sought before final conclusions on appropriate treatment reached. Such areas in 2020 included ECL provisions (quantum, approach and disclosure), litigation, treatment of non-recurring costs, investment property valuations and other provisions such as impaired assets.

Finally, we have worked with the Risk Committee on matters including liquidity, adequacy of capital and buffers, and argued for additional liquidity in the early stages of the pandemic, albeit at the potential cost of a reduced net interest margin.

The Audit Committee is also responsible for ensuring that the Bank maintains a risk-aware culture. We receive regular reports of work on training and the embedding of fraud risk management and cyber risk, and these will continue to be areas of focus in 2021.

During the year, the Audit Committee reviewed and approved the internal Audit Plan and its execution for 2020. We also continued to ensure the integrity of the Company's published financial information and reviewed the judgements made by management and the assumptions and estimates on which they are based.

As a committee, we have worked closely with our colleagues on the Risk Committee to review and develop the tools and metrics used by the Company to manage and report on climate-related risks, as well as considering wider ESG matters. More information on this can be found in the Risk Committee Report on page 185 and in the Responsible Business section.

The Audit Committee firmly believes that the Group has strong foundations in place in terms of risk management and internal control processes and we look forward to playing a very active role in continuing to develop these structures over the course of 2021.

I now invite you to read this year's Audit Committee report.

Jonathan Muir
Chairman of the Audit Committee
30 March 2021

Composition and operations of the Audit Committee
The composition of the Audit Committee complies with the 2018 UK Corporate Governance Code (the Code), which provides that the Audit Committee should comprise at least three Independent Non-Executive Directors. The Audit Committee members are Jonathan Muir (Chairman), Hanna Loikkanen, and Cecil Quillen, all of whom are independent, and until 31 January 2020 also included Andreas Wolf, who was also independent. The Board is satisfied that at least one member of the Audit Committee has recent and relevant financial experience, and believes the Audit Committee as a whole has competence relevant to the sector (financial and banking) in which the Company operates, and the relevant combination of skills and experience to discharge its responsibilities. Mr Muir is a member of the Institute of Chartered Accountants of England and Wales and has over 30 years of experience working as a professional in accounting and auditing. In addition, Ms Loikkanen has significant experience working with financial institutions and has held a number of senior positions within the banking industry, and Mr Quillen has extensive experience of securities and finance matters as the leader of Linklaters LLP's U.S. securities practice. Full details of the Audit Committee members' biographies and their qualifications can be found on pages 162 to 165 of this Report.

The Audit Committee works to a planned programme of activities focused on key events in the annual financial reporting cycle and standing items that it considers regularly under its Terms of Reference (the Terms of Reference, as reviewed and updated in September 2020, are available at: https://www.bankofgeorgiagroup.com/governance/documents). It also reacts to business developments as they arise.

Attendance at meetings by the Audit Committee members during the year can be found on page 156 of this Report. The Company Secretary is secretary to the Audit Committee and attends all meetings. The meetings are also attended by the Bank's Chief Finance Officer, Chief Risk Officer, Chief Operations Officer, Head of Internal Audit and Head of Compliance. Representatives of EY also attend meetings. The Chief Executive Officer, the Head of Legal and the UK General Counsel attend as required. On occasion, invitations to attend are extended to other members of the Board and management where necessary, to provide a deeper level of insight into key issues and developments.

The Chairman of the Audit Committee will be available at the AGM to respond to any shareholder questions that may be raised on the Audit Committee's activities.

Meetings with the auditor
During the year, the Audit Committee met privately, without management present, with EY and the Head of Internal Audit. The Chairman of the Audit Committee also held discussions with the lead audit partner in advance of meetings. The focus of these private meetings was to encourage discussion of any issues of concern in more detail and directly with the external auditor and the Bank's Head of Internal Audit.

Key purpose and responsibilities
On behalf of the Board, the Audit Committee safeguards high standards of integrity and oversees conduct in financial reporting, internal control and risk management (together with the Risk Committee) and internal audit. It also oversees the work of our external auditor. A full description of the Audit Committee's roles and responsibilities is set out in the Terms of Reference. The Chairman of the Audit Committee reports to the Board on how it has discharged its responsibilities at a subsequent Board meeting.

Financial reporting
One of the key responsibilities of the Audit Committee is to review the integrity of the financial statements, consider the appropriateness of accounting policies and practices and review the significant issues and judgements considered in relation to the financial statements.

The Audit Committee received detailed reporting from the Chief Financial Officer and the external auditor in respect of key areas of management's judgements, reporting and audit during the year. The Audit Committee and the external auditor, without management present, discussed the key areas of audit focus, the suitability of the accounting policies which have been adopted and whether management's key reporting estimates and judgements were appropriate. Considering the external auditor's assessment of risk, but also using our own independent knowledge of the Group, we reviewed and challenged where necessary, the actions, estimates and judgements of management in relation to the preparation of the financial statements.

Audit Committee Report continued

The significant accounting matters and financial judgements considered by the Audit Committee in relation to the financial statements are addressed below.

Matter considered	Action taken by the Audit Committee
Governance	▪ reviewed governance processes; ▪ reviewed the Terms of Reference of the Audit Committee; and ▪ undertook an externally facilitated effectiveness evaluation.
Financial reporting	▪ reviewed the appropriateness and disclosure of accounting policies and practices; ▪ reviewed the Annual Report and Accounts content and advised the Board on whether the Annual Report was fair, balanced and understandable; ▪ reviewed the Company's annual and interim financial statements and quarterly accounts relating to the Company's financial performance including a review of the significant financial reporting policies and judgements contained therein; and ▪ reviewed and recommended to the Board for its approval of the Going Concern and Viability statements including stress scenarios as a consequence of the economic impact of COVID-19.
Internal Audit	▪ reviewed reports of internal audits and monitored action points and follow-up actions arising from audits; ▪ approved the 2021 audit plan; and ▪ monitored and reviewed the effectiveness of the Company's internal audit function.
Litigation	▪ reviewed litigation that could be material to the Company and whether provisions for contingent liabilities were required in respect of such cases. For further information please see Note 18 on page 304 of this Report.
ECL provisions	▪ reviewed the controls around the development of the model used to assist in determining the appropriate provisions; ▪ reviewed the key inputs into the models, including key economic scenarios and management overlays; ▪ assessed outputs against peers and industry; ▪ sought external audit opinion and views on the model and its output; and ▪ reviewed and challenged the judgements used and resolution of any model deficiencies.
Investment Property Valuation	▪ heard and approved the approach taken to valuation, including the appointment of external, independent valuation agent; ▪ reviewed and challenged the output, including comparing to other inputs such as market data on the property market in Georgia; and ▪ reviewed the disclosures on the outcome of the valuation exercise, and in particular of the impact of exchange rate.

The Audit Committee also received regular reports on recoveries and write-offs of loans, information security strategy and cyber risks.

Internal Audit

The Audit Committee is responsible, on behalf of the Board, for overseeing the Internal Audit function, which serves as the Group's independent assurance over the adequacy and effectiveness of the systems and processes of risk management and control across the Group.

The Audit Committee monitors the scope, extent and effectiveness of the Group's Internal Audit function. It reviews and approves the Internal Audit Policy and oversees the Internal Audit Plan, which is designed using a risk-based approach aligned with the overall strategy of the Group. Regular reports are received from Internal Audit on audit activities and significant findings as well as corrective measures and follow-ups. In certain cases, the Audit Committee invites heads of divisions and departments to present their responses and mitigating actions in response to Internal Audit findings. In 2020 this included Georgian Leasing.

The Head of Internal Audit has direct access to the Audit Committee and the opportunity to discuss matters with the Audit Committee without other members of management present. The Audit Committee also monitors the staffing of the Internal Audit department as well as the relevant qualifications and experience of the team.

During 2020, and in response to the COVID-19 pandemic, the Internal Audit team undertook a full review of the Group's risk landscape to assess the implications of the pandemic on the annual Internal Audit Plan. Those areas where changes were considered necessary were discussed in detail, and presented for approval, by the Audit Committee. The Internal Audit team further increased their activity in monitoring the adequacy of management responses to the pandemic during 2020.

A review was also conducted of the effectiveness of the Internal Audit department by considering the progress of Internal Audit against the agreed plan, considering the need to respond to changes in the Group's business and the external environment.

The Audit Committee also considered the quality of he reporting by Internal Audit to the Audit Committee and the ability of Internal Audit to address unsatisfactory results. On this basis, it concluded that the Internal Audit function is effective and respected by management, and that it conforms to the standards set by the Institute of Internal Auditors.

External audit

With respect to our responsibilities for the external audit process on behalf of the Board, the Audit Committee:

- approved the annual audit plan, which included setting the areas of responsibility, scope of the audit and key risks identified;
- oversaw the audit engagement, including the degree to which the external auditor was able to assess key accounting and audit judgement;
- reviewed the findings of the external audit with the external auditor, including the level of errors identified during the audit;
- monitored management's responsiveness to the external auditor's findings and recommendations;
- reviewed the qualifications, expertise and resources of the external auditor;
- monitored the external auditor's independence, objectivity and compliance with ethical, professional and regulatory requirements;
- reviewed audit fees;
- monitored the rotation of key partners in accordance with applicable legislation; and
- recommended the appointment, reappointment or removal, as applicable, of the external auditor.

Auditor independence

The Audit Committee adopted a new Non-Audit Services Policy during 2020 to safeguard the auditors' independence and objectivity. The provision of non-audit services by our external auditors aligns with the current EU Statutory Audit regime, the FRC Ethical Standards and recent amendments to the Code. Any work other than for audit or review of interim statements to be undertaken by the external auditor now requires authorisation by the Audit Committee except in very narrow circumstances. The Policy is available at https://www.bankofgeorgiagroup.com/governance/documents.

The Audit Committee has formally assessed the independence of EY, which included the review of: (i) a report from EY describing their arrangements to identify, report and manage any conflicts of interest, and their policies and procedures for maintaining independence and monitoring compliance with relevant requirements; and (ii) the value of non-audit services provided by EY. EY has also confirmed its independence throughout the year, within the meaning of the regulations on this matter and in accordance with their professional standards. As indicated in Note 22 of the audited IFRS financial statements for 2020, the total fees paid to EY for the year ended 31 December 2020 were GEL 2.2 million, of which GEL 0.3 related to work other than the audit or review of the interim accounts.

The Audit Committee is of the view that engaging EY on occasions for non-audit work is the most efficient method of having those particular services delivered to the Company, and does not consider that this work compromised the independence of the external auditor.

Audit Committee Report continued

Auditor effectiveness
The Audit Committee has an established framework for assessing the effectiveness of the external audit process. This includes:

- a review of the audit plan, including the materiality level set by the auditor and the process they have adopted to identify financial statement risks and key areas of audit focus;
- regular communications between the external auditor and both the Audit Committee and management, including discussion of regular papers prepared by management and EY;
- regular discussions with EY (without management present) and management (without EY present) to discuss the external audit process;
- a review of the final audit report, noting key areas of auditor judgement and the reasoning behind the conclusions reached; and
- a formal questionnaire issued to all Audit Committee members and to the management of the Group responsible for interaction with the external auditors which covers among other items the quality of the audit and audit team, the audit planning approach and execution, the presence and capabilities of the lead audit partner, the audit team's communication with the Audit Committee and management and the auditor's independence and objectivity.

Following the Audit Committee's assessment of the external auditor, it formed its own judgement (which was consistent with management's view) and reported to the Board that:

- the audit team was sound and reliable, providing high-quality execution and service;
- the quality of the audit work was of a high standard;
- EY's independence and objectivity were affirmed;
- EY was able to challenge management on its approach to key judgements; and
- appropriate discussions were held with the Audit Committee during the audit planning process.

The Audit Committee is satisfied that the relationships between the external auditor and management allow for scrutiny of views on both sides and it is pleased that the evaluation paid testament to the ability and willingness of the external auditor to challenge management's views in a constructive and proportionate manner.

The Audit Committee has recommended to the Board that EY be reappointed as auditor of the Company, and the Directors will be proposing the re-appointment and the determination of EY's remuneration at the 2021 AGM.

Audit tender and lead partner rotation
EY was appointed as auditor of Bank of Georgia Group PLC in 2018, and subsequently appointed by shareholders at the 2020 AGM, and the Audit Committee was authorised to set the remuneration of the auditor, with 98.96% and 99.34% votes in favour for each resolution.

Following the tender in 2018, EY appointed John Headley as our lead audit partner. Although the external auditor is required to rotate the audit partner responsible for the Group at least every five years, due to his combined time spent on both BGEO Group PLC and Bank of Georgia Group PLC audits, John Headley will step down from his role as the lead partner and will be replaced by Peter Wallace in 2021.

We continue to review the auditor appointment and, although the Group is not required to put the external audit contract out to tender before 2027, the NBG transition rules require EY to rotate out from the JSC BOG audit after the 2022 audit. After receiving an audit service from one and the same audit firm for five consecutive years, the Bank is required to hold a tender according to its internal policies and procedures to select an audit firm for its mandatory audit. Based on the tender outcome, the Bank's Audit Committee provides a recommendation to the Supervisory Board in order to select an audit firm.

Mandatory audit services from the same firm can be received for no more than ten consecutive years. After the 10-year period has elapsed, the Bank is required to take at least a four-year break before going back to the same firm for mandatory audit services. We will undertake a competitive tender process during 2022, which will form part of the Audit Committee's focus in 2021.

During 2020, the Company complied with The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Viability statement
In accordance with the Code, the Directors are required to assess the viability of the Group. In collaboration with the Risk Committee, and considering the recommendations of the FRC guidance, we spent time considering the timeframe over which the viability statement should be made as well as an assessment underlying the period of coverage, which we agreed should be three years. In addition to aligning with the period covered by the Group's strategy and financial forecasts, this three-year period seems particularly appropriate for a company whose business model continues to evolve in a rapidly developing market like that of Georgia. We considered: the Group's principal risks and uncertainties, including those that will threaten its business model, future performance and solvency or liquidity; the current financial position of the Group, including future cash flows, allocated capital expenditure and funding requirements; prospects; and downside stress tests involving several different scenarios. Our viability statement can be found on page 100.

Whistleblowing, conflicts of interest, anti-bribery and anti-corruption, data protection
The Audit Committee ensures that there are effective procedures relating to whistleblowing, a policy which allows staff to confidentially raise any concerns about business practices, which is kept under review annually. In 2018, the Group also implemented WhistleB, an advanced independent whistleblowing reporting channel and case management tool to replace its existing whistleblowing platform, which continues to work effectively. We reviewed additional measures to be put in place to improve the robustness of investigations made as a result of issues raised both through this channel and through other reporting lines. We are pleased with the ongoing progress made by our Communications Department in promoting the importance of the whistleblowing process and procedures to employees.

In line with the Code, responsibility for the whistleblowing process sits with the Board; however, as part of our broader work on fraud risk management and culture, the Audit Committee will continue to monitor use of the system. Updates on whistleblowing procedures, and the actions undertaken to promote the WhistleB platform and the case management tool are provided to the Audit Committee at quarterly intervals.

The Audit Committee keeps under review the Group's Anti-Bribery and Anti-Corruption Policy and procedures, and receives reports from management on a regular basis in relation to any actual or potential wrong-doing. It also receives reports on any Code of Ethics violations. There were no significant findings in 2020. The Audit Committee also oversaw the successful introduction of the Group's response to the General Data Protection Regulation, and continues to receive regular updates from the Data Protection Officer.

Risk management and internal controls
Although the Board assumes the ultimate responsibility for the Group's risk management and internal control framework, its work is supported by both our Committee and the Risk Committee.

The Audit Committee assists the Board in fulfilling its responsibility to review the adequacy and effectiveness of the controls over financial reporting and certain types of operational risk: IT and information security (including cyber-security), corporate security and similar areas of operational risk and internal and external fraud or misconduct.

The Audit Committee also monitors the Group's compliance with the corporate governance policies and procedures related to anti-bribery and anti-corruption, conflicts of interest and whistleblowing.

Over the year, amendments were made to the anti-money laundering framework and the risk assessment matrix, based on new anti-money laundering legislation and National Bank of Georgia guidance, which included a review of the existing customer risk assessment matrix. The amendments were related to the "know your customer" process, identification and verification measures, risk-based approach framework and enterprise ML/FT risk assessment. The Bank has also enhanced its risk management capabilities, including transaction-monitoring solutions, concerning money-laundering and financing terrorism.

The Audit Committee is supported by a number of sources of internal assurance within the Group in order to discharge its responsibilities. Risks are regularly reviewed and management provide updates to the Audit Committee on how risks are managed within particular business areas, for example the work recently undertaken regarding information security and additional controls to manage such risks occurring such as dual authorisation. It also receives reports from the Internal Audit team as well as reports on any compliance issues and litigation updates.

In 2020, the Internal Audit Plan included a thorough risk management and internal control assessment, including compliance with corporate governance policies and procedures. The Internal Audit Plan is risk-based and aligned with the Company's strategy. Increasing engagement-level focus on risks and opportunities related to customer-centricity and the digitalisation process across the organisation is one of the ways in which we achieve this. During 2020 and up to the date of this Annual Report and Accounts, Internal Audit did not find any material weaknesses in the risk management processes or internal controls. We challenged the reports by management and Internal Audit and requested data regarding compliance with key policies and procedures related to operational risk.

With respect to external assurance, the Audit Committee reviews the external auditor's reports presented to the Audit Committee, which include the external auditor's observations on risk management and internal financial controls identified as part of its audit. Without management present, the Committee and EY discussed the key areas of audit focus, the suitability of the accounting policies which have been adopted and whether management's key reporting estimates and judgements were appropriate.

Fair, balanced and understandable reporting
The Audit Committee reviewed drafts of this Annual Report and Accounts to consider whether it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy. We also gained assurance that there is a robust process of review and challenge at different levels within the Group to ensure balance and consistency.

Audit Committee Report continued

When forming its opinion, the Audit Committee considered the following questions in order to encourage challenge and assess whether the Report was fair, balanced and understandable:

Is the Report fair?	▪ Is the whole story presented? ▪ Have any sensitive or material areas been omitted? ▪ Are the KPIs disclosed at an appropriate level based on the financial reporting?
Is the Report balanced?	▪ Is there a good level of consistency between the front and back sections of the Annual Report? ▪ Is the Annual Report a document for shareholders and other stakeholders?
Is the Report understandable?	▪ Is there a clear and understandable framework to the Annual Report? ▪ Is the Report presented in straightforward language and in a user-friendly and easy to understand manner?

We also discussed the overall messages and tone of the Annual Report with the Bank's CEO and CFO. We also considered other information regarding performance presented to the Board during the period, both from management and the external auditor. After consideration of all this information, we are satisfied that, when taken as a whole, the Annual Report and Accounts is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Committee effectiveness

As described in more detail on pages 160 and 161, an externally facilitated evaluation of the Audit Committee's effectiveness was undertaken during 2020 as part of the wider Board evaluation, including individual interviews with the Audit Committee members. The findings of the review were considered by the Board at its September 2020 meeting. The review concluded that the Audit Committee had the appropriate composition to fulfil its duties, and that the interaction between the Audit Committee and the Board was appropriate and functioned well. Feedback included a suggestion to increase dialogue with the Risk Committee on work that may overlap, for example certain areas of risk management. Since the review there have been two further meetings (after the initial one) of the joint Audit and Risk Committee in 2020 which have helped to increase dialogue. The Audit Committee was pleased with the results of the evaluation, and will continue to consider areas in which it can improve in the future to the benefit of the Company. For more information on the evaluation of the Board and Committees see pages 160 and 161.

Priorities for 2021

The Audit Committee has agreed a number of areas of focus for 2021, including:

- enhanced risk management processes and cyber and IT risks;
- further interaction between the Risk Committee and the Audit Committee on specific topics of relevance to both Committees, in particular capital adequacy and liquidity in response to the environment;
- ensuring continued integrity and balance in the Group's financial reporting;
- new and emerging risks, including the Group's continued response to the coronavirus pandemic;
- ensure the effective transition of our Head of Internal Audit to Head of Risk, and the hiring of a new Chief Auditor; and
- continue to focus on the ECL provision as Georgia emerges from the pandemic and the stimulus and other support packages start to be scaled back.

Risk Committee Report

Safeguarding shareholder value

Tamaz Georgadze
Chairman of the Risk Committee

Dear Shareholders,

I am pleased to present the Risk Committee's report on behalf of the BOGG Board and to provide details on how we have discharged our responsibilities throughout 2020.

The challenges to the business, and to the Georgian economy, raised by the impact of the COVID-19 pandemic have been high on the Risk Committee's agenda for the year, both in the short and longer-term. In the short-term, the Risk Committee focused on business continuity and the operational challenges faced by so many of our employees needing to work from home. Longer-term, we were concerned with identifying customers who might have needed immediate support, and worked to identify areas of the portfolio which could have been significantly affected. This allowed us to then look at the overall quality of the portfolio, and measure any expected credit losses.

Our risk management structure and systems allowed us to proactively manage the operational challenges posed by the COVID-19, and we were able to respond swiftly where any changes to controls were needed to ensure that our operational risk profile remained robust. Further details on our response to the pandemic can be found throughout this report, and also on pages 20 to 25.

Notwithstanding the demands and challenges of COVID-19, in 2020 the Risk Committee undertook a number of activities, including commissioning an independent review of the risk function, framework and processes, further information on this is included later in this report. We also built on the progress made in previous years, and further refined our risk appetite framework. The Bank has adapted well to a stringent regulatory environment, successfully implementing new regulatory requirements into its lending processes.

Another key area of focus for the Risk Committee was the development of the tools and metrics used by the Company to manage and report on climate-related risks. Further information on these matters can be found on pages 99 and 127 of this report.

In 2020, the Risk Committee continued to strengthen our risk management framework and internal controls. The Risk Committee has assisted the Board in providing oversight of the Group's overall risk appetite in a challenging global macroeconomic environment. It has also helped ensure that the business continues to target effective risk management as a means to ensuring a sound underpinning to the achievement of our strategic objectives.

Throughout the year, the Risk Committee has carefully monitored the development of the credit portfolio, ensuring compliance with the risk appetite level. In addition, the Risk Committee has continued to monitor liquidity, interest rates and FX risk, on all of which the Bank has solid positions within the frames of its defined limits.

We recognise that there will be challenges ahead in the global and regional macroeconomic environment from the impact of COVID-19 pandemic; however, there will also be challenges posed by other issues, including climate change, and we will continue our forward-looking work on these issues.

Further detail of the Risk Committee's work during the year is set out in the following report.

Tamaz Georgadze
Chairman of the Risk Committee
30 March 2021

An overview of our risk management framework is set out on pages 74 to 85.

A description of principal risks and uncertainties, and recent trends and outlook, as well as mitigation efforts, can be found on pages 86 to 99.

Risk Committee Report continued

Key purpose and responsibilities
The purpose of the Risk Committee is to assist the Board in fulfilling its responsibilities in relation to the oversight of risk and to provide advice in relation to current and potential future risk exposures. This includes reviewing the Group's risk appetite and risk profile, the desired culture and how it has been embedded, assessing the effectiveness of the risk management framework and systems of internal control, and the Group's capability to identify and manage new types of risk.

The key responsibilities of the Risk Committee are to:

- support the Board to ensure that risk appetite and exposure are addressed as part of strategy;
- oversee the risk management infrastructure and process;
- oversee and support the Board in monitoring risk exposure and the implementation of strategy to address risk;
- oversee, support and evaluate the risk management roles of our senior management team;
- assess, review and challenge the emerging and principal risks facing the Company, including those which would threaten its business model, future performance, solvency or liquidity and the management and mitigation of those risks;
- encourage and ensure open and broad discussion on perceived risk concerns and responsive efforts to mitigate when necessary;
- assess the adequacy and quality of the risk management function in conjunction with the Audit Committee and the effectiveness of risk reporting within the Group; and
- in collaboration with the Audit Committee, review the principal risks and uncertainties disclosures in the Half-Year and Annual Reports, and assist with the formulation of the longer-term viability statement.

The principal risk categories overseen by the Risk Committee include credit, interest rate, currency (FX), and counterparty risks. We work closely with the Audit Committee to consider operational risks including those relating to cyber-attacks, fraud and bribery, information systems, compliance issues and financial crime. The Risk Committee also considers external risks arising from macroeconomic issues, regional instability and regulatory changes.

The Risk Committee's Terms of Reference were reviewed by the Risk Committee and approved by the Board in September 2020. The full Terms of Reference are available on our website at https://www.bankofgeorgiagroup.com/governance/documents.

Composition and meetings of the risk committee
Our Risk Committee comprises Independent Non-Executive Directors with extensive experience of the types of risk faced by a modern bank. The Risk Committee members are Tamaz Georgadze (Chairman), Al Breach, Véronique McCarroll and Mariam Megvinetukhutsesi. Details of attendance are on page 156.

In addition, George Chiladze, the Bank's Chief Risk Officer, has full access to the Risk Committee and attends all meetings. From time to time, other members of management are invited to provide a deeper level of insight into key issues and developments. In addition, non-Risk Committee Board members are invited to attend. Meetings of the Risk Committee take place prior to the Board meetings in order for the Risk Committee to report on its activities and matters of particular relevance to the Board.

Over the course of the year the Risk Committee considers a range of reports which provide analysis of: the Group's overall risk profile using both quantitative models and risk analytics; changes to the loan portfolio; key risk exposures, with detail of how they are being managed; performance against risk appetite for credit, liquidity, interest rates, and foreign currency; emerging and potential risks, including the drivers of risk throughout the Group; and analysis of stress testing scenarios and the results of stress tests and reverse stress tests. The underlying assumptions, methodology and results of these tests are reviewed and challenged by the Risk Committee. Jointly with the Audit Committee, the Risk Committee considers reports detailing the Bank's operational, cyber-security and AML risk profiles.

External risks
Discussions on the macroeconomic situation and political risks take place at the Board meetings, and continue to provide the context to the Risk Committee's discussions on the Group's management of financial risks. In response to the global COVID-19 pandemic, the Georgian Government introduced a number of measures as part of a wider anti-crisis stimulus plan. The measures included payment holidays on bank loans for individuals and businesses, price controls, and the closing of international borders for a period of time. The Bank was at the forefront of engaging with these measures and we remain alert to the ongoing impact of the pandemic, and continue to monitor the capital adequacy of the Bank, and any additional capital buffers required. Further details on our engagement can be found on pages 24 and 25.

Additionally, we received updates on various political events that took place in the economies of the region that are key trading partners to Georgia, including in Belarus with regard to the results of the August 2020 elections, and the impact of those events in relation to the Bank's subsidiary, BNB, as well as other geopolitical tensions that might affect our business and financial position.

As Georgia continues to align its regulatory framework with that of the EU according to the Association Agreement signed in 2014, we expect further changes in the regulatory framework going forward which may impact our business and competitive landscape in the financial sector overall. To minimise the risk of regulatory disruption, the Bank is engaged in discussions on regulatory changes with the NBG as well as with Government, parliamentary committees, banking and business associations and other stakeholders. The Risk Committee is regularly updated on the regulatory developments.

In 2020, the Company identified climate change as an emerging risk. In 2021 we are going to further focus on the development of ESG matters, further embed climate change-related risks and opportunities into risk management and create an appropriate framework specifically for climate-related disclosures. Please read more on ESG and climate change in the Responsible Business section on pages 102 to 130.

Financial risks and our loan book
The Risk Committee receives regular updates on matters including: the top 20 corporate exposures; management's plans to manage exposures through initiatives including increasing local currency loans and de-dollarisation of the portfolio; and analysis of retail borrowers' debt-bearing capacity. Reports are discussed at scheduled meetings and, where necessary, during informal interim calls with management.

The Group previously undertook a multi-year programme to reduce its concentration risk, and the share of top ten exposures are now within our risk appetite. We continue to monitor the risk parameters of the top-name concentration and the foreign currency share of the retail loan book. We also stress test the impact on the Group of distress amongst these debtors, as well as a broader economic downturn. Both internally developed stress tests, and one using the NBG-specified criteria are considered.

During 2020, we closely monitored NPL levels and management actions to assure adequate coverage of our loan loss exposure. Our NPL coverage ratio changed from 80.9% at 31 December 2019 to 76.3% at 31 December 2020. We regularly review the write-off and recovery of loans, and the overdue rate on the Retail Banking side. We are confident that management takes an appropriately prudent and conservative approach to write-offs.

Risk management
The Risk Committee assisted the Board in setting the Group's risk appetite and exposure in line with our strategic objectives and in making any necessary modifications as strategy evolves and when the risk environment changes. In addition to the aforementioned work undertaken in response to the impact of COVID-19, the Risk Committee monitored risk exposures and actions taken to address risks, which included oversight and support of our executive management risk team.

During the year, we worked closely with the Audit Committee to ensure that our risk management framework and systems of internal control operate effectively and in compliance with the Code and FRC guidance. We also worked through the processes supporting the assessment of the Group's longer-term solvency and liquidity which underpin the viability statement. In 2020, we continued to build on the strengths of our risk management framework to increase the effectiveness and ensure alignment with the Group's strategic objectives.

During the year, management reviewed the risk mitigation tools and control functions and reported to the Risk Committee (and to the Audit Committee) on their assessment of the effectiveness of these controls. We were mindful of the need to ensure that, where changes were needed to the design and implementation of controls in response to the COVID-19 pandemic, that the impact of those changes were fully considered, as well as any changes to the risk profile that might arise as a result. The Risk Committee continues to give consideration to the sustainability of the internal controls in light of the ongoing challenges faced by the impact of COVID-19.

The Risk Committee also worked with the Board and the Audit Committee to monitor the embedding of the Group's Compliance Policy, the embedding of our Data Protection Policy in line with the GDPR and proposed Georgian legislation, and reviewed management's anti-money laundering assessments in respect of correspondent banks.

We also carried out a robust review of the principal risks and uncertainties disclosures and other relevant risk management disclosures and reported our recommendations to the Board on their inclusion in this Annual Report and the Half-Year Report.

Finally, we assisted with the formulation of the viability statement in conjunction with the Audit Committee and management. The viability statement can be found on page 100.

Risk committee effectiveness review
As described in more detail on pages 160 to 161, an externally facilitated evaluation of the Risk Committee's effectiveness was undertaken during 2020 as part of the wider Board evaluation. The findings of the review were considered by the Board at its September 2020 meeting. The review concluded that the Risk Committee had the appropriate composition to fulfil its duties, and that the interaction between the Risk Committee and the Board was appropriate and functioned well.

Focus for 2021
During 2021, the Committee will work towards considering the longer-term impacts of COVID-19 and how these might affect economic recovery. Following the independent review of the risk function, we will continue to strengthen our risk culture across the portfolio, and also our risk management framework. We will also continue the work begun during 2020 to develop an effective and regulatory compliant climate-risk framework within which to report, and which aligns with the Company's strategic and cultural position.

As in previous years, the Risk Committee will continue to coordinate with other Board committees, and in particular the Audit Committee. Joint meetings with the Audit Committee, primarily relating to operational risks, will continue to be held to ensure an appropriate link between risk and audit is maintained without the need for overlapping committee membership.

Directors' Remuneration Report

Hanna Loikkanen
Chair of the Remuneration Committee

Dear Shareholders,

On behalf of the Board, I am pleased to present the Directors' Remuneration Report. I was appointed Chair of the Remuneration Committee in September 2020; the Remuneration Committee still comprises five independent Non-Executive Directors.

Remuneration structure, shareholder alignment and COVID-19 consideration
It has been an unprecedented year in which the COVID-19 pandemic brought significant challenges to all our stakeholders. It is in volatile times like this that our particular remuneration structure ensures there is strong alignment between management and shareholder experience.

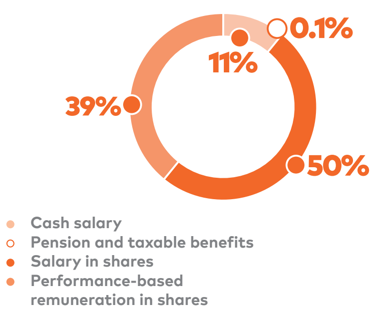
The principles of our remuneration structure are: (i) paying the majority of salary in a fixed number of deferred shares rather than cash; (ii) paying performance-based remuneration entirely in discretionary deferred shares; and (iii) no cash bonus or LTIP. The majority of the second element is a maximum fixed number of shares awarded based on performance, with a smaller element of this being the equivalent of the cash salary converted into shares. Setting a maximum number of shares instead of a maximum dollar value ensures that when the markets fall, as was the case during 2020, the dollar value of the overall package automatically adjusts downwards and therefore there is no "windfall".

In our remuneration structure there is clear downside risk, which has materialised this year, as well as upside potential. The Executive Director is naturally aligned to medium-to-long term stakeholder interests and is incentivised to strive to deliver medium to long-term shareholder value. Unusually for the market, the share-based portion of salary is subject to malus provisions. This is in addition to the discretionary deferred shares being subject to extended malus and clawback.

Pension payments for the Executive Director are aligned to those of the workforce.

Further as a result of the impact of the COVID-19 pandemic, the Bank of Georgia's senior executive management team (including Archil Gachechiladze) volunteered for their 2020 fixed cash salary to be reduced by 20% from 1 March to 31 December 2020. In addition, in response to wider stakeholder considerations, Mr. Gachechiladze voluntarily contributed 50% of his remaining 2020 fixed cash salary to non-profit organisations and charitable causes in Georgia, including the funding of 11 students.

Total remuneration of the CEO



Shareholder engagement and response to significant vote against the Remuneration Report
Following the 2019 AGM, we confirmed that we would not increase cash salary, the number of deferred shares or maximum bonus opportunity over the three years from the date of the 2019 AGM. At the 2020 AGM, 70% of shareholders approved the Directors' Remuneration Report. However, a significant minority voted against the resolution, as we acknowledged when releasing the AGM results. The key issue resulting in this minority vote against the Directors Remuneration Report was the level of disclosure. Recognising this shareholder dissatisfaction, the Board have been particularly keen to ensure that we improve our approach to remuneration and transparent reporting in a meaningful way.

We published an update statement on shareholder engagement to date in November 2020, which can be seen at https://www.bankofgeorgiagroup.com/information/meetings.

We have also held further engagement, calls and video conferences with many of our top shareholders. In addition, members of the Remuneration Committee or the Company engaged with proxy advisory groups over the course of the year, including video calls to further engage and understand each other's perspectives.

During this engagement, we drew our shareholders' attention to our November release and our suggested path of increased disclosure, following which we had unanimous feedback welcoming our proposed increased transparency and detail on the KPIs.

In response to this engagement and feedback, we have included target ranges (threshold, target and maximum) for KPIs, which is fully in line with suggested level of disclosure under the Investment Association Principles of Remuneration. The target ranges are considered on a sliding scale. Further, we have disclosed weightings for each KPI and increased explanation highlighting the rationale for the KPIs, weightings and target levels, together with the relevant results for each.

We also wanted to ensure that our remuneration can be considered against a meaningful peer group externally as well as when the Company carries out benchmarking, and to this end we have disclosed possible peers in this report on page 196.

The views received from shareholders were positive, particularly around the high level of the Executive Director's share ownership with long deferral periods. Some shareholders specifically noted that they considered this structure to be above average, particularly for companies operating in frontier and emerging markets. Our aim is that the enhanced disclosure enables us to better show the reasoning behind decisions on pay, so that the alignment between pay and performance can be shown to be as strong as the alignment with the shareholder experience.

Workforce remuneration
The Remuneration Committee considered an overview of the Remuneration Policy and data for the employees of the Group. The main principles of the framework are: (i) competitiveness and (ii) flexibility and fairness. Salaries are reviewed annually and benchmarked against those for similar positions in banks (and in the Georgian labour market in particular). Control functions within the Bank are remunerated so as to avoid compromising their objectivity or independence, and in line with Georgian regulatory requirements. Variable remuneration varies by position and the Group maintains full discretion on a case-by-case basis according to the employee's performance. There is special variable remuneration for the material risk takers of the Bank in line with Georgian regulatory requirements, including deferred vesting periods and malus and clawback arrangements.

The Remuneration Committee considered the salary bands of each decile and gender pay gap data which for males and females was divided into: average salary by deciles, average salary bands, average salary overall, average salary for certain levels and the average gap in quantity and by percentages. Management also reported the findings to the whole Board. Following up on this discussion, more detailed breakdown of gender pay gap was provided to the Board, which showed that the gaps were mainly driven by the type of position each gender occupied and not the gap within same position. The Board will be monitoring progress on ensuring that opportunities are gender neutral.

In 2020, the Group carried out and presented to the members of the Board (including all members of the Remuneration Committee) an analysis of pay structure, pay grades and career paths, following employee feedback which had indicated that compensation should be more clear from the outset. This shift towards a higher fixed salary for some existing employees and for new employees increases transparency and predictability of the total compensation and should help to attract and retain talent. The predefinition of the bonus structure should also motivate employees to achieve their KPIs as there will be a clearer link between performance and bonuses. In addition, salary ranges will differ based on the new level structure for managers and specialists, hence motivating employees at all levels to work for future promotions.

Lastly, from 2021 maternity leave will be substituted with parental leave consisting of leave: (i) exclusively for female employees relating to childbirth; plus (ii) for childcare which can be used either by the mother or the father. The Board was particularly pleased with this progressive approach towards working parents and with the substitution of maternal leave with parental leave.

Workforce engagement
In addition to my role as Chair of the Remuneration Committee, I am also the designated Non-Executive Director to engage with the workforce. I facilitate quarterly informal discussion forums known as Employee Voice to engage with the workforce. All Board members are invited to participate at these meetings, which aim to facilitate the exchange of opinions, ideas and views between the Board and employees. The meetings were held virtually in 2020 due to the ongoing restrictions, and further information on the output from these meetings can be found in our Directors' Governance Statement.

Senior management remuneration
In early 2021, the Remuneration Committee decided the number of discretionary deferred shares to be awarded for each of senior management for 2020, taking into account the performance of each during 2020.

The more senior an employee, the more likely their remuneration includes shares of the Company. For our executive management their salary is in cash plus a fixed number of deferred shares and their performance-based remuneration is entirely paid in discretionary deferred shares (and calculated by percentage of a maximum number of deferred shares, rather than a dollar value translated into shares).

There are three ways that the executive management shared the wider workforce and the shareholder experience.

First, during 2020 the dollar value of remuneration packages of all senior management decreased along with the decrease in the share price.

Directors' Remuneration Report continued

Secondly, from 1 March to 31 December 2020, executive management volunteered to have their cash salary reduced by 20%.

Thirdly, it was noted that, unlike for the CEO, the targets for top five current members of management (C-suite equivalent) had been set in the Spring and therefore included some predicted impact of COVID-19. Consequently after calculating the amount due for overall performance and against individual KPIs, the amount of discretionary remuneration to be awarded was then reduced by 30% for each of the C-suite to ensure alignment with the wider workforce and shareholder experience. The year-on-year reduction for the discretionary remuneration was 42.7% for these top executive management on a full year basis which is deeper than for other employees (at 36.7%).

Last year we reported that the Remuneration Committee had performed an overall review of senior management contracts, including implementing extended vesting and holding periods and additional malus and clawback similar to the provisions applying to the Executive Director.

This year, in December 2020, the Remuneration Committee decided to harmonise the number of salary shares and performance-based remuneration opportunity for the executive management, so that people at the same level had the same package and opportunity as others at the same level. This resulted in individual reductions or increases being implemented for 2021 onwards, to ensure fairness. The individual performance of each member of executive management will continue to affect the number of discretionary deferred shares to be awarded to that individual in any given year (noting that the Remuneration Committee may exercise its discretion, as it did this year to reduce the awards for the C-suite by 30%).

Performance-based remuneration

In addition to the calculations against the KPIs and their targets, the Remuneration Committee noted the below matters when considering the appropriate level of performance-based remuneration.

In recognising the challenges posed by the pandemic and as part of the NBG's COVID-19 supervisory plan, during the period that banks partially or fully utilise Pillar 2 or conservation buffers the Group is restricted from any form of capital distribution and therefore did not distribute a dividend in 2020. However, the Remuneration Committee also recognised that: (i) the Group did not receive direct support from the UK or Georgian governments and did not utilise the furlough scheme; (ii) it did not raise any additional capital from shareholders; and (iii) the CEO cash pay reduction (even before deducting the amount donated to charity) and the reduction of the performance-based remuneration is commensurate to (and indeed deeper than) that of the Group's employees as a whole; and the reductions are higher for the CEO and executive management than for other colleagues.

Further, it noted that alignment with shareholders is built into the remuneration structure (by salary weighted towards deferred shares, number of deferred shares and not dollar value) and performance-based remuneration deferred shares only (weighted towards a maximum number rather than dollar value). In addition, there is no LTIP.

Analysis of performance against KPIs showing the basis for the decision of the Remuneration Committee is in the section "Basis for determining Mr Gachechiladze's discretionary deferred share remuneration in respect of 2020" on pages 191 to 195 below. KPI targets were not adjusted for the impact of COVID-19. While this meant it was extremely challenging for the CEO to reach targets in 2020, the Remuneration Committee believes this is the right approach. Nevertheless, he performed admirably in difficult circumstances, as shown in the figures and explanations for each KPI.

The outcome was that Mr Gachechiladze was rewarded 67.5% of his maximum opportunity, which is all paid in deferred shares. No discretion was exercised, and the detailed calculations are laid out in the aforementioned section of the report.

Other Remuneration Committee activities

The Remuneration Committee considered and approved some changes to the Terms of Reference which reflected developing good corporate governance practice, which were in turn approved by the Board. The Terms of Reference are available on our website at https://www.bankofgeorgiagroup.com/governance/documents.

In 2020, the Remuneration Committee also carried out a benchmarking exercise for Executive Directors or equivalent against possible peer financial services companies in emerging markets (in particular Russia, other former Soviet republics and South Africa), comparable listed companies in financial services in the UK, and all UK listed companies based in Georgia. There is further detail on these in the Chief Executive's pay and comparators section below, on page 196.

During 2021 the Remuneration Committee's priority will be the consultation with shareholders on and the formulation of an updated Directors' Remuneration Policy for the 2022 AGM, in accordance with the three-year cycle.

We expect this to be a complete review of the Policy. We will incorporate the recently amended National Bank of Georgia Code of Corporate Governance, our engagement with shareholders, and consultation with other stakeholders such as proxy advisor agencies.

Hanna Loikkanen
Chair of the Remuneration Committee
30 March 2021

What is in this report?

This Directors' Remuneration Report describes the implementation of Bank of Georgia Group PLC Directors' Remuneration Policy and discloses the amounts earned relating to the year ended 31 December 2020.

The report complies with the provisions of the Companies Act 2006 and Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The report has been prepared in line with the recommendations of the Code and the requirements of the UKLA Listing Rules.

The Directors' Remuneration Policy was approved by shareholders in a binding vote at the 2019 AGM and took formal effect from the date of approval and will apply until the 2022 AGM, at which time we will be required to submit our Directors' Remuneration Policy for approval by shareholders. A summary of our Directors' Remuneration Policy can be found on pages 202-207. The full Policy is set out on our website at https://bankofgeorgiagroup.com/governance/documents.

The Annual Report on Remuneration (set out on pages 186-207), which includes the Annual Statement by the Chair of the Remuneration Committee, will be subject to an advisory vote at the 2021 AGM.

How the Remuneration Committee addressed the factors in provision 40 of the Code

The Remuneration Committee pays close attention to the requirements of the UK Corporate Governance Code (the "Code") in determining the Policy and structure. This includes the factors set out in provision 40 of the Code:

Principle	Approach
Clarity	Remuneration arrangements are transparent and competitive. The Remuneration Committee set out the rationale and full Policy in the 2018 Annual Report. We summarise the Policy in this report so that the main features are clear.
Simplicity	The rationale is simple: the Executive Director and executive management are incentivised towards the medium- to long-term success of the Company by their remuneration being weighted towards a maximum number of deferred shares.
Risk	By its nature, having such a high proportion of the remuneration in shares which are deferred over several years, the structure drives the CEO and executive management to mitigate reputational and behavioural risks or short-termism in their actions and decisions. The Policy also introduced minimum shareholding and post-employment shareholding requirements.
Predictability	The range of possible values was set out in the Policy including the impact of share price appreciation and depreciation even though such disclosure was voluntary, to aid predictability. Weighted KPIs and ranges for the targets of KPIs have been used in this year's performance review.
Proportionality	Outcomes reward performance proportionately by reference to performance targets, although the Remuneration Committee retains its discretion to adjust the award as it considers appropriate. For further considerations on proportionality, see the section "Chief Executive's Pay and Comparators" on page 196, which this year includes a list of possible peers. The CEO has malus provisions against his performance-based remuneration and also his salary shares.
Alignment to culture	A high proportion of remuneration paid in deferred shares rather than cash, promotes alignment with the culture and long-term success of the Company, supported by the CEO's performance KPIs, including: (i) employment engagement; and (ii) developing ESG and gender diversity in accordance with the Group's purpose.

The Remuneration Committee and its advisors

The Remuneration Committee is principally responsible to the Board for establishing and implementing a Remuneration Policy that rewards fairly and responsibly and is designed to support the Company's strategy and promote its long-term sustainable success. The Remuneration Committee takes into account pay and employment conditions elsewhere in the Group, and oversees any major changes in employee benefits structures throughout the Group. The Remuneration Committee comprises five independent Non-Executive Directors: Hanna Loikkanen, Neil Janin, Al Breach, Tamaz Georgadze and Cecil Quillen. Hanna Loikkanen succeeded Al Breach as Chair of the Committee on 26 September 2020. The members' attendance is shown in the Board and Committee meetings attendance table on page 156.

In addition to the formal meetings held during the year, the Remuneration Committee participated in various discussions by telephone outside of these meetings. Other attendees at the Remuneration Committee meetings who provided advice or assistance to the Remuneration Committee on remuneration matters from time to time included the CEO, other Board members and the UK General Counsel. Attendees at the Remuneration Committee meetings do not participate in discussions or decisions related to their own remuneration.

The Remuneration Committee may also take into account outside guidelines, for example it follows the Investment

Directors' Remuneration Report continued

Associations, Principles of Remuneration, and the UK General Counsel attends events organised by law firms, investor bodies and similar organisations so as to keep the Remuneration Committee up to date with developing market practice.

The Remuneration Committee received additional advice on compliance from Baker & McKenzie LLP, the Group's legal advisors. The Remuneration Committee is of the view that the advice received from Baker & McKenzie LLP is objective and independent.

Shareholder context
The Directors' Remuneration Policy applicable to this section of the Annual Report on Remuneration was approved by shareholders at our AGM on 17 May 2019 (the "2019 Policy"). The Directors' Remuneration Policy received the following votes from shareholders.

Resolution	Votes for	%	Votes against	%	Total votes cast	Votes withheld
Approval of the Directors' Remuneration Policy	37,459,269	90.92	3,740,514	9.08	41,199,783	931,813

Set out below are the shareholder voting figures for the Directors' Remuneration Report (including the Annual Statement of the Chair of the Remuneration Committee) presented at our 2020 AGM.

Resolution	Votes for	%	Votes against	%	Total votes cast	Votes withheld
Approval of the Directors' Remuneration Report	29,373,803	69.66	12,795,084	30.34	42,168,887	24,150

The Company made a statement on the significant vote against the Remuneration Report at the time of the AGM which is available on our website at: https://www.bankofgeorgiagroup.com/information/meetings. It released an additional statement within six months of the AGM which is available on our website at https://www.bankofgeorgiagroup.com/information/meetings. Please see the Chair of the Remuneration Committee's letter to shareholders above for a further update and final summary in the subsection "Shareholder engagement and response to significant vote against the Remuneration Report".

Single total figure of remuneration for the sole Executive Director (audited)
The table below sets out the remuneration earned by the Company's Executive Director, Archil Gachechiladze, in respect of his employment with the Company for the years ended 31 December 2020 and 31 December 2019. For 2020, 89% of Mr Gachechiladze's compensation as set out in the table below is in the form of deferred shares that vest in tranches, with vesting and holding periods of up to five years.

Mr Gachechiladze's current service agreements provide for salary in the form of cash and deferred shares. In addition, Mr Gachechiladze is eligible to receive discretionary deferred share remuneration up to a maximum of 100% of total salary (full cash salary converted into shares plus a number of deferred salary shares).

	Cash salary[1] (US$)	Deferred share salary[2] (US$)	Taxable benefits[3] (US$)	Pension Benefits[4] (US$)	Dividend equivalents[5] (US$)	Total fixed pay (US$)	Discretionary deferred share remuneration[6] (US$)	Total variable pay (US$)	Single total figure (US$)
2020	**308,333**	**1,381,425**	**954**	**2,833**	**–**	**1,693,545**	**1,060,814**	**1,060,814**	**2,754,359**
2019	343,222	1,275,460	1,528	3,197	–	1,623,407	1,724,012	1,724,012	3,347,419

Notes:
1 Expressed in US Dollars but paid in British Pounds and Lari, as applicable, converted into the respective currency as at the date of payment. Accordingly, there may be variations in the numbers above and those provided in the accounts. 2019 cash salary is pro-rata from the appointment date on 28 January 2019. For the year 2020 cash salary was reduced by 20% from 1 March 2020. While Mr Gachechiladze also donated 50% of his remaining cash salary from 1 March to 31 December 2020 to charitable causes, the above figure does not take this into account and reflects the full amount paid by the Group in salary.
2 Deferred share salary. The figures show the value of the underlying nil-cost options over BOGG shares granted in respect of the 2020 and 2019 work years. Mr Gachechiladze was awarded 75,000 BOGG shares for the 2020 work year and 69,247 BOGG shares for the 2019 work year (as he joined 28 January 2019 the salary was proportionately less). The service agreement with Mr Gachechiladze, signed on 9 January 2019, came into effect on 28 January 2019. The value attached to each BOGG share for both years is calculated by reference to the closing share price on 8 January 2019, the day before the Remuneration Committee meeting, being US$ 18.419 per share (the official share price of GBP 14.468 per share converted into US Dollars using an exchange rate of 1.2731, being the official exchange rate published by the Bank of England on the same day). 25% of the salary shares will vest in each of the second, third, fourth and fifth anniversary of the start of the work year, subject to the terms of his service agreement.
3 Benefits. The figures show the gross taxable value of health, life and personal accident insurance.
4 Pensions. The figures show the aggregate employer contributions for the relevant years into the Group's defined contribution pension scheme. Under the Group's defined contribution pension scheme, normal retirement age is 65.
5 Dividend equivalents. The figure shows the dividend value paid in respect of nil-cost options exercised in the relevant year. Mr Gachechiladze did not exercise options in 2020 or 2019 and the Company did not distribute dividends in 2020.
6 Discretionary deferred share remuneration. The figures show the value of the underlying nil-cost options over BOGG shares granted in respect of bonus awards in the relevant year. For 2020, Mr Gachechiladze was awarded 66,214 BOGG shares. The value was calculated by reference to the closing share price on 8 February 2021 (the working day before the meeting at which the award was determined) which was US$ 16.021 (based on the official share price of GBP 11.66 per share converted into Dollars using an exchange rate of 1.3740, being the official exchange rate published by the Bank of England on the same date). For 2019, Mr Gachechiladze was awarded 86,460 BOGG shares. The value was calculated by reference to the closing share price on 31 January 2020 (the working day before the meeting at which the award was determined) which was US$ 19.940 (based on the official share price of GBP 15.13 per share converted into US Dollars using an exchange rate of 1.3179, being the official exchange rate published by the Bank of England on the same date). The discretionary remuneration is deferred and will vest 40% on the third and 60% on the fourth anniversary of the start of the work year; each tranche is subject to a further two-year holding period following vesting. The 2020 and 2019 awards are subject to the leaver provisions as described in the 2019 Policy available at https://bankofgeorgiagroup.com/governance/documents. The means of determining the number of shares underlying this remuneration and the terms and conditions are described in the 2019 Policy. The basis for determining Mr Gachechiladze's 2020 discretionary award is described on pages 191 to 195.
7 Mr Gachechiladze was reimbursed for reasonable business expenses, on provision of valid receipts.
8 No money or other assets are received or receivable by Mr Gachechiladze in respect of a period of more than one financial year.
9 The number of shares awarded pursuant to the deferred share salary and discretionary deferred share remuneration is fixed on grant. No discretion has been exercised as a result of share price appreciation or depreciation. Discretionary deferred shares are subject to one-year targets. No amounts were recovered or withheld in 2020. The values reported at grant are not attributable to share price appreciation.

We note that for comparison, Mr Gachechiladze's salary for 2019 is for an incomplete year, as his service commenced on 28 January 2019, which accounts for the difference in share salary and some difference in cash salary (although this is outweighed by the reduction in the paragraph below). For easy comparison, his single total figure remuneration scaled up pro rata for a complete year for 2019 would have been US$ 3,618,599.

Mr Gachechiladze's overall cash salary in 2020 was lower than 2019 due to the 20% reduction from 1 March to 31 December 2020 taken by senior management in response to the impact of COVID-19. The cash salary figure in the table above includes the amount of salary donated to charity by Mr Gachechiladze.

Salary and discretionary shares for 2020 vest over several years (with holding periods for discretionary shares), and likewise the salary and discretionary shares for 2019 were deferred for and continue to vest and/or having holding periods over several years. Award of the CEO's and executive management's discretionary remuneration is subject to compliance with NBG requirements regarding pillar 2 capital buffers being duly rebuilt.

In accordance with IFRS we disclose the figures using the closing price at the day before the decision date for the calculation for each element of remuneration. In the case of the salary, this is always calculated by referring to the value of shares in January 2019 at US$ 18.419 a share as further explained in note 2 above.

The decision date for the 2020 discretionary deferred shares award was 9 February 2021, hence the closing share price as at 8 February 2021 is used (figures further disclosed in and as further explained in note 6 above). The maximum opportunity at that date is cash salary (US$ 370,00 without voluntary reduction) converted into 23,095 shares plus 75,000 salary shares (98,095 shares total). Hence the number of shares awarded was 66,214 which is 67.5% of maximum opportunity and using $16.021 per share is calculated to be worth US$ 1,060,814.

Lastly, we note the closing share price as at the last practicable date of 26 March 2021 was US$ 15.474 a share (the official share price of GBP 11.22 converted into US$ Dollars using an exchange rate of 1.3792, being the official exchange rate published by the Bank of England on the same day). Therefore, when remuneration is calculated using this more recent share price, the Single total figure of remuneration is US$ 2,497,265.

The following table sets out details of total remuneration for the Chief Executive Officer, Mr Gachechiladze, for the period from 28 January 2019 to 31 December 2020, and his discretionary compensation as a percentage of maximum opportunity.

	2019	**2020**
Single total figure of remuneration (US$)	3,347,419	**2,754,359**
Discretionary compensation as a percentage of maximum opportunity (%)	100%	**67.5%**

Basis for determining Mr Gachechiladze's discretionary deferred share remuneration in respect of 2020
Mr Gachechiladze's KPIs included both financial and non-financial components. The financial elements largely track the Group's published KPIs as he is expected to deliver on the Group's key strategic priorities, but the KPIs also include non-financial factors such as developing Group culture and ESG performance. This year we are initiating the disclosure of target ranges (threshold, target and maximum).

The following table sets out the financial KPIs set for Mr Gachechiladze in respect of 2020 as well as Mr Gachechiladze's performance against them. See below the table for further explanation of each KPI, in order.

The KPIs and their targets were not adjusted amid the COVID-19 pandemic (although the weightings were adjusted to allow for an additional KPI), resulting in some extremely challenging targets for the CEO. The financial KPIs were selected to reflect the key Group medium-term financial metrics for our investors and the sustainable health of our business. The Remuneration Committee ensures that targets set are the relevant drivers of required annual performance. The KPIs also take into account stakeholders of the Group and the culture of the Group, alongside non-financial strategic priorities.

However, the COVID-19 crisis management KPI was introduced to ensure that KPIs were aligned with the appropriate priorities for this critical year. Instead of just considering the predetermined strategy, the CEO should be appropriately recalibrating the strategic and financial priorities, securing the long-term health and viability of the business, acting to protect the wellbeing of employees, and showing social responsibility as a key player in Georgia's economy.

Directors' Remuneration Report continued

KPI with weighting % (Numbering refers to the notes below the table)	Threshold (25%)	Target (70%)	Max (100%)	Achievement	Weighted performance outcome (see numbered notes below for further explanation)
Financial KPIs 50%					
1. ROAE (15%) *20% is our medium term target*	<15%	20%	>22%	13.0% See note 1 below	0%
2. Capital Adequacy (15%) *150 b.p. above the regulatory min CET1 in normal times, 200 b.p. medium term target*	100b.p.	150b.p.	>200b.p.	300 b.p. See note 2 below	15%
3. COR (10%) *Cost of credit risk: 1% is our medium term target*	>2%	1%	0.9%	1.8% See note 3 below	2.5%
4. PBT (10%) *Profit before income tax*	GEL550m	GEL600m	GEL650m	GEL 316m See note 4 below	0%
Non-financial KPIs 35%					
5. NPS (15%) *Customer satisfaction measured by external survey*	34%	36%	38%	46% See note 5 below	15%
6. Employee engagement (10%) *eNPS measured by survey, baseline is against November 2019 with result 46% plus any other relevant factors*	44%	46%	48%	58% See note 6 below	10%
7. Developing ESG and gender diversity in accordance with the Group's purpose (10%) *The Group's purpose is helping people achieve more of their potential and we have chosen to focus on education, employment and MSME development in CSR.*	Below	Met	Exceeded	Exceeded. See note 7 below	10%
Personal KPIs 15%					
8. COVID-19 crisis management (15%) *Uninterrupted operations, safety of staff and clients, cost-cutting measures, capital preservation, strengthening of the first line risk management function, internal & external stakeholder communication*	Below	Met	Exceeded	Exceeded See note 8 below	15%
Total					**67.5%**

Notes for each KPI in turn:

1. Return on Average Equity – 13.0% achieved. ROAE is a longstanding strategic metric of the Company and a key determinant of corporate profitability for shareholders. Our communicated medium-term target remains 20%+. In Q1 as the pandemic hit, annualised ROAE fell sharply to -18.6%, largely as a result of taking upfront regulatory-driven COVID-19 related expected credit loss provisions for the full economic cycle, but for Q2, Q3 and Q4 ROAE recovered to 21.8%, 26.0% and 21.3% respectively. We did not adjust the KPI target range under COVID-19; threshold was not reached.
2. Capital Adequacy – 300 bps above regulatory minimum of 7.4% achieved. The Capital Adequacy KPI is not just at the CET-1 regulatory level: it is instead set at a level above it, with an appropriate buffer to ensure the Group remains consistently resilient to external shocks to an appropriate degree without the need to raise more capital. By keeping a high buffer, the Bank was able to take upfront expected credit loss provisioning in Q1 imposed by the local regulator without jeopardising the capital strength of the Bank. At 31 December 2020, the Bank's CET1 ratio was 10.4%, compared to the minimum regulatory requirement of 7.4%.
3. Cost of Credit Risk Ratio: 1.8% achieved. COR allows the business to focus on areas of operation that will have the greatest long-term effects on its total risk management costs. We entered the pandemic with a high quality lending portfolio that has been significantly de-risked over the last few years, which helped us to deliver a robust asset quality performance throughout the impact of the pandemic so far. In Q1 2020, a general provision was created which has proved sufficient, despite the impact of a second-wave of the pandemic towards the end of 2020. The year-on-year increase in cost of credit risk ratio in 2020 (from 0.9% to 1.8%) was driven by the significant ECL provision on loans to customers and finance lease receivables created for the full economic cycle during the first quarter of 2020, related to the adverse macroeconomic environment and expected negative impact on the creditworthiness of borrowers as a result of the COVID-19 pandemic. These assumptions were revisited to reflect the macroeconomic forecast scenarios published by the NBG in Q2 2020, and better visibility of the portfolio and the detailed review of creditworthiness of the borrowers in the third and fourth quarters. Between threshold and target achieved.
4. Profit before tax (PBT) – GEL 316m achieved. PBT is an important measure of overall performance for any business. We did not adjust the target range for the impact of COVID-19 and specifically the upfront provision for expected credit losses taken in Q1 2020; as a result, the threshold was not achieved.
5. NPS – 46% achieved. NPS is based on external research and is the key measure for measuring customer satisfaction. We believe that customer satisfaction feeds customer loyalty, which in turn impacts sustainable profitability and the long-term success of the Group. Substantial efforts were made to assist customers during 2020, including payment holidays on retail loans, loan restructuring opportunities for MSME and corporate customers, the temporary removal of fees executed through mBank/iBank to incentivise digital banking. Several digital innovations were launched to help the MSME customers to adjust their business to the new operating environment. NPS surveys are not only aimed at our customers (which tends to give lead to a higher score) but surveying the Georgian public at random. NPS was a record high of 46%, which was a significant achievement, particularly under the challenging circumstances of the year.
6. Employee engagement – 58% achieved for eNPS with 71% for employee engagement and internal culture noted. Employee management refers to two metrics in addition to an overall analysis with more focus on eNPS. Employee NPS is calculated by the response to a confidential survey of employees. It is based on the question: "On a scale of 0-10, how likely is it that you as an employee would recommend our Bank to a friend or a colleague as an employer?" Responses 9 and 10 are promoters; 7 and 8 are neutral; and 0-6 are detractors. eNPS is calculated as the percentage of promoters minus the percentage of detractors. The score improved from 46.0% in 2019 to 58.0% in 2020, showing that our employees have become more likely to recommend the Bank as a place to work. This metric feeds directly into profitability of the Bank through higher retention rates and thus lower recruitment requirements. It also supports the Bank in the recruitment of the best talent, which is crucial in a small market like Georgia.

   Employee engagement and internal culture was also analysed in the Korn Ferry survey. The overall engagement score was 71.0% (compared to 68.0% in 2019). Engaged and empowered employees are active participants that contribute to the business development, innovations and customer satisfaction, which in turn impacts profitability and long-term success for the Group.

   In addition to these high scores, we took into account employee engagement as a whole. 2020 presented very challenging working conditions which created unprecedented pressure and stress for the workforce. The front office and certain back office departments worked remotely in two-week shifts during the two lockdowns. A large part of the back office has also been working remotely. The CEO regularly engaged with the workforce via video, vlog, emails and live Q&A sessions, giving the workforce current information on the planned changes, the impact of the pandemic on the Bank's operations and performance and the Bank's initiatives for customers and communities. It is exceptional that eNPS improved during such a challenging year.
7. Developing ESG and gender diversity have been identified as key direction of travel for the Group and investor feedback has also shown an increased importance placed on ESG. The appointment of the first female Deputy CEO was a milestone, and expanding the concept of the senior executive group brought more women to the top table. Mr Gachechiladze has been actively promoting the necessity of creating a diverse leadership pool to secure sufficient in-house leadership resources for growth of the business and succession plans. Monitoring of workforce remuneration was greatly improved, as disclosed in the Workforce remuneration section in the Chair's letter to shareholders above.

   The percentage of women in the Executive Committee equivalent and Direct Reports for the Group is 45.2% as at 31 October 2020 (date of Hampton-Alexander review submission). According to the statistics in the 2020 Hampton-Alexander report, if we were in the FTSE 250, this would place the Group in the number 1 spot for the banking sector.

   In 2020, Mr Gachechiladze took on the role of ESG champion to emphasise the importance of ESG matters and to ensure that ESG efforts focused on those matters relevant to the banking sector, but also that spoke to the culture of the Group. Furthermore, senior management discussed the Bank's purpose and the ways in which the Bank does and can contribute to building more resilient and sustainable communities. Senior management selected five of the UN's Sustainable Development Goals (SDGs) that the Bank is committed to champion. Please refer to the "Responsible Business section" on pages 102-131.

Given the context of an emerging market group, Mr Gachechiladze is championing a cultural shift. An ESG-related matrix is now part of senior management's KPIs. In light of growing stakeholder interest, in 2020 the Group conducted a gap analysis of existing disclosures against global sustainability reporting standards and focused on enhancing ESG disclosure to provide more relevant information and data on key ESG themes. Further, the main thematic gaps to address have been identified, with climate change being the key topic. The Group has now committed to following the Task Force on Climate-Related Financial Disclosures (TCFD) for the financial year ending 31 December 2021.

Mr Gachechiladze ensured the Group showed strong social responsibility in 2020. Educational initiatives were implemented to support customers and communities throughout the pandemic. For example, the Bank organised meetings with local MSMEs to advise them on how to better market and sell products on global platforms and adapt to the new operational environment.

Also, to support the fight against COVID-19, the Bank donated 20,000 COVID-19 laboratory tests, ten ventilators, 50,000 face masks and 60,000 gloves to the Ministry of Health. Stakeholders will be able to see more in the enhanced "Responsible Business" section of the Annual Report, the new Sustainable Development Goals (SDGs) in this year's Annual Report and the new foregrounding of ESG in the first presentation of the recent Investor Day. The cultural shift towards sustainability leadership, integration of ESG issues in the strategy and operations, and recognition of gender diversity matters, championed by Mr Gachechilade, has exceeded our expectations. This is an emerging market group, but it is clear that ESG is now high on the corporate agenda.

8. COVID-19 crisis management: Mr Gachechiladze worked swiftly to ensure the Group was resilient to the effects of the COVID-19 pandemic and its impact on the economy and on local communities. He anticipated hard lockdown in the early phase and adjusted the Business Continuity Plan (BCP) to the expected pandemic, to curb the spread of COVID-19 in Georgia and to protect the health of our employees and customers. Ahead of a significant lockdown, over 2000 back office employees were proactively shifted to remote working, with critical functions split across multiple locations. Uninterrupted operations were ensured by promptly setting up relevant infrastructure for remote work and increasing cybersecurity controls. A shift system was introduced in the branches and in some teams in the head office. Operational continuity was safeguarded with strengthened safety measures in the cash vault to ensure uninterrupted cash supply, as the effects of the pandemic on customers' behaviour was unknown at that stage.

A three-month payment holiday on retail loans was introduced to contain virus spread by allowing people not to visit the branches for loan repayments and to stand by customers.

Mr Gachechiladze extensively focused on portfolio risk management throughout the pandemic which led to the introduction of risk KPIs for front office staff and the overall strengthening of the first line risk management function. He also initiated a risk review which resulted in a detailed road map to further bolster the Risk function.

Digitalisation accelerated substantially during 2020 under Mr Gachechiladze's leadership. Fees were removed for two months to encourage use of internet and mobile platforms in spring 2020. mBank was launched without the data package so that could be accessed without internet connection or mobile data. Our digital solution (Adapter) was introduced for merchants to switch to digital sales. The Bank webinars provided information to MSMEs on selling products on the world's largest platforms such as Amazon and eBay to help their survival and encourage economic growth.

He engaged in live Q&A sessions with employees to discuss the Bank's ability to withstand the negative impact of the pandemic, and continued to provide regular updates.

This year the Group held their Investor Day remotely. Mr Gachechiladze, along with the Chairman, set the tone by emphasising the Group's focus on ESG as well as its response to the pandemic. The Remuneration Committee considered this COVID-19 pandemic management to be an excellent performance.

Finally, the Remuneration Committee noted other matters in deciding whether or not to exercise discretion on the deferred shares award. In recognising the challenges posed by the pandemic and as part of the NBG's COVID-19 supervisory plan, during the period that banks partially or fully utilise Pillar 2 or conservation buffers the Group is restricted from any form of capital distribution and therefore did not distribute a dividend in 2020. However, the Remuneration Committee also recognised that: (i) the Group did not receive direct support from the UK or Georgian governments and did not utilise the furlough scheme; (ii) it did not raise any additional capital from shareholders; and (iii) the CEO cash pay reduction and performance-based remuneration reduction is commensurate (and indeed deeper) to that for the Group's employees at a whole; and the reductions are higher for the CEO and executive management than for other colleagues.

Further, it noted that alignment with shareholders is built into the remuneration structure (by salary weighted towards deferred shares, number of deferred shares and not dollar value) and by performance-based remuneration in deferred shares only (weighted towards a maximum number rather than dollar value). In addition, there is no LTIP. The Remuneration Committee concluded that the level of deferred share award as calculated against the KPIs remained appropriate and did not exercise discretion. In accordance with the results of the KPIs as determined above, the Remuneration Committee awarded the CEO 67.5% of the maximum deferred share opportunity.

Percentage change in remuneration of Directors and employees

The following table sets out details of the percentage change in the remuneration awarded to Directors between 2019 and 2020, compared with the average percentage change in the per capita remuneration awarded to the Group's employees between 2019 and 2020, in line with the requirements in The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019. Given the small number of employees employed by the Bank of Georgia Group PLC entity (less than five), we consider comparison against the Group to be the most appropriate metric.

See the Single total figure remuneration table on page 190 for an explanation of cash salary, deferred share salary, taxable benefits and discretionary deferred remuneration of the Executive Director.

Year-on-year change in pay for Directors compared to the Group's employees as a whole

		Executive Director	Non-Executive Directors						
2019 - 2020	Average employee	Archil Gachechiladze[3]	Neil Janin	Hanna Loikkanen[4]	Al Breach[5]	Jonathan Muir	Tamaz Georgadze	Cecil Quillen	Véronique McCarroll[6]
Total cash salary	-2.8%	-16.7%	0%	6.5%	-1.8%	-0.6%	-0.6%	-0.6%	7.2%
Total deferred share salary[1]	-27.3%	-22.4%		–	–	–	–	–	–
Taxable benefits	-4.4%	-42.8%	–	–	–	–	–	–	–
Total bonus[2]	-37.9%	-43.1%	–	–	–	–	–	–	–

Notes:
1 Note that deferred share salary is attributable to executive management and CEO only. The share prices at 31 December 2019 (US$ 21.446) and 31 December 2020 (US$ 16.652) were used for the salary comparison. Alternatively calculated using closing price at the date of the agreements, the y-o-y change was -11.1% for executive management and 0% for the CEO.
2 Total bonus is discretionary deferred share remuneration for Mr Gachechiladze, and deferred discretionary share remuneration and/or any cash bonus in the case of other employees of the Group. The bonus of the top senior management was reduced by 30% for 2020 as explained in the Chair's letter and such is included in the overall figure.
3 Archil Gachechiladze was appointed on 28 January 2019 and therefore his 2019 remuneration has been scaled up pro rata to a full year for comparison reasons. His 2020 cash salary was voluntarily reduced by 20% from 1 March 2020 to 31 December 2020 (as was the cash salary of senior management). The amount contributed to charity by Mr Gachechiladze – half of the remaining salary for that period – has not been taken into account.
4 Hanna Loikkanen was appointed to the Remuneration Committee on 20 September 2019 and as the Chair of the Remuneration Committee on 26 September 2020.
5 Al Breach stepped down as the Chair of the Remuneration Committee on 26 September 2020 but remained as a member of the Remuneration Committee.
6 Véronique McCarroll was appointed to the JSC Bank of Georgia board on 11 February 2019; her fee in connection with this forms a part of the total fees.

Directors' Remuneration Report continued

Chief Executive's pay and comparators
It is noted that the Group has less than 250 UK employees and therefore is not required to disclose ratios of the CEO's pay against the UK pay (and indeed given it has less than five UK employees, to do so would be distortionary). The Remuneration Committee benchmarked the CEO's remuneration against FTSE 250 and FTSE small cap companies in financial services. Moreover, the pay was also benchmarked against relevant peer financial services companies in emerging markets (in particular Russia, other former Soviet republics and South Africa), comparable listed companies in financial services in the UK and all UK-listed companies based in Georgia. Possible comparable peers were: Moscow Credit Bank of Moscow PJSC, Tinkoff Bank, Halyk Savings Bank of Kazakhstan JSC, OTP Bank Nyrt, Moneta Money Bank a.s., Erste Group Bank AG, FirstRand Ltd, Raiffeisen Bank International AG, Virgin Money UK PLC, One Savings Bank PLC, Close Brothers Group PLC, Nationwide Building Society; lastly we considered Georgia Capital PLC and TBC Bank Group PLC, Georgian companies which are also UK-listed, to be our foremost peers.

The delayed receipt of the majority of salary and of all the performance-based remuneration (in shares vesting across several years) means that the time value of money and also the risk of salary and performance-based remuneration not vesting (due to malus but also to shares lapsing in the event of early termination under certain circumstances) were factored in. The Remuneration Committee also noted that the CEO's remuneration package is in line with our closest competitor, TBC Bank Group PLC.

Further details of fixed and discretionary deferred share compensation granted during 2020 (audited)
The following table sets out details of the nil-cost options over BOGG shares which have been granted to Mr Gachechiladze in 2020.

	Deferred share salary	Discretionary deferred share remuneration
Number of underlying shares and basis on which award was made	75,000 granted on the basis of the 2019 Policy available at https://www.bankofgeorgiagroup.com/governance/documents	86,460 granted on the basis of the 2019 Policy available at https://www.bankofgeorgiagroup.com/governance/documents
Type of interest	Nil-cost option	Nil-cost option
Cost to Group	US$ 1,381,425[1]	US$ 1,724,012[2]
Face value	US$ 1,381,425[1] Cash payments equal to the dividends paid on the underlying shares will be made upon vesting (if applicable).	US$ 1,724,012[2] Cash payments equal to the dividends paid on the underlying shares will be made upon vesting (if applicable).
Percentage of award receivable if minimum performance achieved	100% of the award will be receivable, since the award is part of salary set out in the service contract and accordingly is not subject to performance measures or targets over the vesting period.	100% of the award will be receivable, since the award is based on 2019 performance (and is not LTIP award) and accordingly is not subject to performance measures or targets over the vesting period.
Exercise price	Nil. The options form part of the Executive Director's salary under the policy and so no payment is required upon exercise. There has been no change in exercise price.	Nil. The options make up the entirety of the Executive Director's performance-based remuneration and so no payment is required upon exercise. There has been no change in exercise price.
Vesting period	25% in each of 2022, 2023, 2024 and 2025.	40% in 2022 and 60% in 2023. Each tranche is subject to a two year holding period.
Performance measures	None. See the 2019 Policy available at https://www.bankofgeorgiagroup.com/governance/documents	See the 2019 Policy available at https://www.bankofgeorgiagroup.com/governance/documents

Notes:
1 Figures calculated as described in Note 2 to the single total figure of remuneration for the Executive Director.
2 Figures calculated as described in Note 6 to the single total figure of remuneration for the Executive Director.

Single total figure of remuneration for Non-Executive Directors (audited)
The table below sets out the remuneration received by each Non-Executive Director in 2019 and 2020.

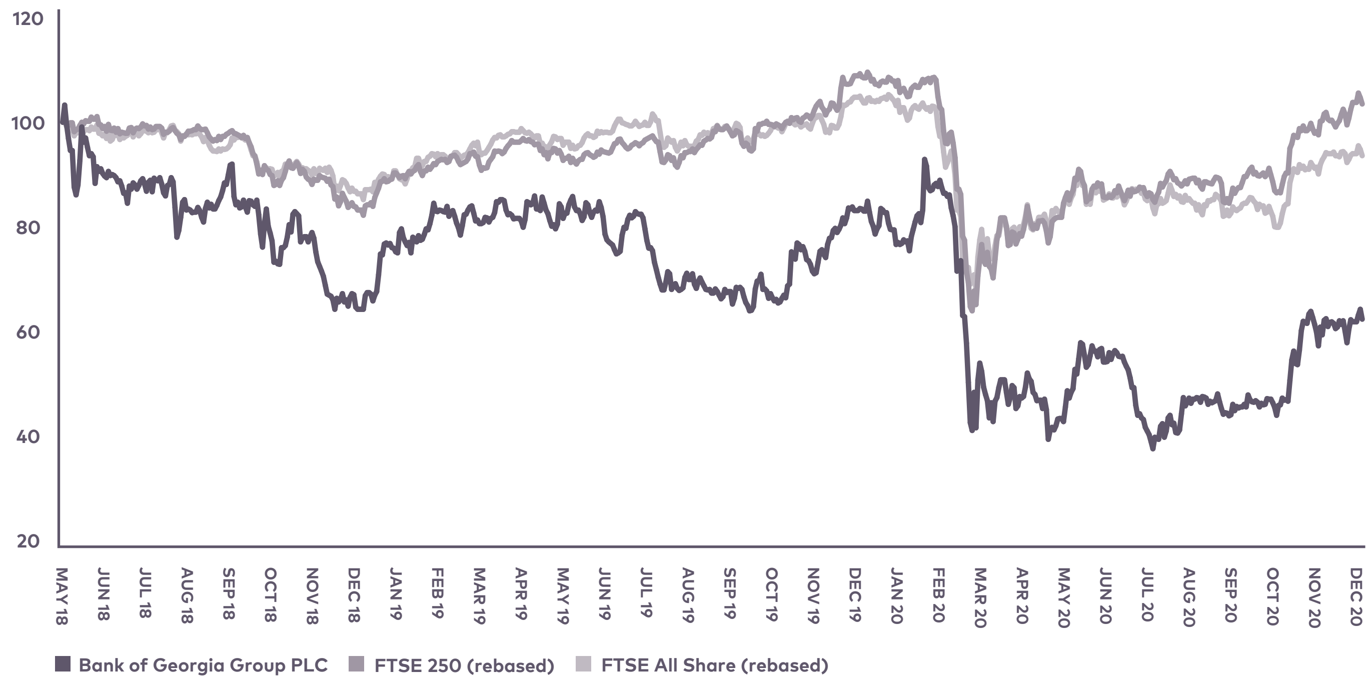
	Bank of Georgia Group PLC fees (US$)		JSC Bank of Georgia fees (US$)		Total fees (US$)	
	2020	2019	**2020**	2019	**2020**	2019
Neil Janin	**103,587**	103,587	**210,313**	210,313	**313,900**	313,900
Alasdair Breach	**55,671**	57,389	**99,411**	100,479	**155,082**	157,868
Tamaz Georgadze	**55,502**	56,420	**104,964**	104,964	**160,466**	161,384
Hanna Loikkanen	**69,317**	64,686	**126,002**	118,632	**195,319**	183,318
Véronique McCarroll	**46,835**	47,753	**87,631**	77,720	**134,466**	125,473
Jonathan Muir	**53,405**	54,323	**96,391**	96,391	**149,796**	150,714
Cecil Quillen	**56,471**	57,389	**100,479**	100,479	**156,950**	157,868
Andreas Wolf	**4,158**	50,819	**7,643**	91,719	**11,801**	142,538
TOTAL	**444,946**	492,366	**832,834**	900,697	**1,277,780**	1,393,063

Notes:
1 Hanna Loikkanen was appointed to the Remuneration Committee on 20 September 2019 and as the Chair of the Remuneration Committee on 26 September 2020.
2 Al Breach stepped down as the Chair of the Remuneration Committee on 26 September 2020 but remained as a member of the Remuneration Committee.
3 Andreas Wolf stepped down from the Board of Directors on 31 January 2020.
4 Véronique McCarroll was appointed to the JSC Bank of Georgia board on 11 February 2019.
5 The maximum amount for the PLC base fees, including the Chairman, as provided for in BOGG PLC's Articles of Association, is GBP 750,000. This does not affect the JSC fees.

Payments to former Directors and payments for loss of office
No payments were made to former Directors or in respect of loss of office during the year ended 31 December 2020.

Total Shareholder Return
Bank of Georgia Group PLC TSR vs. the FTSE indices TSR

We note that given the demerger and the creation of two separate businesses with separate listed shares, it is not possible to compare a three-year TSR against other companies. The following graph compares the Total Shareholder Return (TSR) of Bank of Georgia Group PLC with the companies comprising the FTSE 250 index and the FTSE All Share index for the period since BOGG's listing on the Premium segment of the LSE on 21 May 2018 until 31 December 2020.



Directors' Remuneration Report continued

Relative importance of spend on pay

The following table shows the difference in remuneration paid to all employees of the Group between 2019 and 2020 as well as the difference in value of distribution paid to shareholders by way of dividends between 2019 and 2020.

	Remuneration paid to all employees of the Group	Distributions to shareholders by way of dividends
Years ended 31 December 2020 (US$) (dividend paid for 2019)	79,209,705	0
Years ended 31 December 2019 (US$) (dividend paid in 2018)	95,791,231	43,137,357
Percentage change	-17.3%	-100%

Notes:
1 Due to the level of uncertainty with regard to the global impact of COVID-19 and the potential length of time of that impact, the Group did not distribute 2019 dividends to shareholders in 2020. In March 2020 the Board took the decision not to recommend a dividend to shareholders for the 2019 financial year, recognising the ongoing uncertainty and challenges raised by the COVID-19 pandemic. The Group reconfirmed in the first quarter results that there would not be a dividend and that as part of the NBG's COVID-19 supervisory plan, during the period that banks partially or fully utilise Pillar 2 or conservation buffers, they are restricted from any form of capital distribution.
2 The Company did not make any other significant distributions in 2019.

Directors' interests in shares (audited)

The following table sets out the respective holdings of the Company's shares of each Director as at 31 December 2019 and 2020.

	As at 31 December 2019				As at 31 December 2020			
	Number of BOGG shares held directly	Number of vested but unexercised BOGG shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)	Number of unvested and unexercised held under option BOGG shares through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)	Total number of interests in BOGG shares	**Number of BOGG shares held directly**	**Number of vested but unexercised BOGG shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)**	**Number of unvested and unexercised held under option BOGG shares through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)**	**Total number of interests in BOGG shares**
Neil Janin[1]	32,880	N/A	N/A	32,880	**32,880**	**N/A**	**N/A**	**32,880**
Archil Gachechiladze[2]	140,266	N/A	69,247	209,513	**140,266**	**N/A**	**230,707**	**370,973**
Alasdair Breach[3]	24,000	N/A	N/A	24,000	**30,000**	**N/A**	**N/A**	**30,000**
Tamaz Georgadze	5,000	N/A	N/A	5,000	**5,000**	**N/A**	**N/A**	**5,000**
Hanna Loikkanen	800	N/A	N/A	800	**–**	**N/A**	**N/A**	**–**
Véronique McCarroll	–	N/A	N/A	–	**–**	**N/A**	**N/A**	**–**
Jonathan Muir	–	N/A	N/A	–	**–**	**N/A**	**N/A**	**–**
Cecil Quillen	–	N/A	N/A	–	**–**	**N/A**	**N/A**	**–**
Andreas Wolf	–	N/A	N/A	–	**–**	**N/A**	**N/A**	**–**

Notes:
1 At 2020 year-end, NeilCo Ltd, a company wholly owned by Mr Janin, held 7,000 BOGG shares. This is not included in table.
2 In early 2021, Mr Gachechiladze was granted 75,000 nil-cost options in respect of deferred salary shares for the 2021 work year. This is not included in the table, which is as at 31 December 2020. As at 26 March 2021, Mr Gachechiladze's total number of interests in BOGG shares is 445,973.
3 At 2020 year-end, Gemstock Fund, which Mr Breach manages, held 20,000 BOGG shares. This is not included in the table.

As at 31 December 2020, Mr Gachechiladze's vested and unvested shareholding was 370,973 shares, representing approximately 0.8% of the share capital of BOGG. Mr Gachechiladze's connected persons do not have any interests in the shares of the Company.

The Policy is heavily weighted towards remuneration in deferred salary shares and discretionary compensation in deferred shares. The Policy and the long vesting periods, even for salary shares, naturally results in the Executive Director and our Executive Management Team holding a significant number of unvested shares and achieves a delay between performance and vesting. This is reinforced even further by formal guidelines on shareholding and on post-employment in the Remuneration Policy (200% of total salary to be built up within five years). Further, Mr. Gachechiladze is contractually bound to hold this level for two years post-employment.

As at 31 December 2020, Mr Gachechiladze met the shareholding requirement.

There are no shareholding requirements for Non-Executive Directors. Notwithstanding this, some Non-Executive Directors have chosen to become shareholders. There have been no changes in the current Directors' interests in shares in the Company between the end of the financial year and 26 March 2021, with the exception of Mr Gachechiladze. Non-Executive Directors are not awarded incentive shares.

Details of Non-Executive Directors' terms of appointment

The Company has entered into letters of appointment with each Non-Executive Director. The letters of appointment require Non-Executive Directors to provide one month's notice prior to termination. The letters of appointment for the majority of current Non-Executive Directors are effective from 24 February 2018, with Véronique McCarroll's letter of appointment being effective from 1 October 2018 and Mariam Megvinetukhutsesi's from 12 March 2021. Each Non-Executive Director is put forward for election at each Annual General Meeting following his or her appointment. Continuation of a Non-Executive Director's employment is conditional on his or her continued satisfactory performance and re-election by shareholders at each Annual General Meeting.

A succession plan adopted by the Board provides for a tenure of six years on the Bank of Georgia Group PLC Board. Upon the expiry of such six-year tenure, the Board will consider if the appointment of the relevant Non-Executive Director will generally cease at the next upcoming Annual General Meeting. Notwithstanding the foregoing, if the Board determines that, in order to maintain the balance of appropriate skills and experience required for the Board, it is important to retain a Non-Executive Director on the Board beyond the relevant six-year period, the Board may offer the Non-Executive Director a letter of appointment for an additional one-year term. Such a one-year "reappointment" may be renewed no more than two times, with the effect that the usual six-year tenure may be extended to a maximum of nine years if circumstances were to warrant such extension.

Remuneration Committee effectiveness review

An external review was undertaken by Farman & Partners. See pages 160 to 161 for further details of the overall review and the approach taken, including individual interviews with each Director on the results of their survey. In conclusion, the Remuneration Committee is operating effectively. It was considered to have appropriate terms of reference and the right composition to fulfil its duties. All members of the Board either agreed or strongly agreed that the Board also considered that reporting from the Remuneration Committee to the Board was appropriate in quality and quantity. No particular areas for improvement were noted, although the Board discussed that there had been challenge in reaching wider support on the Remuneration Report. As stated elsewhere in this Report, members of the Remuneration Committee and the Company have engaged with shareholders and stakeholders in 2020 and by using this feedback, this Directors Remuneration Report strives to address this challenge.

Implementation of Remuneration Policy for 2021

Details of how the Policy will be implemented for the 2021 financial year are set out below. The Policy took effect from the date of the 2019 Annual General Meeting and is intended to apply until the date of the Annual General Meeting in 2022.

For Archil Gachechiladze:

Fixed pay

Total cash salary (combined BOGG and Bank)	US$ 370,000
Total deferred share salary (combined BOGG and Bank)	US$ 1,381,425 (75,000 shares calculated in accordance with the price shown at note 2 to the Single total figure of remuneration for the sole Executive Director table on page 190.)
Pension	The Executive Director and the Company each contribute 2% and the Georgian Government contributes between 0-2% of total remuneration from the Bank, all in line with Georgian legislation and the pension arrangements for the Georgian workforce.
Benefits	Details of the benefits received by Executive Directors are on page 204.

There are circumstances in which unvested deferred shares may lapse, and narrow circumstances in which such shares may vest immediately (i.e. when an Executive Director's employment is terminated without cause) and these are set out in the Policy.

Directors' Remuneration Report continued

2021 Discretionary deferred share remuneration

Opportunity	Maximum is 100% of total salary (total cash salary and total deferred share salary as explained in the table and notes to the Policy above).
Deferral terms	The Remuneration Committee will determine whether an award is merited, based on an Executive Director's achievement of the KPIs set for the work year and the performance of the Group during the work year. If Mr Gachechiladze is awarded discretionary deferred shares, the award will vest 40% in the third and 60% in fourth year following the work year. Each tranche will be subject to a further holding period of two years. Upon vesting, Mr Gachechiladze will receive (in addition to the vested shares) cash payments equal to the dividends paid (if any) on the underlying shares between the date the award was made and the vesting date.
Performance measures	The Remuneration Committee has set Mr Gachechiladze's KPIs for 2021: ▪ ROAE ▪ Cost to Income Ratio ▪ Cost of Risk ▪ Profit Before Tax ▪ NPS ▪ eNPS ▪ Developing ESG agenda, in line with the Group's five championed Sustainable Development Goals (SDGs) and with market best practice ▪ Post COVID-19 crisis management Due to the potential impact on our commercial interests, annual bonus targets are considered commercially sensitive and appropriate detail will therefore be disclosed in the 2021 Remuneration Report following the completion of the financial year. KPIs and targets will be reviewed and may be revised by the Remuneration Committee and the Board as appropriate throughout the year, subject to the terms of the Policy. In particular this may be necessary given the impact of and appropriate response to the ongoing COVID-19 pandemic and changing requirements from officials and regulators of the Bank.

See page 205 for malus and clawback, and the Policy available at https://www.bankofgeorgiagroup.com/governance/documents for termination of the Bank service agreement for lapse provisions (natural malus).

For Non-Executive Directors:

The table below shows the fee structure for Non-Executive Directors for 2020. Non-Executive Directors' fees are determined by the Board.

Component	Purpose and link to strategy	Operation	Opportunity
Base cash fee	The fee for the Board is competitive enough to attract and retain individuals. The Chairman receives a fee that reflects the extra time committed and responsibility. The Senior Independent Non-Executive Director receives a higher base fee, which reflects the extra time and responsibility.	Cash payment on a quarterly basis.	The amount of remuneration may be reviewed from time to time by the Board. The fees may also be amended and varied if there are genuinely unforeseen and exceptional circumstances which necessitate such review and, in such circumstances, any significant increase shall be the minimum reasonably required. The maximum aggregate BOGG PLC fees for all Non-Executive Directors which may be paid by the PLC itself is GBP 750,000, which is consistent with the PLC's Articles of Association.
Cash fee for each Committee membership	Additional fee to compensate for additional time spent discharging Committee duties.	Cash payment on a quarterly basis.	The amount of remuneration for the membership may be reviewed from time to time by the Board. The Chairman does not receive Committee fees.

Directors' Remuneration Report continued

Summary of Directors' Remuneration Policy

The Remuneration Policy was approved at the AGM on 17 May 2019 and took effect from that date. It is intended that approval of the Remuneration Policy will be sought at three-year intervals, unless amendments to the Policy are required, in which case further shareholder approval will be sought; no changes are proposed for 2020. The full Policy is set out in the 2018 Annual Report on pages 131 to 141 available at https://www.bankofgeorgiagroup.com/reports/annual and is also available at https://www.bankofgeorgiagroup.com/governance/documents.

The tables in this section provide a summary of the Directors' Remuneration Policy.

Remuneration Policy table for Executive Directors

Cash salary	**Purpose and link to strategy** Cash salary reflects the role and required duties, skills, experience and individual contribution to the Group, and to encourage commitment to the Group and to recruit and retain high-calibre talent. **Operation** The level of cash salary is fixed in the Executive Director's service agreements. The level of salary is reviewed when a service agreement is up for renewal or if there is a significant change in circumstances, and the Executive Director and Remuneration Committee agree to consequent changes in their agreements.	**Opportunity** The level of cash salary in the Executive Directors' service agreements will be no more than the Remuneration Committee considers reasonable, based on his or her duties, skills and experience. The total amount payable to the current CEO and Executive Director, Mr Gachechiladze, is US$ 370,000 per annum. **Performance measures** N/A
Deferred share salary	**Purpose and link to strategy** To closely align the Executive Directors' and shareholders' interests, and to promote long-term value creation and share price growth. **Operation** Deferred share salary is awarded annually in the form of nil-cost options in respect of the work year, and vest over five years from the start of the year in which the salary is earned as follows: 25% will vest on each of the second, third, fourth and fifth anniversary of the start of the work year. Upon vesting, the Executive Director also receives cash payments equal to the dividends paid on the underlying shares between the date the award was made and the vesting date. Lapse provisions (natural malus) are built into the deferred share salary. Extended malus and clawback provisions do not apply to the deferred share salary as the awards attach to salary already earned.	**Opportunity** The maximum award is fixed to 75,000 nil-cost options. The Remuneration Committee has the discretion to change the split of total salary between the cash salary and the deferred share salary. **Performance measures** N/A
Discretionary deferred shares	**Purpose and link to strategy** In the context of overall Group performance, to motivate and reward an Executive Director in relation to his or her contribution to the achievement of the KPIs set for him or her by the Remuneration Committee towards the beginning of the year. Performance-based remuneration is solely in the form of deferred shares (no cash), designed to closely align the interests of an Executive Director with shareholders, avoid inappropriate risk-taking for short-term gain and encourage long-term commitment to the Group. **Operation** The Remuneration Committee will determine annually the number of shares to be awarded, based on the Executive Director's achievement of his/her KPIs set for the work year and the performance of the Group during that year. Awards are made annually entirely in the form of nil-cost options over shares based on performance against the targets. There is no contractual right to discretionary deferred shares and the Remuneration Committee reserves the right to award no discretionary deferred share remuneration if the Group's performance is unsatisfactory. Discretionary deferred shares will vest 40% on the third and 60% on the fourth anniversary of the start of the work year. Each tranche is subject to a further holding period of two years. Upon vesting, the Executive Director also receives cash payments equal to the dividends paid on the underlying shares between the date the award was made and the vesting date. Extended malus and clawback, in addition to lapse provisions (natural malus) apply.	**Opportunity** The maximum number of discretionary deferred shares that may be awarded in respect of the previous work year is capped at 100% of total salary (i.e. cash and deferred share salary). The cash salary is calculated as set out in the notes to the Policy table approved at the 2019 AGM. **Performance measures** KPIs for the Executive Director are set near the start of each work year and reflect the Executive Director's targeted contribution to the Group's overall key strategic and financial objectives for the work year. KPIs may also include non-tangible factors such as self-development, mentoring and social responsibility. If appropriate, where a strategic change or change in business circumstances has made one or more of the KPIs an inaccurate gauge of the Executive Director's performance, the Remuneration Committee may decide to base its assessment on alternative measures. The Remuneration Committee also has the discretion to consider the performance of the individual and the Group as a whole.
Pension	**Purpose and link to strategy** The Group complies with pension requirements set by the Georgian Government. **Operation** Pension provision will be in line with Georgian pension legislation, which may change from time to time. There is no provision for the recovery or withholding of pension payments.	**Opportunity** In line with current Georgian legislation, the Executive Director and the Bank each contribute 2% of total remuneration from the Bank, and the Georgian Government may contribute a further small amount (0-2% depending on income levels). Pension contributions will only increase above this level if mandated by Georgian legislation or if mandated by any other applicable legislation. The same arrangement applies to employees across the Group in Georgia. **Performance measures** N/A

Benefits	**Purpose and link to strategy** Non-cash benefits are in line with Georgian market practice and are designed to be sufficient to attract and retain high-calibre talent. **Operation** Benefits consist of: life insurance; health insurance; incapacity/disability insurance; directors' and officers' liability insurance; physical examinations; tax gross-ups and tax equalisation payments; company car and driver; mobile phone costs; personal security arrangements (if requested by the Executive Director); assistance with completing tax returns (where required); relocation costs for Executive Director and close family and legal costs. Other benefits may be provided from time to time if considered reasonable and appropriate.	**Opportunity** There is no prescribed maximum on the value of benefits payable to an Executive Director. The maximum amount payable depends on the cost of providing such benefits to an employee in the location at which the Executive Director is based. **Performance measures** N/A
Shareholding guidelines	**Purpose and link to strategy** To ensure Executive Directors build and hold a significant shareholding in the Group over the long term, and to align Executive Directors' interests with those of shareholders. To ensure departing Executive Directors make long-term decisions and maintain an interest in the ongoing success of the Group, post-employment. **Operation** Executive Directors are required to build and then maintain a shareholding with 200% equivalent of total salary (i.e. cash and deferred share salary), such amount to be built up within a five-year period from appointment as an Executive Director. All beneficially owned shares, as well as unvested (net of tax) and vested deferred share salary and discretionary deferred shares, count towards the Required Shareholding (as such awards are not subject to any performance conditions after grant). Executive Directors are to retain the lower of the Required Shareholding or the Executive Director's actual shareholding at the time employment ceases, for a period of two years from the date on which employment ceases unless the Remuneration Committee determines otherwise. It is noted that a good leaver may hold substantially higher than this in unvested shares alone. In very exceptional circumstances, for example in the event of a serious conflict of interest, the Remuneration Committee has the discretion to vary or waive the Required Shareholding, but must explain any exercise of its discretion in the Group's next Remuneration Report. It should be emphasised that there is no present intention to use this discretion.	**Opportunity** N/A **Performance measures** N/A

Malus and clawback

Malus and clawback provisions apply to discretionary deferred shares in the following circumstances:

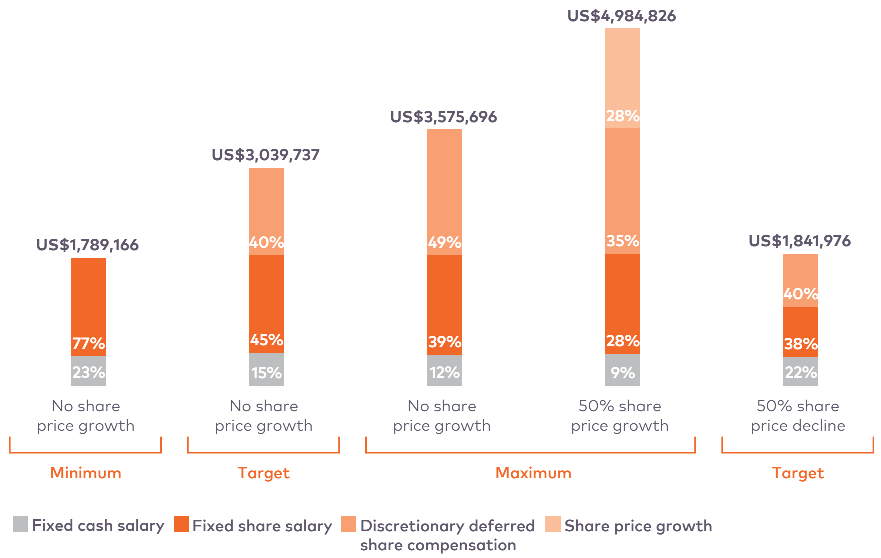
- misconduct in the performance or substantial failure to perform duties by the Executive;
- significant financial losses, serious failure of risk management or serious damage to the reputation of BOGG or the Bank caused by misconduct or gross negligence (including inaction) of the Executive;
- material misstatement or material errors in the financial statements that relate to the area of responsibility of the Executive or can be attributed to action or inaction of the Executive's performance of their duties;
- deliberately misleading BOGG or the Bank in relation to financial performance;
- failure to continue to meet the fitness and properness criteria for an Executive of the Bank;
- material increase with respect to the required regulatory capital of the Bank that can be attributed to the action or inaction of the Executive;
- misconduct that contributed to the imposition of material regulatory or other similar sanctions; and
- payments based on erroneous or misleading data, for which malus and clawback apply to discretionary deferred remuneration for awarded for the year in question.

Illustration of application of Remuneration Policy

The chart below shows the remuneration that Mr Gachechiladze, our sole Executive Director, could receive in respect of 2020 under the Policy at three different performance levels.

The 50% share price appreciation disclosure is made voluntarily by the Group (as performance measures are limited to one year) for investor information.

This is an extract from the Policy as released in 2019.



Notes:

1 Salary comprises cash and deferred salary shares. Mr Gachechiladze's total cash salary in 2020 in respect of his service agreement with the Group would be US$ 370,000 (noting the chart represents a full year's salary for illustration purposes). The value of the deferred share salary payable would be US$ 1,381,500 calculated by reference to the closing share price of BOGG on 8 January 2019, the day before the Remuneration Committee meeting, being US$ 18.419 per share (the official share price of GBP 14.468 per share converted into Dollars using an exchange rate of 1.2731, being the official exchange rate published by the Bank of England on the same date). Deferred share salary in respect of 2020 was granted on 2 January 2020 and will vest over five years from the start of the year in which it is earned as follows: 25% will vest in January 2022, 2023, 2024 and 2025. For the purpose of this chart, we have added the value of pension and benefits to cash salary.

2 The means of determining the number of shares underlying the discretionary deferred share remuneration and terms and conditions applicable to this remuneration are described in the Policy table set out in the 2018 Annual Report on pages 131 to 141 which is available at: https://www.bankofgeorgiagroup.com/reports/annual. Discretionary deferred shares in respect of 2020 will be formally granted in 2021 and will vest 40% in January 2023 and 60% in January 2024, and each tranche will be subject to a further two-year holding period following vesting.

3 Minimum opportunity reflects a scenario whereby Mr Gachechiladze receives only fixed remuneration which is salary (cash and deferred share salary), pension contributions and benefits, and the Remuneration Committee considers that the Group's and/or Mr Gachechiladze's performance in 2020 does not warrant any award of discretionary deferred shares.

4 On-target opportunity reflects a scenario whereby Mr Gachechiladze receives fixed remuneration (as described in 3. above) and discretionary deferred shares with a value of US$ 1,226,050, being 70% of the maximum opportunity (as described in 5. below). In this scenario, the Remuneration Committee considers that the Group's and Mr Gachechiladze's performance in 2020 are in line with the Group's expectations.

5 Maximum opportunity reflects a scenario whereby Mr Gachechiladze receives fixed remuneration (as described in 3. above) and discretionary deferred shares with a value of US$ 1,751,500, being 100% of total salary (i.e. cash and deferred share salary). In this scenario, the Remuneration Committee considers that the Group's and Mr Gachechiladze's performance in 2020 warrant the highest possible level of discretionary deferred share remuneration.

6 The Group made a voluntary disclosure of 50% share price appreciation at the maximum opportunity for illustrative purposes. The calculations were based on the share price increasing from US$ 18.419 per share (the share price on 8 January 2019).

7 The Group made a disclosure of 50% share price depreciation at the on-target opportunity for illustrative purposes. The calculations were based on the share price decreasing from US$ 18.419 per share (the share price on 8 January 2019).

8 For long-term incentive awards, disclosure of the value of the award in the event of a 50% share price appreciation is required by the Companies (Miscellaneous Reporting) Regulations 2018. Such disclosure is not required for short-term incentive awards, such as those made by the Group, where performance measures are limited to one year, nor is it required for salary compensation in the form of shares. The reason for this is that an increase in the value of the deferred shares resulting from share price appreciation in the period through to the vesting date is not considered to constitute remuneration for the purposes of the regulations. However, the Group has decided to voluntarily disclose information showing the value of a 50% increase in the share price for the investor.

Directors' Remuneration Report continued

Remuneration Policy table for the Non-Executive Directors

Chairman's and Non-Executive Directors' fees	**Purpose and link to strategy** To attract and retain high-performing Non-Executive Directors with the requisite skills, knowledge, experience, independence and other attribute to add value to the Group. To reflect the responsibilities of time commitment dedicated by Non-Executive Directors. **Operation** All fees are paid in cash on a quarterly basis. Fees may be reviewed from time to time by the Board (but not necessarily changed), taking into account the time commitment, responsibilities and the technical skills required to make a valuable contribution to the Board, and by reference to comparators, benchmarking, results of the annual review and other guidance. The fees may also be amended and varied if there are genuinely unforeseen and exceptional circumstances which necessitate such review and, in such circumstances, any significant increase shall be the minimum reasonably required. The Board reserves the right to structure the Non-Executive Directors' fee differently in its absolute discretion. Non-Executive Directors receive a base fee. Additional Committee fees are payable to compensate for time spent discharging Bank duties and Committee duties. There is no remuneration in the form of deferred share salary or discretionary deferred shares, pension contributions, benefits or any variable or performance-linked remuneration or incentives. Non-Executive Directors are reimbursed for reasonable business expenses, including travel and accommodation, which are incurred in the course of carrying out duties under their letters of appointment, on provision of valid receipts.	**Opportunity** The maximum aggregate BOGG PLC fees for all Non-Executive Directors which may be paid for PLC fees under the PLC's Articles of Association is GBP 750,000. A specific maximum has not been set for the individual base cash fee. The Senior Independent Non-Executive Director receives a higher base fee, which reflects the extra time commitment and responsibility. The Chairman receives a fee that reflects the extra time commitment and responsibility. The Chairman does not receive Committee fees. **Performance measures** N/A

Service agreements
Mr Gachechiladze is the sole Executive Director of the Company. Mr Gachechiladze has a service agreement effective 28 January 2019 with BOGG for an indefinite term (subject to re-election at the AGM) which is terminable by either party on four months' notice unless for cause where notice is served by BOGG shall have immediate effect.

Mr Gachechiladze also has a service agreement with JSC Bank of Georgia effective 28 January 2019 for an employment term of five years, which is terminable by the Company with immediate effect and by the Executive on not less than four months' notice.

Non-Executive Directors' letters of appointments
Each Non-Executive Director is required to submit himself or herself for annual re-election at the AGM. The letters of appointment for Non-Executive Directors provide for a one-month notice period, although the Group may terminate the appointment with immediate effect without notice or pay in lieu of notice if the Non-Executive Director has committed any serious breach or non-observance of his or her obligations to the Group, is guilty of fraud or dishonesty, brings the Company or him/herself into disrepute or is disqualified as acting as a Non-Executive Director, among other circumstances.

The service agreements and letters of appointment are available for inspection at the Company's registered office.

Signed on behalf of the Board of Directors

Hanna Loikkanen
Chair of the Remuneration Committee
30 March 2021

Statement Of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the consolidated and separate financial statements in accordance with applicable law and regulations.

Company law requires us to prepare financial statements for each financial year. As required, we have prepared the accompanying consolidated and separate statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

We must not approve the accompanying consolidated and separate financial statements unless we are satisfied that they give a true and fair view of the state of affairs of the Group and the Bank of Georgia Group PLC (the "Company") and of the profit or loss of the Group and the Company for that period.

Under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules, group financial statements are required to be prepared in accordance with International Financial Reporting Standards (IFRS) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In preparing the accompanying consolidated and separate financial statements, we are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- in respect of the group financial statements, state whether international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

We are also responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions, to disclose with reasonable accuracy at any time the financial position of the Company and the Group, and to enable us to ensure that the consolidated and separate financial statements comply with the Companies Act 2006. We are responsible for such internal control as we determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to us to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, we are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that each comply with that law and those regulations.

We are also responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- the consolidated and separate financial statements, prepared in accordance with the international accounting standards in conformity with the Companies Act 2006 and IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group taken as a whole; and
- the Annual Report, including the Strategic Report, includes a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that they face.

We consider that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and gives shareholders the information needed to assess the Group's position and performance, business model and strategy.

By order of the Board

Neil Janin
Chairman
30 March 2021

Archil Gachechiladze
CEO
30 March 2021

Directors' Report

The Directors present their Annual Report and the audited consolidated financial statements for the year ended 31 December 2020.

Strategic Report
The Strategic Report on pages 1 to 149 was approved by the Board of Directors on 30 March 2021 and signed on its behalf by Archil Gachechiladze, Chief Executive Officer.

Management Report
This Directors' Report, together with the Strategic Report on pages 1 to 149, forms the Management Report for the basis of DTR 4.1.5 R.

Information contained elsewhere in the Annual Report
Information required to be included in this Directors' Report can be found elsewhere in the Annual Report as indicated in the table below and is incorporated into this report by reference:

Information	Location in Annual Report
Future Developments	pages 1 to 149
Going Concern Statement	page 100
Viability Statement	page 100
Risk Management	pages 74 to 85
Principal Risks and Uncertainties	pages 86 to 99
Directors' Governance Statement	pages 150 to 161
The Board of Directors	pages 162 to 165
Nomination Committee Report	pages 170 to 175
Audit Committee Report	pages 176 to 182
Risk Committee Report	pages 183 to 185
Greenhouse Gas Emissions	pages 128 to 129
Employee Matters	pages 112 to 120
Environmental Matters	pages 124 to 130
Share Capital	Note 19 on page 305
Information on the Group's financial risk management objectives and policies, and its exposure to credit risk, foreign currency risk and financial instruments	Note 26 on pages 313 to 331

Articles of Association
The Articles of Association of the Bank of the Georgia Group PLC (the "Company") may only be amended by a special resolution at a general meeting of the shareholders. The process for the appointment and removal of Directors is included in our Articles of Association. The Bank of Georgia Group Articles of Association are available on the Company's website: https://www.bankofgeorgiagroup.com/governance/documents.

Share capital and rights attaching to the shares
Details of the movements in share capital during the year are provided in Note 19 to the consolidated financial statements on page 305 of this Annual Report.

As at the date of this Annual Report there was a single class of 49,169,428 ordinary shares of one pence each in issue, each with one vote. The rights and obligations attaching to the Company's ordinary shares are set out in its Articles of Association. Holders of ordinary shares are entitled, subject to any applicable law and the Company's Articles of Association, to:

- have shareholder documents made available to them including notice of any general meeting;
- attend, speak and exercise voting rights at general meetings, either in person or by proxy; and
- participate in any distribution of income or capital.

Under the terms of a demerger agreement between the Company and Georgia Capital PLC, Georgia Capital PLC has agreed that for so long as its percentage holding in the Company (directly or indirectly) is greater than 9.9% of the voting rights exercisable at the Company's general meetings, these voting rights will be exercised in general meetings of the Company in accordance with votes cast by all other shareholders of the Company. This agreement was put in place to ensure that Georgia Capital PLC will not be able to influence the voting outcomes of the Company's shareholder resolutions at general meetings. Votes will be made in accordance with the Proportional Voting Mechanism, as defined in the Company's Articles of Association:

- on a resolution proposed to a general meeting, all shareholders of the Company (other than JSC Georgia Capital and its concert parties) will be entitled to vote their shares at their discretion on a poll vote (each an "Initial Vote"); and
- following the closing of the Initial Vote(s), the poll will as soon as possible thereafter reopen for the sole purpose of enabling the shares held by JSC Georgia Capital (or its concert parties) to be voted in each

Directors' Report continued

case proportionally (calculated to two decimal places) in accordance with the votes cast on each resolution on an Initial Vote (the "Proportional Voting Mechanism").

There are no other restrictions on exercising voting rights, except in situations where the Company is legally entitled to impose such a restriction (for example, under the Articles of Association where amounts remain unpaid in the shares after request, or the holder is otherwise in default of an obligation to the Company).

The Company is not aware of any arrangements between shareholders that may result in restrictions on the transfer of securities or voting rights.

The Company is permitted to make market purchases of its own shares provided it is duly authorised by its members in a general meeting and subject to and in accordance with section 701 of the Companies Act 2006. Authority was given by special resolution at the Annual General Meeting ("AGM") of the Company on 18 May 2020 for the Group to purchase up to 4,916,943 shares (approximately 10%) of the Group's shares. This authority will expire at the conclusion of the Company's AGM in 2021 or, if earlier, the close of business on 18 June 2021.

A renewal of the authority to make market purchases will be sought from shareholders at each AGM of the Company. Purchases of Ordinary Shares will be made within guidelines established from time to time by the Board. Any purchase of Ordinary Shares would be made only out of the available cash resources of the Company. Ordinary Shares purchased by the Company may be held in treasury or cancelled.

During 2020, Sanne Fiduciary Services Limited, acting as a trustee of the BOG Group Employee Trust, purchased 234,563 shares representing 0.5% of the issued share capital as at 31 December 2020. Sanne Fiduciary Services Limited, acting as a trustee of the Rubicon Executive Equity Compensation Trust, did not purchase shares during 2020. The trusts hold the shares for the purpose of satisfying awards to be awarded to beneficiaries of the trusts.

At the 2020 AGM, the Directors were given the power to (a) allot shares up to a maximum nominal amount of GBP 163,898.09 representing approximately one third of the Company's issued share capital as at 16 March 2020, and (b) to allot equity securities up to an aggregate nominal amount of GBP 163,898.09, in connection with an offer by way of a rights issue: (i) to holders of shares in proportion (as nearly as may be practicable) to their existing holdings; and (ii) to holders of other equity securities as required by the rights of those securities or, if the Directors consider it necessary, as permitted by the rights of those securities, such amount to be reduced by the aggregate nominal amount of shares allotted or rights to subscribe for or to convert any securities into shares granted under paragraph (a), and subject to the Directors having the right to make such exclusions or other arrangements as they may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or legal, regulatory or practical problems in, or under the laws of, any territory. These authorities will expire at the conclusion of the 2021 AGM (or, if earlier, at the close of business on 18 August 2021) and approval will be sought at that meeting to renew a similar authority for a further year.

None of the ordinary shares carry any special rights with regard to control of the Company.

There are no restrictions on transfers of shares other than:

- certain restrictions which may from time to time be imposed by laws or regulations such as those relating to insider dealing or pursuant to the Company's Inside Information Disclosure Policy;
- pursuant to the Company's Securities Dealing Policy and Code, whereby the Directors and designated employees require approval to deal in the Company's shares or cannot deal at certain times; and
- where a person with an interest in the Company's shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares.

Results and dividends

The Group made a profit before taxation of GEL 316.5 million for the year ended 31 December 2020. The Group's profit after taxation for the year was GEL 294.9 million.

The Company may by ordinary resolution declare dividends provided that no such dividend shall exceed the amount recommended by the Company's Directors. The Directors may also pay such interim dividends as appear to be justified by the profits of the Group available for distribution. As Bank of Georgia Group PLC is a holding company, the Group relies primarily on dividends and other statutorily (if any) and contractually permissible payments from its subsidiaries to generate the funds necessary to meet its obligations and pay dividends to its shareholders.

The Company's dividend policy is a targeted payout of 25-40% of the Company's profits on an annual basis. However resumption of dividends depends on the new capital requirements schedule to be released by the NBG.

Equity Settled Option Plan ("ESOP")

The Group operates two employee benefit trusts (EBT), one for Executive Management, and the other for employees below the executive level (the "ESOPs"), which hold ordinary shares on trust for the benefit of employees and former employees of the Group, and their dependants, and which are used in conjunction with the Group's employee share schemes. Whilst ordinary shares are held in the EBT, the voting rights in respect of these ordinary shares may be exercised by the trustees of the EBT.

In accordance with the ESOP documentation, Sanne Fiduciary Services Limited has waived its right to receive any dividends. This waiver will remain in place indefinitely, unless otherwise instructed by the Company. The Company has committed that new shares issued in satisfaction of deferred share compensation from the time of the Company's listing on the premium segment of the London Stock Exchange ("LSE") will not exceed 10% of Bank of Georgia Group PLC's ordinary share capital over any ten-year period.

Powers of Directors

The Directors may exercise all powers of the Company subject to applicable legislation and regulations and the Company's Articles of Association.

Conflicts of interest

In accordance with the Companies Act 2006, the Directors have adopted a policy and procedure for the disclosure and authorisation (if appropriate) of conflicts of interest, and these have been followed during 2020. The Company's Articles of Association also contain provisions to allow the Directors to authorise potential conflicts of interest so that a Director is not in breach of his or her duty under company law.

Directors' remuneration

Directors' fees are determined by the Remuneration Committee from time to time. The remuneration of Directors' must be in accordance with the Directors' Remuneration Policy, which was last approved by shareholders in 2019. The fees paid to the Non-Executive Directors in 2020 pursuant to their letters of appointment are shown on page 197. The fees paid to our sole Executive Director for the period 1 January 2020 to 31 December 2020 pursuant to his service agreements with Bank of Georgia Group PLC are shown on page 190.

Directors' interests

The Directors' beneficial interests in ordinary shares of Bank of Georgia Group PLC as at 31 December 2020 are shown on page 198 together with any changes in those interests between the financial year-end and the date on which this Directors' Report was approved by the Board.

Company Secretary

The Board appointed Link Company Matters Limited to act as Company Secretary to Bank of Georgia Group PLC in June 2018. Link Company Matters Limited is one of the UK's largest professional services secretarial teams.

Re-election of Directors

In line with the Code's recommendations, all Directors seek re-election every year and accordingly, all Directors who wish to continue on the Board will stand for election or re-election in 2021. The Board has set out in its AGM Notice the qualifications of each Director and support for re-election as applicable.

Annual General Meeting

The AGM Notice is circulated to all shareholders at least 20 working days prior to such meeting. All shareholders are invited to attend the AGM, where there is an opportunity for individual shareholders to question the Chairman and, through him, the Chairs of the principal Board Committees. After the AGM, shareholders can meet informally with the Directors.

As recommended by the Code, all resolutions proposed at the 2021 AGM will be voted on separately and the voting results will be announced to the LSE and made available on the Company's website as soon as practicable after the meeting. These will include all votes cast for and against and those withheld, together with all proxies lodged prior to the meeting. In the event that 20% or more of votes have been cast against a resolution, an explanation will be provided in the announcement to the LSE of the actions the Company will be taking to address shareholder's concerns. A follow up announcement would then be made within six months of the AGM regarding feedback received from shareholders and any subsequent actions taken by the Company.

See page 349 for further Shareholder Information and pages 159 to 160 for further information on shareholder and stakeholder engagement.

UK Bribery Act 2010 (the "Bribery Act")

The Board stands firmly against bribery and corruption and is committed to the Group acting in an ethical manner. To support this, and in response to this legislation, the Group has implemented and enforces its Anti-Bribery and Anti-Corruption Policy. The Board attaches the utmost importance to the Policy and its systems. The Company has also introduced a whistleblowing system, including an anonymous and externally operated helpline, under its Whistleblowing Policy. Further information on the implementation of these policies is set out in the Responsible Business section of this Report on page 112.

Directors' responsibilities

Statements explaining the responsibilities of the Directors for preparing the Annual Report and consolidated and separate financial statements can be found on page 208 of this Annual Report.

A further statement is provided confirming that the Board considers the Annual Report, taken as a whole, to be fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Indemnity

Subject to applicable legislation, every current and former Director or other officer of the Company (other than any person engaged by the Company as auditor) shall be indemnified by the Bank of Georgia Group PLC against (broadly) any liability in relation to Bank of Georgia Group PLC, other than (broadly) any liability to the Company or a member of the Group, or any criminal or regulatory fine. In addition, the Company has put in place Directors' and Officers' indemnity insurance.

Related party disclosures

Details of related party disclosures are set out in Note 29 to the consolidated financial statements on page 341 of this Annual Report.

Significant agreements

The Bank of Georgia Group PLC is not party to any significant agreements that take effect, alter or terminate upon a change of control of the Company. The Company is not aware of any agreements between holders of its ordinary shares that may result in restrictions on the transfer of its ordinary shares or on voting rights.

Directors' Report continued

Presence outside of Georgia
We have our registered office in London: see page 349, and additional offices in Budapest, Istanbul, and Tel Aviv, as well as the BNB Bank in Belarus.

Employee disclosures
Our disclosures relating to the number of women in senior management, employee engagement and our policies on human rights, including employment of disabled persons, are included in the Responsible Business section on pages 112 to 120 and in the Nomination Committee Report on pages 172 to 173.

Political donations
The Group did not make any political donations or expenditure during 2020. Authority to make political donations and incur political expenditure will be put to shareholder vote at the 2021 AGM.

Code of Conduct and Ethics
The Board has adopted a Code of Conduct relating to the lawful and ethical conduct of the business, supported by the Group's core values. The Code of Conduct has been communicated to all Directors and employees, all of whom are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulators in the communities in which the Group operates. Our Code of Conduct is available on our website: https://www.bankofgeorgiagroup.com/governance/documents.

Independent auditors
A resolution to reappoint Ernst & Young LLP as auditor of Bank of Georgia Group PLC will be put to shareholders at the upcoming AGM.

Major interests in shares
The table below lists shareholders with voting rights of more than 3% as at 31 December 2020:

	As of 31 December 2020	
Shareholder	Number of voting rights	% of voting rights
JSC Georgia Capital *	9,784,716	19.9%
Fidelity Investments	3,021,627	6.15%
Harding Loevner LP	2,211,577	4.50%
Van Eck Associates Corporation	1,603,181	3.26%
Dimensional Fund Advisors (DFA) Ltd	1,495,870	3.04%

Source: Georgeson, Computershare

* JSC Georgia Capital will exercise its voting rights at the Group's general meetings in accordance with the votes cast by all other Group Shareholders, as long as JSC Georgia Capital's percentage holding in Bank of Georgia Group PLC is greater than 9.9%.

From the period 1 January 2021 up to and including 26 March 2021, there have been no further notifications to the Company in respect of interest in voting rights.

It should be noted that these holdings are likely to have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed. The respective regulatory filings by shareholders are available on the Company's website: https://bankofgeorgiagroup.com/news/regulatory and the LSE website: https://www.londonstockexchange.com.

Post balance sheet events
Our disclosures relating to post balance sheet events can be found on page 343 of this annual report.

Statement of disclosure of information to the auditor
We confirm that, so far as we are aware, there is no relevant audit information of which the Company's auditor is unaware and we have taken all steps that we reasonably believe should be taken as Directors in order to make ourselves aware of any relevant audit information and to establish that the Company's statutory auditor is aware of such information.

Information to be disclosed in accordance with the Listing Rule 9.8.4R
The following information required to be disclosed in accordance with Listing Rule 9.8.4R is not applicable unless stated otherwise:

- the amount of interest capitalised during the period under review and details of any related tax relief;
- information in relation to the publication of unaudited financial information;
- any arrangements under which a Director has waived emoluments, or agreed to waive any future emoluments, from the Group;
- details of any non-pre-emptive issues of equity for cash by the Group;
- any non-pre-emptive issues of equity for cash by the Group or by any unlisted major subsidiary undertaking;
- parent participation in a placing by a listed subsidiary;
- any contract of significance in which a Director of Bank of Georgia Group is or was materially interested;
- any waiver of dividends by a shareholder; and
- details of any long-term incentive schemes.

The Directors' Report on pages 209 to 213 was approved by the Board of Directors on 30 March 2021 and signed on its behalf:

By order of the Board

Link Company Matters Limited
Company Secretary
30 March 2021

Financial Statements

Independent Auditor's Report to the members of Bank of Georgia Group PLC

Opinion

In our opinion:

- Bank of Georgia Group PLC's Group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No.1606/2002 as it applies in the European Union;
- the parent company financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Bank of Georgia Group PLC (the "parent company") and its subsidiaries (the "group") for the year ended 31 December 2020 which comprise:

Group

- Consolidated statement of financial position as at 31 December 2020
- Consolidated income statement for the year then ended
- Consolidated statement of comprehensive income for the year then ended
- Consolidated statement of changes in equity for the year then ended
- Consolidated statement of cash flows for the year then ended
- Related notes 1 to 31 to the financial statements, including a summary of significant accounting policies

Parent company

- Separate statement of financial position as at 31 December 2020
- Separate statement of changes in equity for the year then ended
- Separate statement of cash flows for the year then ended
- Related notes 1 to 31 to the extent they apply to the Parent Company financial statements, including a summary of significant accounting policies

The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards to the group financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union and as regards the parent company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Independent Auditor's Report to the members of Bank of Georgia Group PLC continued

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

- Evaluated the appropriateness of the management's key assumptions made in the Group's forecasts. In assessing the reasonableness of management's assumptions, we have considered the impact of Covid-19 on the Group and on the Georgian economy, the principal risks and uncertainties, and appropriate mitigating factors.
- Assessed the level of liquidity of the Group to support ongoing requirements and projected compliance with capital requirements and external debt covenants for a period of 12 months from the date of authorisation of the financial statements.
- Evaluated the reasonableness of management's adverse forecast scenarios and associated stress testing, and their impact on the Group's liquidity and capital positions and compliance with external debt covenants.
- Obtained the reverse stress test performed and assessed the plausibility of management actions available to mitigate the impact of the reverse stress test including the ability to refinance debt if required.
- Assessed the adequacy of the going concern disclosures by evaluating whether they were consistent with management's assessment and in compliance with the relevant reporting requirements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for a period of twelve months from when the financial statements are authorised for issue.

In relation to the group and parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	▪ We performed an audit of the complete financial information of three components and audit procedures on specific balances for a further two components. ▪ The components where we performed full or specific audit procedures accounted for 96% of adjusted profit before tax and non-recurring items, 99% of Revenue and 99% of Total assets.
Key audit matters	▪ Allowance for expected credit loss. ▪ Valuation of investment property.
Materiality	▪ Overall group materiality of GEL 20 million which represents 4.5% of adjusted profit before tax and non-recurring items.

An overview of the scope of the parent company and group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each company.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 22 reporting components of the Group, we selected five components covering entities within the UK, Georgia and Belarus, which represent the principal business units within the Group.

The components for which we performed full or specific scope procedures are set out below:

Component	Scope	Location/team
Bank of Georgia Group PLC	Full	London/primary team
BGEO Group Limited	Full	London/primary team
JSC Bank of Georgia	Full	Georgia/primary team
JSC BGEO Group	Specific	Georgia/primary team
JSC BNB	Specific	Belarus/component team

Of the five components selected, we performed an audit of the complete financial information of three components ("full scope components") which were selected based on their size or risk characteristics. For the remaining two components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 96% (2019: 95%) of the Group's Profit before tax and Non-recurring items used to calculate materiality, 99% (2019: 99%) of the Group's Revenue and 99% (2019: 94%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant tested for the Group.

Of the remaining 17 components that together represent 4% of the adjusted Profit before Tax and Non-recurring items, none are individually greater than 1.2% of the Group's adjusted Profit before Tax and Non-recurring items. For these components, we performed other procedures, including analytical review and testing of consolidation journal entries and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

The table below illustrates the coverage obtained from the work we performed:

	2020				2019			
	No.	Revenue	Profit[3]	Total assets	No.	Revenue	Profit[3]	Total assets
Full scope[1]	3	95%	93%	94%	3	95%	91%	94%
Specific scope[2]	2	4%	3%	5%	2	3%	4%	5%
Full and specific scope coverage	5	99%	96%	99%	5	98%	95%	99%
Remaining components	17	1%	4%	1%	19	2%	5%	1%
Total reporting components	22	100%	100%	100%	24	100%	100%	100%

1 We audited the complete financial information.
2 We audited specific account balances within these components. The audit scope of these components may not have included testing of all significant accounts of the components but will have contributed to the coverage of significant accounts tested for the Group.
3 Adjusted Profit from continuing operations before non-recurring items and tax.

Independent Auditor's Report to the members of Bank of Georgia Group PLC continued

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction.

All audit work for the purposes of the Group audit was undertaken by the primary audit engagement team except for JSC BNB which work was undertaken by EY Belarus under our instructions and oversight. For this specific component, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole. This involved regular interaction with the component team where appropriate throughout the course of the audit, maintaining regular communication on the status of the audit, reviewing key working papers and taking responsibility for the scope and direction of the audit process.

The Senior Statutory Auditor is based in the UK, but since the Group management and operations reside in Georgia, the Group audit team operates as an integrated primary team including members from the UK, Georgia, Russia and the CIS.

Our programme of planned visit to Georgia was impacted by the current travel restrictions and other imposed government measures as a result of COVID-19. As part of our alternative procedures, during the current year's audit cycle, we undertook regular video call meetings with the Group's management based in Tbilisi and held frequent video calls with the Georgia-based members of our audit team during the key phases of the audit, to discuss our audit approach, results and any issues arising from our work. We also performed a remote review of working papers through the use of our audit software which facilitates the sharing of audit files across the integrated primary team. The UK members of the audit team maintained an open communication with the Georgian members where appropriate during various stages of the audit and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at the UK level, gave us appropriate evidence for our opinion on the financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Allowance for expected credit loss **Expected credit loss allowance of GEL 448m (2019: GEL 227m)** The allowance for expected credit loss is highly judgemental and changes in assumptions could have a material impact on reported profits. It is calculated using a combination of a collective provisioning model and specific loan provisions. Both collective and specific provisioning depend on a number of assumptions and judgements including: ▪ allocation of loans to stage 1, 2, 3 or POCI using criteria set in accordance with IFRS 9 "Financial Instruments" considering the impact of COVID-19 and related relief measures such as payment deferrals and the identification of significant increase in credit risk (SICR); ▪ accounting interpretations and modelling assumptions used to build and run the models for calculating the expected credit loss (ECL); ▪ inputs and assumptions used to estimate the impact of multiple economic scenarios particularly those influenced by COVID-19, including any changes to scenarios required through 31 December 2020; ▪ appropriateness, completeness and valuation of post model adjustments, including the risk of double-counting the effects of various assumptions; ▪ estimation of probability of default (PD), loss given default (LGD) and exposure at default (EAD), including the valuation of collateral; and ▪ measurement of individually assessed provisions, including expected future cash flows and the valuation of collateral. There are also risks over: ▪ the accuracy and completeness of underlying loan data used in the ECL model; and ▪ the accuracy and adequacy of financial statement disclosures. As a consequence of the judgement involved in establishing the allowance and increased uncertainties in the current year, there is a greater risk of misstatement in ECL charges, either by fraud or error, including through the potential override of controls by management. Refer to the Audit Committee Report (page 178); Accounting policies (243-249 and 257-262); and Note 9 to the financial statements.	▪ We obtained an understanding, performed walkthroughs and evaluated the design and operating effectiveness of key controls across the processes relevant to the ECL. This included controls over data accuracy and completeness, credit monitoring, allocation of borrowers into their respective impairment stages, individual provisioning and production of journal entries and disclosures. ▪ Using our IFRS 9 specialists, we assessed and challenged the Company's IFRS 9 provisioning methodology to determine that the accounting standard had been complied with consistently and any changes made to the methodology were appropriate. ▪ Using our modelling specialists, we tested the assumptions, inputs and formulae used in the ECL model to confirm that the model was consistent with the stated methodology. This included assessing the appropriateness of the model design and formulae used, and recalculating the PD, LGD and EAD on a sample basis. ▪ We also assessed the post-model adjustments which were applied in response to model ineffectiveness and risk event overlays as a result of COVID-19. With our modelling specialists, we considered the completeness and appropriateness of these adjustments by considering the judgement and methodology applied. ▪ We assessed the appropriateness of the macroeconomic scenarios used by management and tested that they had been properly applied in the ECL calculations. ▪ We tested the completeness and accuracy of key data inputs used in the ECL model by reconciling loans and advances between the underlying source systems and the ECL model. ▪ We challenged the criteria used to allocate assets to stage 1, 2, 3 or POCI in accordance with IFRS 9, including any management overlays applied specifically to determine SICR and staging. For a sample of loans, we independently assessed whether they had been allocated to the appropriate stage, considering potential indicators of significant increase in credit risk or default and challenged management as to the rationale for movements between stages. ▪ For a sample of stage 3 credit-impaired loans we evaluated the basis on which the allowance was determined and the evidence supporting the management analysis; independently challenged whether the key assumptions and inputs used, such as recovery strategies, collateral rights and valuations and ranges of potential outcomes, were appropriate in the borrower's circumstances; and we recalculated the impairment allowance. For each loan reviewed, we have specifically confirmed and challenged management on how the COVID-19 impact had been reflected for each borrower. ▪ We performed procedures to address the existence and valuation of collateral for loans where expected cash flows from collateral were impacting the estimation of loan losses. Using our IFRS 9 specialists, we assessed the reasonableness of the haircuts applied by management to collateral valuation. We verified the appropriate restriction of the property pledged as collateral to the Georgian public real estate register and, for real estate collateral for which the valuation changed by more than 10% compared with the prior year and for new real estate collateral, we reviewed the details of the valuation and validated the reasonableness of the new value by benchmarking major inputs to publicly available market data. ▪ We evaluated the adequacy and appropriateness of disclosures for compliance with the requirements of IFRS.	Although the estimation of the expected credit loss is by nature highly judgemental, especially in light of the complexity of adjusting for COVID-19, based on the results of our audit procedures, we concluded that the ECL provision is appropriate as at 31 December 2020. Specifically, we highlighted the following to the Audit Committee: ▪ We considered the overall valuation and treatment of collateral to be materially reasonable, but noted there is increased judgment regarding the timing of realisation in the current environment. ▪ Post-model adjustments and management overlays applied to the ECL methodology as at year end were reasonable. ▪ Staging, inputs and assumptions are appropriately applied to the ECL calculation. ▪ Financial statements disclosures on loans and receivables and ECL allowance are in compliance with the requirements of IFRS 9.

Independent Auditor's Report to the members of Bank of Georgia Group PLC continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of investment property and real estate assets held for sale **Investment property of GEL 231m (2019: GEL 225m) and real estate classified as held for sale of GEL 63m (2019 GEL 36m)** The Group applies the fair value model for its investment property, which largely comprises real estate assets that were previously held as collateral against loans that have now defaulted. Real estate valuations are inherently uncertain and subject to an estimation process. Furthermore, the Group's real estate is located primarily in Georgia, where the secondary market is relatively illiquid. Although valuations are performed by a combination of internal and external, appropriately qualified valuers, there remains a risk that individual assets might be inappropriately valued. The COVID-19 pandemic has had a major impact on the occupation of buildings due to the forced closure of restaurants, retail stores, leisure, offices and hotels due to government regulation. This results in increased uncertainties concerning the fair value measurement of real estate assets, including key assumptions such as future rental yields and occupancy. The lack of activity in the market contributes to difficulties in determining appropriate fair values. Management engaged qualified valuers to perform a revaluation of investment properties and properties held for sale as at 30 September 2020. Adjustments were then made by management to these revalued amounts for certain properties to reflect restrictions on the ability to sell the property or repurchase options granted to previous owners. Management deemed any changes in fair values of these properties from the date of the revaluation until the balance sheet date not significant. Refer to the Audit Committee Report (page 178); Accounting policies (page 251); and Notes 4 and 11 to the financial statements.	■ We evaluated the competence, professional qualifications and objectivity of the external experts engaged by the Group to perform valuation of the Group's investment properties. ■ Through reading the valuation reports and through discussion with management and the valuers, we obtained an understanding of the objectives and scope of the experts' work, the methods and assumptions that they had used and the conclusions that they had reached. ■ We challenged the methods and assumptions used in the valuation reports, including consideration as to whether there was contrary market intelligence that had not been taken into account in the appraisers' analyses. ■ With the involvement of our real estate valuation specialists, for a sample of properties, we assessed the valuations performed by the external valuers. We verified the input data, the application of the methods and logic as well as the reasoning applied by the appraisers. We compared this information with the publicly available information on norms and benchmarks in the Georgian market. We also challenged and verified the management assertions as to no significant changes in the market values of properties from 30 September 2020 to 31 December 2020 to the available market information. ■ In respect of adjustments made by management to the valuation, we verified that the properties subject to repurchase options had been capped at the lower of their repurchase price and discounted fair value, and that the adjustments to reflect restrictions were appropriate. ■ We obtained the list of assets reclassified as held for sale and, for a sample of such items, verified the appropriateness of their classification as assets held for sale under IFRS 5 by inspecting websites and broker reports to determine that a sale was highly probable. ■ We considered whether the presentation and disclosure of real estate in the financial statements are in accordance with relevant accounting standards.	Based on the results of our audit procedures, we concluded that: ■ The independent valuation reports obtained by management supported their assessment of the valuation of investment properties being within the reasonable range. ■ Fair values of properties revalued as at 30 September 2020 reasonably approximate to their year-end fair values. ■ The Group has appropriately classified and measured the properties which it started to actively market and for which sales are highly probable. ■ Valuation of real estate presented in Investment properties and assets held for sale as at 31 December 2020 is appropriate.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be GEL 20 million (2019: GEL 25 million), which was 5% (2019: 5%) of forecast profit before tax and non-recurring items at the time of our audit planning adjusted for loan impairment charges arising from COVID-19. We believe that adjusted PBT provides us with the most appropriate measure for the users of the financial statements given the Group is profit making; it is consistent with the wider industry and is the standard for listed and regulated entities and we believe it reflects the most useful measure for users of the financial statements.

We reassessed our materiality based on actual results for the year ended 31 December 2020 and noted that the Group's actual adjusted PBT and nonrecurring items exceeded the forecast adjusted PBT and nonrecurring items. However, we concluded that our planning materiality remains appropriate as a basis for determining the nature, timing and extent of our audit procedures to address the risks of material misstatements.

Starting basis	■ Profit before tax and non-recurring items – GEL 358 million
Adjustments	■ Post model adjustments on ECL provisions related to COVID-19 impact – GEL 86 million
Materiality	■ Totals GEL 444 million adjusted PBT and non-recurring items ■ Materiality of GEL 20 million (4.5% of adjusted PBT and non-recurring items)

We determined materiality for the Parent Company to be GEL 20 million (2019: GEL 25 million), which is the lower of GEL 57 million (2% of equity), and the Group materiality. In respect of the Parent Company, equity is most relevant to the stakeholders and is best representative of the economic size of the entity given that it is primarily a holding company, however we also determine the appropriate basis for determining the nature, timing and extent of our audit procedures with impact to the Group.

We reassessed our materiality based on actual results for the year ended 31 December 2020 and have concluded that the planning materiality remains appropriate.

Independent Auditor's Report to the members of Bank of Georgia Group PLC continued

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2019: 50%) of our planning materiality, namely GEL 10 million (2019: GEL 12.5 million). We have set performance materiality at this percentage (which is at the lowest end of the range of our audit methodology) based on various considerations including the past history of misstatements, the effectiveness of the control environment and other factors affecting the entity and its financial reporting.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was GEL 2 million to GEL 10 million (2019: GEL 2.5 million to 12.5 million).

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of GEL 1 million (2019: GEL 1.25 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information
The other information comprises the following information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

- Strategic Report, including Overview, Strategy and Performance sections set out on pages 1 to 149.
- Governance section, including Directors' Governance Statement, Board of Directors, Management team, Nomination Committee Report, Audit Committee Report, Risk Committee Report, Directors' Remuneration Report, Statement of Directors' Responsibilities and Directors' Report, set out on pages 150 to 213.
- Additional information, including Abbreviations, References, Glossary and Shareholder information, set out on pages 344 to 349.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Corporate Governance Statement
The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group and company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 101;
- directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 101;
- directors' statement on fair, balanced and understandable set out on page 181;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 86;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 181; and
- the section describing the work of the audit committee set out on page 177.

Independent Auditor's Report to the members of Bank of Georgia Group PLC continued

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 208, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company'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 the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant were the relevant regulations of the UK Listing Authority ("UKLA"), as well as the various Georgian legal and regulatory requirements applying to the components of the Group, of which the most material are the regulations of the National Bank of Georgia.
- We understood how Bank of Georgia Group PLC's Group is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Group and its regulators; reviewed minutes of the Board and its committees; and gained an understanding of the Group's approach to governance, demonstrated by the Board's approval of the Group's governance framework and the Board's review of the Group's risk management framework ("RMF") and internal control processes.
- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.
- For both direct and other laws and regulations, our procedures involved: making enquiry of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the Group's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with the regulators.
- The Group operates in the banking industry which is a highly regulated environment. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities which included the use of specialists where appropriate.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by considering the controls that the Group has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, complex transactions, performance targets, economic or external pressures and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk which included management, internal audit and legal enquiries, testing of internal control, journal entry testing, analytical procedures, tests of detail and focused testing as referred to in the Key Audit Matters section above. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of Group legal counsel, money laundering reporting officer, internal audit, certain senior management executives and focused testing. We also performed inspection of key regulatory correspondence from the relevant regulatory authorities.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address
- Following the recommendation from the audit committee, we were appointed by the company on 25 January 2018 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 3 years and two months, covering the four accounting periods from our appointment through 31 December 2020.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

John Headley (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
30 March 2021

Consolidated Statement of Financial Position

As at 31 December 2020 (Thousands of Georgian Lari)

	Notes	2020	2019	2018
Assets				
Cash and cash equivalents	6	1,970,955	2,153,624	1,215,799
Amounts due from credit institutions	7	2,016,005	1,619,072	1,305,216
Investment securities	8	2,544,397	1,786,804	2,019,017
Loans to customers and finance lease receivables	9	14,192,078	11,931,262	9,397,747
Accounts receivable and other loans		2,420	3,489	2,849
Prepayments		27,593	42,632	44,294
Inventories		10,340	12,297	13,292
Right-of-use assets	10	83,208	96,095	–
Investment properties	11	231,241	225,073	151,446
Property and equipment	10	387,851	379,788	344,059
Goodwill	12	33,351	33,351	33,351
Intangible assets	10	125,806	106,290	83,366
Income tax assets	13	22,033	282	19,451
Other assets	14	325,994	143,154	126,008
Assets held for sale		62,648	36,284	42,408
Total assets		**22,035,920**	**18,569,497**	**14,798,303**
Liabilities				
Client deposits and notes	15	14,020,209	10,076,735	8,133,853
Amounts owed to credit institutions	16	3,335,966	3,934,123	2,994,879
Debt securities issued	17	1,585,545	2,120,064	1,730,414
Lease liability	10	95,635	94,616	–
Accruals and deferred income		53,894	52,471	47,063
Income tax liabilities	13	62,434	37,918	28,855
Other liabilities	14	332,322	102,662	64,966
Total liabilities		**19,486,005**	**16,418,589**	**13,000,030**
Equity	19			
Share capital		1,618	1,618	1,618
Additional paid-in capital		526,634	492,072	480,555
Treasury shares		(54)	(64)	(51)
Other reserves		71,227	(7,481)	30,515
Retained earnings		1,939,122	1,655,256	1,277,732
Total equity attributable to shareholders of the Group		**2,538,547**	**2,141,401**	**1,790,369**
Non-controlling interests		11,368	9,507	7,904
Total equity		**2,549,915**	**2,150,908**	**1,798,273**
Total liabilities and equity		**22,035,920**	**18,569,497**	**14,798,303**

The financial statements on pages 226 to 343 were approved by the Board of Directors on and signed on its behalf by:

Archil Gachechiladze
Chief Executive Officer
Bank of Georgia Group PLC
Registered No. 10917019

The accompanying Notes on pages 237 to 343 are an integral part of these financial statements.

Consolidated Income Statement

For the year ended 31 December 2020 (Thousands of Georgian Lari)

	Notes	2020	2019	2018
Interest income calculated using EIR method		1,563,362	1,411,359	1,302,906
Other interest income		32,065	25,802	19,391
Interest income		**1,595,427**	**1,437,161**	**1,322,297**
Interest expense		(806,370)	(639,444)	(574,589)
Deposit insurance fees		(11,415)	(8,298)	(5,955)
Net interest income	20	**777,642**	**789,419**	**741,753**
Fee and commission income		274,458	284,193	228,769
Fee and commission expense		(108,955)	(104,179)	(76,107)
Net fee and commission income	21	**165,503**	**180,014**	**152,662**
Net foreign currency gain		99,040	119,363	128,762
Net other income		48,474	21,474	7,262
Operating income		**1,090,659**	**1,110,270**	**1,030,439**
Salaries and other employee benefits	22	(239,607)	(243,855)	(214,761)
Administrative expenses	22	(105,531)	(106,157)	(112,654)
Depreciation, amortisation and impairment	10	(82,937)	(78,118)	(45,442)
Other operating expenses		(4,560)	(4,228)	(3,995)
Operating expenses		**(432,635)**	**(432,358)**	**(376,852)**
Profit from associates		782	789	1,339
Operating income before cost of risk		**658,806**	**678,701**	**654,926**
Expected credit loss on loans to customers	23	(236,983)	(94,155)	(139,499)
Expected credit loss on finance lease receivables	23	(8,025)	(885)	(164)
Other expected credit loss	23	(23,222)	(119)	(2,799)
Impairment charge on other assets and provisions		(32,767)	(12,425)	(17,763)
Cost of risk		**(300,997)**	**(107,584)**	**(160,225)**
Net operating income before non-recurring items		**357,809**	**571,117**	**494,701**
Net non-recurring items	24	(41,311)	(14,708)	(57,156)
Profit before income tax expense from continuing operations		**316,498**	**556,409**	**437,545**
Income tax expense	13	(21,555)	(56,458)	(56,665)
Profit from continuing operations		**294,943**	**499,951**	**380,880**
Profit from discontinued operations		–	–	107,898
Profit for the year		**294,943**	**499,951**	**488,778**
Total profit attributable to:				
– shareholders of the Group		293,584	497,664	468,996
– non-controlling interests		1,359	2,287	19,782
		294,943	**499,951**	**488,778**
Profit from continuing operations attributable to:				
– shareholders of the Group		293,584	497,664	379,313
– non-controlling interests		1,359	2,287	1,567
		294,943	**499,951**	**380,880**
Profit from discontinued operations attributable to:				
– shareholders of the Group		–	–	89,683
– non-controlling interests		–	–	18,215
		–	**–**	**107,898**
Basic earnings per share:	19	6.1724	10.4457	10.7783
– earnings per share from continuing operations		6.1724	10.4457	8.7173

Consolidated Income Statement continued

For the year ended 31 December 2020 (Thousands of Georgian Lari)

	Notes	2020	2019	2018
– earnings per share from discontinued operations		–	–	2.0610
Diluted earnings per share:	19	6.1707	10.4238	10.7125
– earnings per share from continuing operations		6.1707	10.4238	8.6640
– earnings per share from discontinued operations		–	–	2.0485

The accompanying Notes on pages 237 to 343 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020 (Thousands of Georgian Lari)

	Notes	2020	2019	2018
Profit for the year		**294,943**	**499,951**	**488,778**
Other comprehensive income (loss) from continuing operations				
Other comprehensive income (loss) from continuing operations to be reclassified to profit or loss in subsequent years:				
– Net change in fair value on investments in debt instruments measured at fair value through other comprehensive income (FVOCI)	8	77,728	(39,277)	1,571
– Realised gain on financial assets measured at FVOCI		(3,585)	(5,419)	(137)
–Change in allowance for expected credit losses on investments in debt instruments measured at FVOCI reclassified to the consolidated income statement		458	337	792
– (Loss) gain from currency translation differences		(2,480)	9,875	(4,737)
Income tax impact	13	–	–	(265)
Net other comprehensive income (loss) from continuing operations to be reclassified to profit or loss in subsequent years		**72,121**	**(34,484)**	**(2,776)**
Other comprehensive loss from continuing operations not to be reclassified to profit or loss in subsequent years:				
– Revaluation of property and equipment reclassified to investment property		–	–	1,455
– Net loss on investments in equity instruments designated at FVOCI		(519)	(54)	(2,525)
Net other comprehensive loss from continuing operations not to be reclassified to profit or loss in subsequent years		**(519)**	**(54)**	**(1,070)**
Other comprehensive loss for the year from discontinued operations to be reclassified to profit or loss in subsequent years		–	–	(10,881)
Other comprehensive income (loss) for the year, net of tax		**71,602**	**(34,538)**	**(14,727)**
Total comprehensive income for the year from continuing operations		366,545	465,413	377,034
Total comprehensive income for the year from discontinued operations		–	–	97,017
Total comprehensive income for the year		**366,545**	**465,413**	**474,051**
Total comprehensive income attributable to:				
– shareholders of the Group		364,727	463,244	453,591
– non-controlling interests		1,818	2,169	20,460
		366,545	**465,413**	**474,051**
Total comprehensive income from continuing operations attributable to:				
– shareholders of the Group		364,727	463,244	374,789
– non-controlling interests		1,818	2,169	2,245
		366,545	**465,413**	**377,034**
Total comprehensive income from discontinued operations attributable to:				
– shareholders of the Group		–	–	78,802
– non-controlling interests		–	–	18,215
		–	**–**	**97,017**

The accompanying Notes on pages 237 to 343 are an integral part of these financial statements.

Consolidated Statement of Changes In Equity

For the year ended 31 December 2020 (Thousands of Georgian Lari)

	Attributable to shareholders of the Group								
	Share capital	Additional paid-in capital	Treasury shares	Other reserves	Reserves of disposal group held for sale	Retained earnings	Total	Non-controlling interests	Total equity
31 December 2017	**1,151**	**106,086**	**(66)**	**122,082**	**10,934**	**2,180,415**	**2,420,602**	**311,768**	**2,732,370**
Adoption of IFRS 9	–	–	–	3,267		(18,237)	(14,970)	(2,724)	(17,694)
1 January 2018	**1,151**	**106,086**	**(66)**	**125,349**	**10,934**	**2,162,178**	**2,405,632**	**309,044**	**2,714,676**
Profit for the year	–	–	–	–	–	468,996	468,996	19,782	488,778
Other comprehensive loss for the year	–	–	–	(12,049)	–	(3,356)	(15,405)	678	(14,727)
Total comprehensive income for the year	**–**	**–**	**–**	**(12,049)**	**–**	**465,640**	**453,591**	**20,460**	**474,051**
Transfer of property and equipment revaluation reserve, net of tax	–	–	–	(4,259)	–	4,259	–	–	–
Increase in equity arising from share-based payments	–	99,406	37	–	–	–	99,443	1,014	100,457
Dividends to shareholders of the Group (Note 19)	–	–	–	–	–	(122,199)	(122,199)	–	(122,199)
Increase in share capital of subsidiaries	–	–	–	–	–	–	–	1,876	1,876
Sale of investments in equity instruments designated at FVOCI GCAP shares	–	–	–	2,525	–	(2,525)	–	–	–
Dividends of subsidiaries to non-controlling shareholders	–	–	–	–	–	–	–	(539)	(539)
Acquisition of non-controlling interests in existing subsidiaries	–	–	–	(4,898)	–	–	(4,898)	(8,165)	(13,063)
Issue of share capital	4,375,378	–	–	–	–	–	4,375,378	–	4,375,378
Capital reduction	(4,375,061)	(196,438)	–	–	–	196,293	(4,375,206)	–	(4,375,206)
Distribution of Investment Business to shareholders of the Group*	322	575,914	–	(76,153)	(10,934)	(1,425,742)	(936,593)	(315,786)	(1,252,379)
Buyback and cancellation of redeemable shares	(172)	–	–	–	–	(172)	(344)	–	(344)
Purchase of treasury shares	–	(104,413)	(22)	–	–	–	(104,435)	–	(104,435)
31 December 2018	**1,618**	**480,555**	**(51)**	**30,515**	**–**	**1,277,732**	**1,790,369**	**7,904**	**1,798,273**
31 December 2018	**1,618**	**480,555**	**(51)**	**30,515**	**–**	**1,277,732**	**1,790,369**	**7,904**	**1,798,273**
Profit for the year	–	–	–	–	–	497,664	497,664	2,287	499,951
Other comprehensive income for the year	–	–	–	(37,985)	–	3,565	(34,420)	(118)	(34,538)
Total comprehensive income for the year	**–**	**–**	**–**	**(37,985)**	**–**	**501,229**	**463,244**	**2,169**	**465,413**
Increase in equity arising from share-based payments	–	62,090	12	–	–	–	62,102	–	62,102
Purchase of treasury shares	–	(50,573)	(25)	–	–	–	(50,598)	–	(50,598)
Dividends to shareholders of the Group (Note 19)	–	–	–	–	–	(123,705)	(123,705)	–	(123,705)
Increase in share capital of subsidiaries	–	–	–	(14)	–	–	(14)	14	–
Dividends of subsidiaries to non-controlling shareholders	–	–	–	–	–	–	–	(621)	(621)
Non-controlling interests rising on acquisition	–	–	–	3	–	–	3	41	44
31 December 2019	**1,618**	**492,072**	**(64)**	**(7,481)**	**–**	**1,655,256**	**2,141,401**	**9,507**	**2,150,908**
Profit for the year	–	–	–	–	–	293,584	293,584	1,359	294,943
Other comprehensive income for the year	–	–	–	78,725	–	(7,582)	71,143	459	71,602
Total comprehensive income for the year	**–**	**–**	**–**	**78,725**	**–**	**286,002**	**364,727**	**1,818**	**366,545**
Increase in equity arising from share-based payments	–	53,728	21	–	–	–	53,749	–	53,749
Purchase of treasury shares	–	(19,166)	(11)	–	–	–	(19,177)	–	(19,177)
Dividends to shareholders of the Group (Note 19)	–	–	–	–	–	(2,136)	(2,136)	–	(2,136)
Increase in share capital of subsidiaries	–	–	–	(7)	–	–	(7)	7	–
Non-controlling interests arising on acquisition	–	–	–	(10)	–	–	(10)	36	26
31 December 2020	**1,618**	**526,634**	**(54)**	**71,227**	**–**	**1,939,122**	**2,538,547**	**11,368**	**2,549,915**

* Increase in additional paid-in capital from distribution of Investment Business to shareholders of the Group includes Demerger costs amounting to GEL 23,170.

The accompanying Notes on pages 237 to 343 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2020 (Thousands of Georgian Lari)

	Notes	2020	2019	2018
Cash flows from operating activities				
Interest received		1,440,328	1,407,442	1,294,465
Interest paid		(808,336)	(630,661)	(570,989)
Fees and commissions received		285,867	260,968	255,143
Fees and commissions paid		(108,955)	(104,179)	(75,776)
Net cash inflow from real estate		3,508	5,594	5,191
Net realised gain from foreign currencies		98,392	100,627	92,223
Recoveries of loans to customers previously written off	9	44,472	35,524	35,306
Cash received from (paid for) derivatives		1,601	(11,814)	–
Other income (expense paid) received		5,412	(9,122)	42,535
Salaries and other employee benefits paid		(185,858)	(186,128)	(165,577)
General and administrative and operating expenses paid		(99,103)	(84,155)	(122,209)
Cash flows from operating activities before changes in operating assets and liabilities		**677,328**	**784,096**	**790,312**
Net (increase) decrease in operating assets				
Amounts due from credit institutions		(146,940)	(198,381)	(50,757)
Loans to customers and finance lease receivables		(1,269,825)	(2,127,968)	(1,667,624)
Prepayments and other assets		6,018	(7,893)	(54,563)
Net increase (decrease) in operating liabilities				
Amounts due to credit institutions		(837,711)	820,955	459,813
Debt securities issued		(167,144)	6,519	46,044
Client deposits and notes		2,863,289	1,435,634	885,666
Other liabilities		(46,587)	18,933	(4,866)
Net cash flows from operating activities before income tax		**1,078,428**	**731,895**	**404,025**
Income tax paid		(18,790)	(28,226)	(64,578)
Net cash flows from operating activities from continuing operations		**1,059,638**	**703,669**	**339,447**
Net cash flows from operating activities of discontinued operations		–	–	260,165
Net cash flows from operating activities		**1,059,638**	**703,669**	**599,612**
Cash flows (used in) from investing activities				
Net (purchases) sales of investment securities		(673,284)	184,499	(400,366)
Purchase of investments in associates		–	(333)	–
Proceeds from sale of investment properties and assets held for sale		75,388	64,665	72,864
Proceeds from sale of property and equipment and intangible assets		760	5,388	2,948
Purchase of property and equipment and intangible assets		(108,342)	(125,698)	(95,096)
Dividends received		3,299	210	–
Net cash flows (used in) from investing activities from continuing operations		**(702,179)**	**128,731**	**(419,650)**
Net cash flows used in investing activities of discontinued operations		–	–	(283,621)
Net cash flows (used in) from investing activities		**(702,179)**	**128,731**	**(703,271)**

	Notes	2020	2019	2018
Cash flows (used in) from financing activities				
Repurchase of debt securities issued		(120,549)	–	–
Repayment of the principal portion of the debt securities issued		(440,410)	–	–
Proceeds from Additional Tier 1 debt securities issued		–	268,160	–
Cash payments for the principal portion of the lease liability		(11,695)	(8,302)	–
Dividends paid		(2,169)	(124,052)	(121,962)
Purchase of treasury shares		(19,177)	(50,598)	(88,028)
Payments for treasury shares in existing subsidiaries		–	(107)	–
Cash disposed as a result of Investment Business distribution		–	–	(78,180)
Demerger-related transaction costs		–	–	(23,170)
Net cash (used in) from financing activities from continuing operations		**(594,000)**	**85,101**	**(311,340)**
Net cash from financing activities of discontinued operations		–	–	2,335
Net cash (used in) from financing activities		**(594,000)**	**85,101**	**(309,005)**
Effect of exchange rates changes on cash and cash equivalents		53,809	20,331	23,722
Effect of expected credit losses on cash and cash equivalents		63	(7)	(142)
Net (decrease) increase in cash and cash equivalents		**(182,669)**	**937,825**	**(389,084)**
Cash and cash equivalents, beginning of the year	6	**2,153,624**	**1,215,799**	**1,582,435**
Cash and cash equivalents of disposal group held for sale, beginning of the year		**–**	**–**	**22,448**
Cash and cash equivalents of disposal group held for sale, ending of the year		**–**	**–**	**–**
Cash and cash equivalents, end of the year	6	**1,970,955**	**2,153,624**	**1,215,799**

The accompanying Notes on pages 237 to 343 are an integral part of these financial statements.

Separate Statement of Financial Position

As at 31 December 2020 (Thousands of Georgian Lari)

	Notes	2020	2019	2018
Assets				
Cash and cash equivalents	6	199	1,845	1,748
Investments in subsidiaries	2	4,981,658	4,981,658	4,981,658
Other assets		151	105	10
Total assets		**4,982,008**	**4,983,608**	**4,983,416**
Liabilities				
Interest-bearing loans and borrowings	16	2,135,330	1,745,954	1,522,165
Other liabilities		86	55	179
Total liabilities		**2,135,416**	**1,746,009**	**1,522,344**
Equity				
Share capital	19	1,618	1,618	1,618
Additional paid-in capital		599,084	599,084	599,084
Retained earnings		2,636,897	2,738,398	2,815,409
Net (loss) profit for the period		(391,007)	(101,501)	44,961
Total equity		**2,846,592**	**3,237,599**	**3,461,072**
Total liabilities and equity		**4,982,008**	**4,983,608**	**4,983,416**

The financial statements on pages 226 to 343 were approved by the Board of Directors on and signed on its behalf by:

Archil Gachechiladze
Chief Executive Officer
Bank of Georgia Group PLC
Registered No. 10917019

The accompanying Notes on pages 237 to 343 are an integral part of these financial statements.

Separate Statement of Changes in Equity

For the year ended 31 December 2020 (Thousands of Georgian Lari)

	Share capital	Additional paid-in capital	Retained earnings	Total equity
31 December 2017	**172**	**–**	**3**	**175**
Total comprehensive income	–	–	44,961	44,961
Issue of share capital (Note 19)	4,375,206	–	–	4,375,206
Capital reduction (Note 19)	(4,373,910)	–	4,373,910	–
Issue of share capital in course of demerger (Note 19)	322	599,084	–	599,406
Distribution of investment business to existing shareholders (Note 19)	–	–	(1,441,552)	(1,441,552)
Cancellation of redeemable shares	(172)	–	(172)	(344)
Dividends to shareholders of the Group (Note 19)	–	–	(116,780)	(116,780)
31 December 2018	**1,618**	**599,084**	**2,860,370**	**3,461,072**
Total comprehensive loss	–	–	(101,501)	(101,501)
Dividends to shareholders of the Group (Note 19)	–	–	(121,972)	(121,972)
31 December 2019	**1,618**	**599,084**	**2,636,897**	**3,237,599**
Total comprehensive loss	–	–	(391,007)	(391,007)
31 December 2020	**1,618**	**599,084**	**2,245,890**	**2,846,592**

The accompanying Notes on pages 237 to 343 are an integral part of these financial statements.

Separate Statement of Cash Flows

For the year ended 31 December 2020 (Thousands of Georgian Lari)

	Notes	2020	2019	2018
Net cash flows used in operating activities				
Interest income received		19	101	–
Interest paid		–	(12)	–
Fees and commissions paid		(662)	(758)	(145)
Net cash inflow from real estate		–	154	–
Salaries and other employee benefits paid		(2,735)	(2,855)	(1,296)
General and administrative expenses paid		(3,047)	(3,051)	(5,277)
Cash flows used in operating activities before changes in operating assets and liabilities		**(6,425)**	**(6,421)**	**(6,718)**
Net cash flows used in operating activities		**(6,425)**	**(6,421)**	**(6,718)**
Net cash flows from investing activities				
Dividends received		–	128,531	131,913
Net cash flows from investing activities		**–**	**128,531**	**131,913**
Net cash from (used in) financing activities				
Borrowings received		4,698	–	–
Demerger-related transaction costs		–	–	(7,046)
Dividends paid		–	(121,972)	(116,780)
Net cash flows from (used in) financing activities		**4,698**	**(121,972)**	**(123,826)**
Effect of exchange rates changes on cash and cash equivalents		81	(41)	379
Net (decrease) increase in cash and cash equivalents		**(1,646)**	**97**	**1,748**
Cash and cash equivalents, beginning of the year		**1,845**	**1,748**	**–**
Cash and cash equivalents, end of the year		**199**	**1,845**	**1,748**

The accompanying Notes on pages 237 to 343 are an integral part of these financial statements.

Notes to Consolidated Financial Statements

(Thousands of Georgian Lari)

1. Principal activities

Bank of Georgia Group PLC ("BOGG") is a public limited liability company incorporated in England and Wales with registered number 10917019. BOGG holds 99.55% of the share capital of JSC Bank of Georgia (the "Bank") as at 31 December 2020, representing the Bank's ultimate parent company. Together with the Bank and other subsidiaries, the Group makes up a group of companies (the "Group") and provides banking, leasing, brokerage and investment management services to corporate and individual customers. The shares of BOGG ("BOGG Shares") are admitted to the premium listing segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange PLC's Main Market for listed securities, effective 21 May 2018. The Bank is the Group's main operating unit and accounts for most of the Group's activities.

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

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and internationally, and exchanges currencies. Its main office is in Tbilisi, Georgia. At 31 December 2020, the Bank has 211 operating outlets in all major cities of Georgia (31 December 2019: 272, 31 December 2018: 276). The Bank's registered legal address is 29a Gagarini Street, Tbilisi 0160, Georgia.

On 3 July 2017, BGEO Group PLC, ("BGEO"), former ultimate holding company of the Group, announced its intention to demerge BGEO Group PLC into a London-listed banking business (the "Banking Business"), Bank of Georgia Group PLC, and a London-listed investment business (the "Investment Business"), Georgia Capital PLC.

As part of the Demerger, Bank of Georgia Group PLC was incorporated and on 18 May 2018 issued 39,384,712 ordinary shares in exchange for the entire issued capital of BGEO Group PLC and became the parent company of BGEO. On 29 May 2018, the demerger ("Demerger") of the Group's investment business ("Investment Business") to Georgia Capital PLC ("GCAP") become effective. As a result of the Demerger, the Group distributed the investments in the Investment Business with a fair value of GEL 1,441,552 to the shareholders of the Company. In addition, BOGG has issued and allotted a further 9,784,716 BOGG shares (the "Consideration Shares", equivalent to 19.9% of BOGG's issued ordinary share capital) to GCAP in consideration for the transfer to BOGG by GCAP of GCAP's stake in the JSC Bank of Georgia and JSC BG Financial. As set out in the BOGG prospectus dated 26 March 2018, for as long as GCAP's percentage holding in BOGG is greater than 9.9%, GCAP will exercise its voting rights at BOGG general meetings in accordance with the votes cast by all other BOGG shareholders on BOGG votes at general meetings.

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

As at 31 December 2020, 31 December 2019 and 31 December 2018, the following shareholders owned more than 3% of the total outstanding shares of BOGG. Other shareholders individually owned less than 3% of the outstanding shares.

Shareholder	31 December 2020	31 December 2019	31 December 2018
JSC Georgia Capital**	19.90%	19.90%	19.90%
Fidelity Investments	6.15%	0.09%	0.08%
Harding Loevner LP	4.50%	4.78%	4.66%
Van Eck Associates Corporation	3.26%	2.78%	2.51%
Dimensional Fund Advisors (DFA) LP	3.04%	2.90%	2.51%
JP Morgan Asset Management	1.50%	3.52%	3.01%
Others	61.65%	66.03%	67.33%
Total*	**100.00%**	**100.00%**	**100.00%**

* For the purposes of calculating percentage of shareholding, the denominator includes total number of issued shares, which includes shares held in the trust for the share-based compensation purposes of the Group.

** JSC Georgia Capital will exercise its voting rights at the Group's general meetings in accordance with the votes cast by all other Group Shareholders, as long as JSC Georgia Capital's percentage holding in Bank of Georgia Group PLC is greater than 9.9%.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

1. Principal activities continued

As at 31 December 2020, the members of the Board of Directors of BOGG owned 208,146 shares or 0.4% (31 December 2019: 202,946 shares or 0.4%, 31 December 2018: 115,549 shares or 0.2%) of BOGG. Interests of the members of the Board of Directors of BOGG were as follows:

Shareholder	31 December 2020, shares held	31 December 2019, shares held	31 December 2018, shares held
Neil Janin	32,880	32,880	39,880
Archil Gachechiladze	140,266	140,266	N/A
Kaha Kiknavelidze*	N/A	N/A	45,869
Al Breach	30,000	24,000	24,000
Tamaz Georgadze	5,000	5,000	5,000
Hanna Loikkanen	–	800	800
Jonathan Muir	–	–	–
Cecil Quillen	–	–	–
Véronique McCarroll	–	–	–
Andreas Wolf**	N/A	–	–
Total	**208,146**	**202,946**	**115,549**

* Stepped down from Board in 2019.
** Stepped down from the Board from 31 January 2020

2. Basis of preparation

General

In accordance with the exemption permitted under section 408 of the Companies Act 2006, the separate income statement of BOGG is not presented as part of these financial statements. BOGG's income for the year is disclosed within the separate statement of financial position and the separate statement of changes in equity.

The financial statements of Bank of Georgia Group PLC represent continuation of Consolidated Financial Statements of BGEO Group PLC and are prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union as at 31 December 2020.

These financial statements are prepared under the historical cost convention except for:

- the measurement at fair value of financial assets and investment securities, derivative financial assets and liabilities and investment properties;
- the measurement of inventories at lower of cost and net realisable value; and
- the measurement of non-current assets classified as held for sale at lower of cost and fair value less costs to sell.

The financial statements are presented in thousands of Georgian Lari ("GEL"), except per-share amounts and unless otherwise indicated.

Going concern

In adopting the going concern basis for preparing the consolidated financial statements, the Directors have considered the Group's business activities, objectives and strategy, principal risks and uncertainties in achieving its objectives, and performance. The Directors have performed a robust assessment of the Group's financial forecasts across a range of scenarios over 12 months from the date the financial statements are authorised for issue, by carrying out stress testing, incorporating extreme downside scenario and reverse stress testing, which involved examining the level of disruption that may cause the Group to fail. The assessment specifically incorporated analysis of the COVID-19 pandemic impact implications on the Group's projected performance, liquidity, funding and capital positions. Based on this, the Directors confirm that they have a reasonable expectation that the Company and the Group, as a whole, have adequate resources to continue in operational existence for the 12 months from the date the financial statements are authorised for issue. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern for the foreseeable future. Therefore, the financial statements continue to be prepared on the going concern basis.

2. Basis of preparation continued

Subsidiaries and associates

The consolidated financial statements as at 31 December 2020, 31 December 2019 and 31 December 2018 include the following subsidiaries and associates:

Subsidiaries	Proportion of voting rights and ordinary share capital held			Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
	31 December 2020	31 December 2019	31 December 2018					
BGEO Group Limited	100.00%	100.00%	100.00%	United Kingdom	84 Brook Street, W1K 5EH, London, United Kingdom	Holding Company	14/10/2011	–
JSC BGEO Group	100.00%	100.00%	100.00%	Georgia	29a Gagarini Street, Tbilisi, 0105	Investment	28/5/2015	–
JSC Idea	100.00%	100.00%	100.00%	Georgia	3 Pushkin Street, Tbilisi 0105, Tbilisi, Georgia	Insurance	26/12/2018	–
JSC Bank of Georgia	99.55%	99.55%	99.55%	Georgia	29a Gagarini Street, Tbilisi, 0105	Banking	21/10/1994	–
Bank of Georgia Representative Office UK Limited	100.00%	100.00%	100.00%	United Kingdom	84 Brook Street, London W1K 5EH	Information Sharing and Market Research	17/8/2010	–
Tree of Life Foundation NPO (formerly known as Bank of Georgia Future Foundation, NPO)	100.00%	100.00%	100.00%	Georgia	3 Pushkin Street, Tbilisi 0105	Charitable activities	25/8/2008	–
Bank of Georgia Representative Office Hungary	100.00%	100.00%	100.00%	Hungary	1054 Budapest, Szabadságtér 7; Bank Center	Representative Office	18/6/2012	–
Representative Office of JSC Bank of Georgia in Turkey	100.00%	100.00%	100.00%	Turkey	Süleyman Seba Caddesi No:48 A Blok Daire 82 Akaretler Beşiktaş 34357 Istanbul	Representative Office	25/12/2013	–
Georgia Financial Investments, LLC	100.00%	100.00%	100.00%	Israel	7 Menahem Begin, Ramat Gan 52681, Israel	Information Sharing and Market Research	9/2/2009	–
Teaching University of Georgian Bank, LLC	(a)	(a)	100.00%	Georgia	#29 Mitskevichi Street, Tbilisi, 0194	Education	15/10/2013	–
Benderlock Investments Limited	100.00%	100.00%	100.00%	Cyprus	Arch. Makariou III 58, IRIS TOWER, 8th floor, Flat/ Office 702 P.C. 1075, Nicosia	Investments	12/5/2009	13/10/2009
JSC Belarusky Narodny Bank	99.98%	99.98%	99.98%	Belarus	Nezavisimosty Ave. 87A, Minsk, 220012	Banking	16/4/1992	3/6/2008
BNB Leasing, LLC	99.90%	99.90%	99.90%	Belarus	Nezavisimosty Ave. 87A, room 3, Minsk, 220012	Leasing	30/3/2006	3/6/2008
Georgian Leasing Company, LLC	100.00%	100.00%	100.00%	Georgia	3–5 Kazbegi Str.,Tbilisi	Leasing	29/10/2001	31/12/2004
Prime Leasing	100.00%	100.00%	100.00%	Georgia	Didube–Chughureti district, N°114, Ak. Tsereteli Ave., Tbilisi	Leasing	27/1/2012	21/1/2015
JSC BG Financial	100.00%	100.00%	100.00%	Georgia	79 David Agmashenebeli Ave., 0102, Tbilisi	Investment	7/8/2015	–
JSC Galt & Taggart	100.00%	100.00%	100.00%	Georgia	79 David Agmashenebeli Ave., 0102, Tbilisi	Brokerage and asset management	19/12/1995	28/12/2004
Branch Office of "BG Kapital" JSC in Azerbaijan	100.00%	100.00%	100.00%	Azerbaijan	1C Mikayil Mushvig, Kempinski Hotel Badamdar, 6th floor, Yasamal. AZ1006, Baku	Representative office	28/12/2013	–

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

2. Basis of preparation continued

Subsidiaries and associates continued

Galt and Taggart Holdings Limited	100.00%	100.00%	100.00%	Cyprus	Arch. Makariou III 58, IRIS TOWER, 8th floor, Flat/Office 702 P.C. 1075, Nicosia	Investments	3/7/2006	–
BG Capital (Belarus), LLC	100.00%	100.00%	100.00%	Belarus	5A–3H, K.Chornogo lane, Minsk, 220012	Brokerage	19/2/2008	–
JSC Digital Area (former JSC Polymath Group)	100.00%	100.00%	100.00%	Georgia	79 David Agmashenebeli Ave., 0102, Tbilisi, Georgia	Digital	8/6/2018	–
JSC Extra area	97.82%	95.32%	0.00%	Georgia	79 David Agmashenebeli Ave., 0102, Tbilisi, Georgia	Digital	22/5/2019	–
Easy Box LLC	100.00%	–	–	Georgia	41, Pekini St. Tbilisi, Georgia	Transportation	22/12/2020	–
Solo, LLC	100.00%	100.00%	100.00%	Georgia	79 David Agmashenebeli Ave., 0102, Tbilisi	Trade	22/4/2015	–
JSC United Securities Registrar of Georgia	100.00%	100.00%	100.00%	Georgia	74a Chavchavadze Ave., Tbilisi, 0162	Registrar	29/5/2006	–
JSC Express Technologies	100.00%	100.00%	100.00%	Georgia	1b, Budapest St. Tbilisi, 0160	Investments	29/10/2007	–
JSC Georgian Card	99.46%	99.48%	99.48%	Georgia	221 Nutsubidze Street, Tbilisi, 0168	Card processing	17/1/1997	20/10/2004
Direct Debit Georgia, LLC	100.00%	100.00%	100.00%	Georgia	Luxemburg 25, Tbilisi, 0160	Electronic payment services	7/3/2006	–
LLC Didi Digomi Research Center	100.00%	100.00%	100.00%	Georgia	80–82, D.Agmashenebeli street, Tbilisi, 0102	Communication services	23/4/2007	–
Metro Service +, LLC	100.00%	100.00%	100.00%	Georgia	74a Chavchavadze Ave., Tbilisi, 0162	Business servicing	10/5/2006	–
JSC Agron Group	(b)	(b)	100.00%	Georgia	Kazbegi St. 3–5, Tbilisi	Agro Trade	3/11/2014	–
Premium Compliance Advisory, LLC	100.00%	100.00%	100.00%	Georgia	Kazbegi St. 3–5, Tbilisi	Various	17/2/2012	–

	Proportion of voting rights and ordinary share capital held							
Associates	**31 December 2020**	**31 December 2019**	**31 December 2018**	**Country of incorporation**	**Address**	**Industry**	**Date of incorporation**	**Date of acquisition**
JSC Credit info	21.08%	21.08%	21.08%	Georgia	2 Tarkhnishvili St., Tbilisi, Georgia	Financial intermediation	14/2/2005	14/2/2005
JSC Tbilisi Stock Exchange	24.04%	24.04%	21.59%	Georgia	72 Vazha-Pshavela Avenue, Tbilisi, Georgia	Financial intermediation	8/5/2015	23/12/2016

(a) JSC Bank of Georgia sold its investment in Teaching University Georgian Bank in 2019.
(b) Was liquidated in 2019.

3. Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2020. The Group consolidates a subsidiary when it controls it. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interests;
- derecognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss;
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair values. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

3. Summary of significant accounting policies continued

Basis of consolidation continued

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments: Recognition and Measurement is measured at fair value with changes in fair value recognised either in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed, and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in the consolidated income statement, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or 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. When an equity investment becomes an associate, the investment is re-measured to fair value and any gain or loss previously recognised in other comprehensive income is reclassified in profit or loss.

Investments in subsidiaries and associates in parent company financial statements

For the purposes of parent company financial statements, investments in subsidiaries and associates are accounted at cost. Investments in subsidiaries and associates are accounted in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations when they are classified as held for sale or distribution. Dividends from a subsidiary or an associate are recognised in the parent company financial statements when the parent's right to receive the dividend is established.

Fair value measurement

The Group measures financial instruments, such as trading and investment securities, certain loans to customers, derivatives and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 27.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

3. Summary of significant accounting policies continued

Basis of consolidation continued

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets and liabilities

Classification and measurement for financial assets and liabilities

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

- fair value through profit or loss (FVPL);
- fair value through other comprehensive income (FVOCI) with recycling to profit or loss upon disposal for debt instruments;
- fair value through other comprehensive income (FVOCI) without recycling to profit or loss for equity instruments; and
- amortised cost.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL if they are held for trading.

Embedded derivatives are not separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms.

All derivative instruments are measured at FVPL.

Measurement of financial instruments at initial recognition

When financial instruments are recognised initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Group determines that the fair value at initial recognition differs from the transaction price, then:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Group recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognises that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

3. Summary of significant accounting policies continued
Financial assets and liabilities continued
Subsequent measurement of financial instruments
Financial instruments measured at amortised cost
The Group measures due from credit institutions, loans to customers and other financial assets at amortised cost if both of the following conditions are met:

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

The details of these conditions are outlined below.

Business model
The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The business model is not assessed on an instrument by instrument basis, but at a higher level of aggregated portfolios per instrument type and is based on the following observable factors:

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and
- How financial assets held within particular business model are evaluated and reported to key management personnel.

There are three business models available under IFRS 9:

- Hold to collect: it is intended to hold the asset to maturity to earn interest, collecting repayments of principal and interest from the counterparty.
- Hold to collect and sell: this model is similar to the hold to collect model, except that the entity may elect to sell some or all of the assets before maturity as circumstances change or to hold the assets for liquidity purposes.
- Other: all those models that do not meet the "hold to collect" or "hold to collect and sell" qualifying criteria.

Solely Payments of Principal and Interest (SPPI)
If a financial asset is held in either to a "hold to collect", or a "hold to collect and sell" business model, then the Group assesses whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding at initial recognition to determine the classification. The SPPI test is performed on an individual instrument basis.

Contractual cash flows that represent solely payments of principal and interest on the principal amount outstanding are consistent with basic lending arrangements. Interest is consideration for the time value of money and the credit risk associated with the principal amount outstanding during a particular period of time. It can also include consideration for other basic lending risks (e.g. liquidity risk) and costs (e.g. administrative costs) associated with holding the financial asset for a particular period of time, and a profit margin that is consistent with a basic lending arrangement.

In assessing whether the contractual cash flows are SPPI, the Group considers whether the contractual terms of the financial asset contain a term that could change the timing or amount of contractual cash flows arising over the life of the instrument which could affect whether the instrument is considered to meet the SPPI test.

If the SPPI test is failed, such financial assets are measured at FVTPL with interest earned recognised in other interest income.

Debt instruments at FVOCI
The Group measures debt investment securities at FVOCI when both of the following categories are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows, selling financial assets and holding such financial instruments for liquidity management purposes.
- The contractual terms of the financial asset meet the SPPI test.

3. Summary of significant accounting policies continued
Financial assets and liabilities continued
FVOCI debt investment securities are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Equity instruments at FVOCI – option
Upon initial recognition, the Group may elect to classify irrevocably its equity instruments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument by instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss. Equity instruments at FVOCI are not subject to impairment assessment.

Financial assets at FVTPL
Groups of financial assets for which the business model is other than "hold to collect" and "hold to collect and sell" are measured at FVTPL.

Derivatives recorded at fair value through profit or loss
The Group enters into derivative transactions with various counterparties. These include interest rate swaps, forwards and other similar instruments. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Net changes in the fair value of derivatives are included in net gain/loss from financial instruments measured at FVTPL, excluding gain/loss on foreign exchange derivatives which are presented in net foreign currency gain. From the beginning of 2019, the Group enters into certain cross-currency swap agreements to match its funding costs in certain currencies with the income generated from lending activities in these currencies. As a result, the Group economically hedges the interest rate risk, however no hedge accounting under IFRS 9 is applied. Net changes in the fair value of such derivative financial instruments, which are presented in net foreign currency gain, excludes unwinding of the locked-in interest differential which is presented as part of interest expense to reflect risk management objective of the Group.

Financial guarantees, letters of credit and other financial commitments
Financial guarantees, letters of credit and other financial commitments are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised, less cumulative amortisation recognised in the income statement and an ECL provision.

Offsetting
Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents
Cash and cash equivalents consist of cash on hand, amounts due from central banks, excluding obligatory reserves with central banks, and amounts due from credit institutions that mature within 90 days of the date of origination, and are free from contractual encumbrances and readily convertible to known amounts of cash.

Borrowings
Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions and amounts due to customers (including promissory notes issued). These are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost, using the effective interest method. Gains and losses are recognised in the consolidated income statement when the borrowings are derecognised as well as through the amortisation process.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

3. Summary of significant accounting policies continued

Borrowings continued

Issued Additional Tier 1 instruments with perpetual maturity and discretionary interest payments are classified as financial liabilities when the instruments are not convertible into equity and the Group does not have unconditional right to avoid delivering cash upon a predetermined trigger event. Such instruments are measured at amortised cost with respective interest presented as part of Interest Expense in the Consolidated Income Statement.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated income statement.

Subordinated debt

Subordinated debt represents long-term funds attracted by the Bank on the international financial markets or domestic market. The holders of subordinated debt would be subordinate to all other creditors to receive repayment of debt in case of the Bank's liquidation. Subordinated debt is carried at amortised cost.

Leases (policy applicable as at 1 January 2019)

The Group as a lessee

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group considers the commencement date of the lease the date on which the lessor makes an underlying asset available for use to the Group. If the lease contract contains several lease components, the Group allocates the consideration in the contact to each lease component on the basis of their relative standalone prices and accounts for them separately.

The Group's main leasing activities include the leases of service centres and ATM spaces. A non-cancellable lease period is up to ten years. Lease payments are fixed in most cases. The contacts don't generally carry extension or termination options for the lease term and do not impose any covenants.

Recognition of right-of-use asset and lease liability

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimated dismantling costs, if any. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term. The Group applies the cost model to right-of-use assets, except for those assets that would meet the definition of investment property, in which case the revaluation model would be applied.

The lease liability is initially measured at the present value of the future lease payments excluding payments for VAT, discounted using the Group's incremental borrowing rate (IBR). The lease liability is subsequently measured at amortised cost using the IBR.

Recognition exemptions

The Group applies the recognition exemptions on lease contracts for which the lease term ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Modifications of lease contracts

If the lease contract is modified by either changing the scope of the lease, or the consideration for a lease that was not part of the original terms and conditions of the lease, the Group determines whether the modification results in:

- a separate lease; or
- a change in the accounting for the existing lease.

3. Summary of significant accounting policies continued

Leases (policy applicable as at 1 January 2019) continued

The Group accounts for a lease modification as a separate lease when both of the following conditions are met:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases commensurate with the standalone price for the increase in scope and any adjustments to that standalone price reflect the circumstances of the particular contract.

For the lease modifications that are not accounted as separate leases, the Group re-measures the lease liability by:

- decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The Group recognises in profit or loss any gain or loss relating to the partial or full termination of the lease; or
- making a corresponding adjustment to the right-of-use asset for all other lease modifications.

The Group as a lessor

At the inception of the lease, the Group classifies each of its leases as either an operating lease or a finance lease.

Finance lease

Leases that transfer substantially all the risks and benefits incidental to ownership of the lease item to the lessee are classified as finance leases. All other leases are classified as operating leases. The Group recognises finance lease receivables in the consolidated statement of financial Position at a value equal to the net investment in the lease, starting from the date of commencement of the lease term. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease. Initial direct costs are included in the initial measurement of the finance lease receivables. Lease payments received are apportioned between the finance income and the reduction of the outstanding lease receivable. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding.

Operating lease

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the consolidated income statement on a straight-line basis over the lease term as net other income. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset. Lease accounting policy applicable before 1 January 2019 can be found in the previous year consolidated financial statements.

Impairment of financial assets

Overview of the ECL principles

The Group records an allowance for expected credit loss for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as "financial assets". Equity instruments are not subject to impairment under IFRS 9.

The allowance is based on the ECL associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit-impaired, the allowance is based on the change in the lifetime ECL.

The Group applies the simplified approach for trade, lease and other receivables and contract assets and records lifetime expected losses on them.

In order to calculate ECL, the Group first evaluates individually whether objective evidence of impairment exists for loans that are individually significant. It then collectively assesses loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment available under the individual assessment.

3. Summary of significant accounting policies continued

Staged approach to the determination of expected credit losses

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

- Stage 1: The Group recognises a credit loss allowance at an amount equal to 12-month expected credit losses. This represents the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, assuming that credit risk has not increased significantly after initial recognition. For those financial assets with a remaining maturity of less than 12 months, a probability of default (PD) is used that corresponds to the remaining maturity.
- Stage 2: The Group recognises a credit loss allowance at an amount equal to lifetime expected credit losses (LTECL) for those financial instruments which are considered to have experienced a significant increase in credit risk since initial recognition. This requires the computation of ECL based on lifetime probability of default (LTPD) that represents the probability of default occurring over the remaining lifetime of the financial instrument. Allowance for credit losses are higher in this stage because of an increase in credit risk and the impact of a longer time horizon being considered compared with 12 months in Stage 1. Financial Instruments in stage 2 are not yet deemed to be credit-impaired.
- Stage 3: If the financial instrument is credit-impaired, it is then moved to Stage 3. The Group recognises a loss allowance at an amount equal to lifetime expected credit losses, reflecting a PD of 100% for those financial instruments that are credit-impaired.

Financial instruments within the scope of the impairment requirements of IFRS 9 are classified into one of the above three stages. Unless purchased or originated credit-impaired, newly originated assets are classified as Stage 1 and remain in that stage unless there is considered to have been a significant increase in credit risk since initial recognition, at which point the asset is reclassified to Stage 2.

Purchased or originated credit-impaired (POCI) assets are financial instruments that are credit-impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit adjusted EIR (CAEIR). CAEIR takes into account all contractual terms of the financial asset and expected credit losses. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses where ECLs are calculated based on lifetime expected credit loss. Once the financial asset is recognised as POCI, it retains this status until derecognised.

Key judgements and estimates used under IFRS 9 are disclosed in Note 4.

Derecognition of financial assets and liabilities

Derecognition of financial assets

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

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

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

3. Summary of significant accounting policies continued

Derecognition of financial assets and liabilities continued

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Derecognition and modification of financial assets

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of financial assets. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms, based on qualitative and quantitative criteria. The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, except for cases when renegotiation of contractual terms happens due to financial difficulties of the borrower. Once the financial asset is derecognised, the difference is recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to derecognise a financial instrument, the Group considers the following factors:

- change in currency of the loan;
- change in interest rate type;
- introduction of an equity feature;
- change in counterparty;
- if the modification is such that the instrument would no longer meet the SPPI criterion.

If the terms are not substantially different, or the renegotiation is due to the financial difficulties of the borrower, such renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in interest income. The new gross carrying amount is calculated by discounting the modified cash flows at the original effective interest rate.

Forbearance and modified loans

The Group sometimes makes concessions or modifications to the original terms of the loans as a response to the borrower's financial difficulties, rather than taking possession or otherwise enforcing collection of collateral. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. Once the asset has been identified as forborne, the assets are classified in Stage 3. The decision as to how long the asset remains in the forborne category is determined on a case-by-case basis for commercial and SME loans, when a minimum six consecutive payments are required for the rest of the loans to exit from the forbearance category and transfer to Stage 2. Once the loan is transferred to Stage 2, the Group continues to reassess whether there has been a significant increase in credit risk, however, such assets remain in Stage 2 for a minimum 12-month probation period before being transferred to Stage 1. Certain overlays to the above rules were introduced as a result of mass scale restructurings of loan contracts in 2020 triggered by COVID-19. For details see Note 4.

Derecognition of financial liabilities

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

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

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

3. Summary of significant accounting policies continued

Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification are regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Immediately before the initial classification of the asset as held for sale, the carrying amount of the asset is measured in accordance with applicable IFRSs.

Property and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately from other assets and liabilities in the statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or;
- is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss. Net cash flows attributable to the operating, investing and financing activities of discontinued operations are presented separately in the consolidated statement of cash flows.

Taxation

The current income tax expense is calculated in accordance with the regulations in force in the respective territories in which BOGG and its subsidiaries operate.

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

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

3. Summary of significant accounting policies continued

Taxation continued

Deferred tax liabilities are provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Georgia and Belarus also have various operating taxes that are assessed on the Group's activities. These taxes are included as a component of other operating expenses.

Investment properties

Investment property is land or building or a part of a building held to earn rental income or for capital appreciation and which is not used by the Group.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment property is determined on the basis of various sources including reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category. With regards to certain investment properties with repurchase option granted to previous owners, fair value of the property at the reporting date is capped at repurchase price.

Gains and losses resulting from changes in the fair value of investment property as well as earned rental income are recorded in the income statement within net other income.

If an investment property becomes owner-occupied, it is reclassified to property and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated. If an investment property satisfies asset held for sale criteria, it is reclassified to the assets held for sale category.

Property and equipment

Property and equipment is carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of the equipment when that cost is incurred if the recognition criteria are met.

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

Depreciation of an asset commences from the date the asset is ready and available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Office buildings and service centres	Up to 100
Furniture and fixtures	3-20
Computers and equipment	5-10
Motor vehicles	2-7

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

Assets under construction are stated at cost and are not depreciated until the time they are available for use and reclassified to their respective group of property and equipment.

Leasehold improvements are depreciated over the shorter life of the related leased asset and the expected lease term.

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

3. Summary of significant accounting policies continued

Goodwill impairment

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment as defined in IFRS 8 Operating Segments.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses cannot be reversed in future periods.

Intangible assets

The Group's intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The economic lives of intangible assets are assessed to be finite and amortised over four to 15 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete the asset and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during the development. Other research and software development costs are recognised as an expense as incurred.

Provisions

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

Share-based payment transactions

Employees (including senior executives) of the Group receive share-based remuneration, whereby they render services and receive equity instruments of the Group ("equity-settled transactions") as consideration for the services provided.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted.

The cost of equity-settled transactions is recognised together with the corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated income statement charge or credit for the period represents the movement in cumulative expense recognised as at the beginning and end of that period.

3. Summary of significant accounting policies continued

Share-based payment transactions continued

No expense is recognised for the awards that do not ultimately vest except for the awards where vesting is conditional upon market conditions which are treated as vesting irrespective of whether the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of the modification.

Where a new equity-settled award is designated as a replacement of a cancelled equity-settled award, the replacement of equity instruments are accounted for as a modification.

Where an equity-settled award is cancelled, it is treated as if it has vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as the replacement award on the date that it is granted, the cancelled and the new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Equity

Share capital

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

Treasury shares

Where BOGG or its subsidiaries purchase BOGG's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at par value, with adjustment of premiums against additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue. All expenses associated with dividend distribution are added to dividend amount and recorded directly through equity.

Contingencies

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

Income and expense recognition

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

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest-bearing securities, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

3. Summary of significant accounting policies continued

Income and expense recognition continued

For financial instruments in Stage 1 and Stage 2, the Group calculates interest income by applying the effective interest rate (EIR) to the gross carrying amount. Interest income for financial assets in Stage 3 is calculated by applying the EIR to the amortised cost (i.e. the gross carrying amount less credit loss allowance). For financial instruments classified as POCI only, interest income is calculated by applying a credit adjusted EIR to the amortised cost of these POCI assets. The Group presents interest revenue calculated using the EIR method separately in the income statement.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee and commission income is recognised when the Group satisfies a performance obligation. Fee income can be divided into the following categories:

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

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission incomes and asset management, custody, package services on bundled products and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn-down and other credit-related fees are deferred (together with any incremental costs), and recognised as an adjustment to the effective interest rate on the loan.

Customer loyalty programme

Customer loyalty programme points accumulated in the business are treated as deferred revenue and recognised in revenues gradually as they are earned. The Group recognises gross revenue earned from customer loyalty programmes when the performance obligation is satisfied, i.e. when the customer redeems the points or the points expire, where the Group acts as a principal. Conversely, the Group measures its revenue as the net amount retained on its account representing the difference between the consideration allocated to the award credits and the amount payable to the third party for supplying the awards as soon as the award credits are granted, where the Group acts as an agent. At each reporting date, the Group estimates the portion of accumulated points that is expected to be utilised by customers based on statistical data. These points are treated as a liability in the statement of financial position and are only recognised in revenue when points are earned or expired.

Performance obligations satisfied at a point in time

Fees and commissions earned from providing transaction-type services such as settlement, brokerage, cash and currency conversion operations are recognised when the service has been completed, provided such fees and commissions are not subject to refund or another contingency beyond the control of the Group. Fees from currency conversion operations represent additional commission (other than currency dealing revenue recognised in net foreign currency gain) charged on currency conversion service provided to customers on cards used abroad.

Dividend income

Dividend revenue is recognised when the Group's right to receive the payment is established.

Non-recurring items

The Group separately classifies and discloses those income and expenses that are non-recurring by nature. The Group defines non-recurring income or expense as an income or expense triggered by, or originated from, an economic, business or financial event that is not inherent to the regular and ordinary business course of the Group and is caused by uncertain or unpredictable external factors that cannot be reasonably expected to occur in the future, and thus should not be taken into account when making projections of future results.

3. Summary of significant accounting policies continued

Functional, reporting currencies and foreign currency translation

The consolidated financial statements are presented in Georgian Lari, which is the Group's presentation currency. BOGG's and the Bank's functional currency is Georgian Lari. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in the income statement.

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing). The official NBG exchange rates at 31 December 2020, 31 December 2019 and 31 December 2018 were:

	Lari to GBP	Lari to USD	Lari to EUR	Lari to BYN
31 December 2020	4.4529	3.2766	4.0233	1.2647
31 December 2019	3.7593	2.8677	3.2095	1.3639
31 December 2018	3.3955	2.6766	3.0701	1.2418

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Georgian Lari at the rate of exchange ruling at the reporting date and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in other comprehensive income relating to that particular entity is recognised in the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations, and translated at the rate at the reporting date.

Adoption of new or revised standards and interpretations

Amendments effective from 1 January 2020

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

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

Amendment provided lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. If lessee applies the exemption, COVID-19-related rent concessions should be accounted as if they were not lease modifications. This results in accounting for the concession as variable lease payments in the period(s) in which payment reduction occurred. The amendment is effective for annual reporting periods beginning on or after 1 June 2020 with early application permitted.

The Group has early adopted the Amendment.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

3. Summary of significant accounting policies continued

Adoption of new or revised standards and interpretations continued

Amendments to IAS 1 and IAS 8: Definition of Material

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

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

Standards issued but not yet effective

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

IFRS 9 Financial Instruments – Fees in the "10%" test for derecognition of financial liabilities

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

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

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

In August 2020 the IASB issued Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, (IBOR reform Phase 2) to address the accounting issues which arise upon the replacement of an IBOR with a RFR.

The amendment includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free rate (RFR).

Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis. The amendments apply for annual periods beginning on or after 1 January 2021. Earlier application is permitted.

The Group is currently working on the transition and will apply amendment from its effective date 1 January 2021.

Other standards issued but not yet effective have no material impact on the Group's consolidated financial statements.

4. Significant accounting judgements and estimates

In the process of applying the Group's accounting policies, the Board of Directors and management use their judgement and make estimates in determining the amounts recognised in the consolidated financial statements. The most significant judgements and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values (Note 27).

Measurement of fair value of investment properties

The fair value of investment properties is determined by independent, professionally qualified appraisers. Fair value is determined using a combination of the internal capitalisation method (also known as discounted future cash flow method) and the sales comparison method.

The Group performs valuation of its investment properties with a sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. In order to identify any significant changes in the real estate market as a result of COVID-19 that could indicate that investment properties are not stated at fair value as at the reporting date, the Group hired independent valuator to perform the valuation of its assets. Results of this valuation are presented in Note 11, while valuation inputs and techniques are presented in Note 27. The Group's properties are spread across the different parts of the country. While the secondary market in Georgia provides adequate market information for fair value measurements for small and medium-sized properties, valuation of large properties involves application of various observable and unobservable inputs to determine adjustments to the available comparable sale prices. These estimates and assumptions are based on the best available information, however actual results could be different.

Allowance for financial assets

IFRS 9 requires management to make a number of judgements, assumptions and estimates that affect the allowance for ECL. Estimates and judgements are based on management's knowledge and historical experience.

The impact of COVID-19 resulted in the application of further judgement within those areas due to the limited recent experience of the economic and financial impacts of such an event. Given the unprecedented nature of the COVID-19 pandemic and the uncertainties associated with it, the Group reconsidered the existing accounting judgements and estimates and applied management overlays to the methodology. As a result, the Group has made a number of changes in the significant judgements that were applied as at the end of the previous reporting date. A summary of the key judgements made by management is set out below.

Definition of default, credit-impaired and cure (Note 26)

The Group's definition of default is based on quantitative and qualitative criteria. The definition may differ across products. The definition is consistent with the definition used for internal credit risk management purposes and it corresponds with internal financial instrument risk classification rules. A counterparty is classified as defaulted at the latest when payments of interest, principal or fees are overdue for more than 90 days or when bankruptcy, fraud, insolvency proceedings of enforced liquidation have commenced, or there is other evidence that the payment obligations will not be fully met. The determination of whether a financial instrument is credit-impaired focuses on default risk, without taking into consideration the effects of credit risk mitigations such as collateral or guarantees.

An instrument is classified as credit-impaired if the counterparty is defaulted and/or the instrument is POCI.

Once the financial asset is classified as credit-impaired (except for POCIs) it remains as such unless all past due amounts have been rectified or there is general evidence of credit recovery. A minimum period of six consecutive months' payment is applied as exit criteria to financial assets restructured due to credit risk other than corporate loan portfolio and debt instruments measured at FVOCI, where exit criteria are determined as exit from bankruptcy or insolvency status, disappearance of liquidity problems or existence of other general evidence of credit recovery assessed on individual basis. For other credit-impaired financial instruments, exit criteria is determined as repayment of the entire overdue amount other than through refinancing or foreclosure.

Once a credit-impaired financial asset meets default exit criteria, it remains in Stage 2 at least for the next 12 consecutive months. In case no default status is assigned during the 12 consecutive months, it is transferred to Stage 1 if its credit risk is not significantly higher than at origination date.

4. Significant accounting judgements and estimates continued

Significant increase in credit risk (SICR)

A significant increase in credit risk is not a defined term per IFRS 9, and is determined by management, based on their experience and judgement. In assessing whether the credit risk has significantly increased, the Group has identified a series of qualitative and quantitative criteria based on undertaking the holistic analysis of various factors including those which are specific to a particular financial instrument or to a borrower as well as those applicable to particular sub-portfolios. These criteria are:

- A significant increase in credit risk, expressed in the relative and/or absolute increase in the risk of default since initial recognition. SICR is determined based on comparison between credit risk ratings (internal or external) as of the origination date and credit risk ratings as of the reporting date for each financial asset individually. Thresholds are determined separately for corporate, retail and SME and other financial instrument portfolios, depending on initial grade assigned at origination.
- Existence of forecast of adverse changes in commercial, financial or economic conditions that adversely affect the creditworthiness of the borrower.
- Modification of the contractual terms due to financial problems of the borrower other than default.
- The days past due on individual contract level breached the threshold of 30 days.
- Other qualitative indicators, such as external market indicators of credit risk or general economic conditions, which indicate that the level of risk has been increased significantly since origination.

The above noted SICR indicators are identified at financial instrument level in order to track changes in credit risk since initial recognition date.

In response to COVID-19 outbreak the Group came out with an initiative to grant three-month payment holidays to its borrowers in March 2020 in order to significantly reduce the requirement for customers to physically visit Bank branches. Such event was not automatically considered as SICR event (i.e. trigger to transfer the exposure from Stage 1 to Stage 2) and the exposure was only transferred to Stage 2 where there was an observable evidence of financial difficulties of the borrower indicating that the level of risk has increased significantly since loan origination.

Retail portfolio:

Subsequent to March 2020, the Group continued to offer full or partial payment holiday options to the retail segment borrowers on a mass scale basis. In assessing whether the credit risk of the borrowers who accepted payment holidays has significantly increased, the Group identified a series of qualitative and quantitative criteria based on holistic analysis of various factors. Loans with full grace granted (i.e. grace on principal as well as interest) were transferred to either Stage 2 or Stage 3 depending on payment-to-income (PTI) ratios, prolongation period and other relevant parameters.

Corporate:

The Group applied individual approach to identify if SICR occurred since loan origination. The loan was transferred to stage 2 only when observable evidence of financial difficulties of the borrower indicated that the level of risk has increased significantly since loan origination. Specifically, if the borrower was not expected to fully serve the loan after release of lockdown measures, the loan was considered to have experienced SICR.

Measurement of expected credit losses

ECL reflects an unbiased, probability-weighted estimate based on a combination of the following principal factors: probability of default (PD), loss given default (LGD), and exposure at default (EAD), which are further explained below:

PD estimation: The Group estimates PD based on a combination of rating model calibration results and a migration matrices approach which is further adjusted for macroeconomic expectations for a minimum three years onwards for all portfolios, to represent the forward-looking estimators of the PD parameters. The migration matrix is built in a way to reflect the weighted average yearly migration over the historical data period. The risk groups are determined in a way to ensure intra-group homogeneity and differentiation of expected PD levels. For loan portfolios other than corporate loans, PD is further adjusted considering time since financial instrument origination. The models incorporate both qualitative and quantitative information and, where practical, build on information from top rating agencies, Credit Bureau or internal credit rating systems. Since Stage 3 financial instruments are defaulted, the probability of default in this case is equal to 100%.

4. Significant accounting judgements and estimates continued

Measurement of expected credit losses continued

Exposure at default (EAD): The EAD represents an estimate of the exposure to credit risk at the time of a potential default occurring during the life of a financial asset. It represents the cash flows outstanding at the time of default, considering expected repayments, interest payments and accruals discounted at the EIR. To calculate EAD for a Stage 1 financial instrument, the Group assesses the possible default events within 12 months for the calculation of the 12 months ECL. For Stage 2, Stage 3 and POCI financial instruments, the exposure at default is considered for events over the lifetime of the instruments. The Group determines EAD differently for products with the repayment schedules and those without repayment schedules. For financial instruments with repayment schedules, the Group estimates forward-looking EAD using the contractual cash flow approach with further corrections for expected prepayments and overdue days. For products without the repayment schedules such as credit cards, credit lines and financial guarantees, the Group estimates the forward-looking EAD using the limit utilisation approach. Under the above approach EAD is calculated using the expected utilization rate based on historical data of actual draw-down amounts.

Loss given default (LGD): LGD is defined as the likely loss in case of a counterparty default. It provides an estimation of the exposure that cannot be recovered in a default event and therefore captures the severity of a loss. The determination of the LGD takes into account expected future cash flows from collateral and other credit enhancements, or expected payouts from bankruptcy proceedings for unsecured claims and where applicable time to realisation of collateral and the seniority of claims. The Group segments its financial instruments into homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g. product type, wider range of collateral types). Based on this information, the Group estimates the recovery rate (other than through collateral), cure rate and probability of re-default. Recovery through collateral is further considered in LGD calculations individually for each financial instrument.

With the purpose to incorporate the uncertainties caused by the COVID-19 pandemic while determination of expected losses, the Group further discounted recovery and cure rates by 20%.

Assets considered in the ECL calculations

IFRS 9 requires cash flows expected from collateral and other credit enhancements to be reflected in the ECL calculation. The treatment and reflection of collateral for IFRS 9 purposes is in line with general risk management principles, policies and processes of the Group. Collateral, unless repossessed, is not recorded on the Group's statement of financial position. The fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and reassessed on an annual basis for all material exposures. To reflect the effect of the pandemic on the year-end ECL additional haircut has been applied to collateral values.

Forward-looking information

Under IFRS 9, the allowance for credit losses is based on reasonable and supportable forward-looking information obtainable without undue cost or effort, which takes into consideration past events, current conditions and forecasts of future economic conditions.

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

The determination of the probability-weighted ECL requires evaluating a range of diverse and relevant future economic conditions. To accommodate this requirement, the Group uses three different economic scenarios in the ECL calculation: an upside (weight 0.25), a base case (weight 0.50) and a downside (weight 0.25) scenario relevant for each respective portfolio. A weight is calculated for each scenario by using a probabilistic economic model that considers recent information as well as historical data provided by National Bank of Georgia.

The economic environment remains uncertain and future impairment charges may be subject to further volatility depending on the longevity of the COVID-19 pandemic and related containment and other measures.

The Group considers these forecasts to represent its best estimate of the possible outcomes, based on reliable available information.

Strategic Report | Overview
Strategic Report | Strategy
Strategic Report | Performance
Governance
Financial Statements
Additional Information

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

4. Significant accounting judgements and estimates continued

Forward-looking information continued

Forward-looking variable assumptions

The most significant period end assumptions used for ECL estimate as at 31 December 2020 per geographical segments are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

Georgia

Key drivers	ECL scenario	Assigned weight	As at 31 December 2020 2021	2022	2023	Assigned weight	As at 31 December 2019 2020	2021	2022	Assigned weight	As at 31 December 2018 2019	2020	2021
GDP growth in %													
	Upside	25%	-3.00%	6.00%	5.00%	25%	5.50%	6.00%	5.00%	25%	6.00%	5.50%	5.00%
	Base case	50%	-4.00%	4.50%	5.00%	50%	4.50%	5.00%	5.00%	50%	5.00%	5.00%	5.00%
	Downside	25%	-9.00%	2.50%	4.00%	25%	2.50%	3.50%	4.50%	25%	2.00%	2.50%	3.50%
GEL/USD exchange rate %													
	Upside	25%	5.00%	5.00%	0.00%	25%	5.00%	5.00%	0.00%	25%	10.00%	5.00%	-5.00%
	Base case	50%	0.00%	0.00%	0.00%	50%	0.00%	0.00%	0.00%	50%	0.00%	0.00%	0.00%
	Downside	25%	-10.00%	-5.00%	5.00%	25%	-10.00%	-5.00%	5.00%	25%	-15.00%	-10.00%	5.00%
CPI inflation rate in %													
	Upside	25%	5.50%	4.00%	3.00%	25%	4.50%	3.50%	3.00%	25%	3.40%	3.20%	3.00%
	Base case	50%	4.50%	1.50%	2.50%	50%	4.50%	2.50%	3.00%	50%	2.90%	3.00%	3.00%
	Downside	25%	7.00%	2.00%	2.50%	25%	7.00%	5.00%	3.00%	25%	4.50%	4.00%	3.00%

The above information is based on the macroeconomic forecasts provided by the NBG as of May 2020.

Belarus

Key drivers	ECL scenario	Assigned weight	As at 31 December 2020 2021 Q1	2021 Q2	2021 Q3	2021 Q4	Assigned weight	As at 31 December 2019 2020 Q1	2020 Q2	2020 Q3	2020 Q4	Assigned weight	As at 31 December 2018 2019 Q1	2019 Q2	2019 Q3	2019 Q4
GDP growth in %																
	Upside	10%	-0.40%	3.30%	1.80%	4.40%	25%	3.44%	2.94%	3.19%	3.65%	25%	0.87%	1.13%	1.98%	2.82%
	Base case	50%	-1.80%	1.30%	-0.95%	1.20%	50%	1.56%	0.84%	0.96%	1.16%	50%	0.40%	0.30%	0.75%	1.41%
	Downside	40%	-3.20%	-0.90%	-3.65%	-2.00%	25%	-0.31%	-1.26%	-1.27%	-1.32%	25%	-0.07%	-0.53%	-0.47%	0.00%
BYN/USD exchange rate %																
	Upside	10%	-2.89%	1.95%	0.04%	-1.00%	25%	-5.12%	-5.40%	-4.66%	-3.30%	25%	8.23%	6.94%	4.25%	2.55%
	Base case	50%	1.07%	3.20%	1.12%	0.41%	50%	-0.60%	0.67%	2.69%	2.78%	50%	10.11%	9.55%	7.61%	5.57%
	Downside	40%	5.04%	4.36%	2.10%	1.66%	25%	3.92%	6.69%	10.04%	8.52%	25%	12.61%	13.50%	12.83%	10.95%
CPI inflation rate in %																
	Upside	10%	0.48%	0.73%	0.10%	1.58%	25%	1.49%	0.42%	-0.27%	0.52%	25%	9.06%	5.70%	0.35%	5.59%
	Base case	50%	2.02%	1.20%	0.48%	1.75%	50%	2.06%	0.99%	0.32%	1.63%	50%	10.90%	7.22%	1.73%	6.80%
	Downside	40%	3.56%	1.66%	0.85%	1.90%	25%	2.62%	1.55%	0.88%	2.74%	25%	12.75%	8.72%	3.09%	7.99%

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

In 2019, the BYN appreciated by 2.6% as compared with the Dollar. As a result, the 2019 BYN/USD exchange rate assumptions used for ECL estimate as at 31 December 2018 have been significantly different as compared with actual dynamics. This resulted in a significant gap in y-o-y expectations for 2020, for each quarter, as presented in the table above.

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

4. Significant accounting judgements and estimates continued

Forward-looking information continued

Sensitivity of ECL to forward looking assumptions

Key drivers	As at 31 December 2020 Reported ECL	Reported ECL coverage	ECL coverage by scenarios Upside	Base case	Downside
Commercial loans	178,556	3.49%	3.46%	3.48%	3.53%
Residential mortgage loans	48,609	1.28%	1.05%	1.06%	1.95%
Micro and SME loans	102,352	3.13%	2.79%	2.83%	4.06%
Consumer loans	113,801	5.15%	4.78%	4.82%	6.18%
Gold – pawn loans	228	0.22%	0.21%	0.21%	0.23%

Key drivers	As at 31 December 2019 Reported ECL	Reported ECL coverage	ECL coverage by scenarios Upside	Base case	Downside
Commercial loans	98,610	2.40%	2.38%	2.40%	2.43%
Residential mortgage loans	9,017	0.29%	0.29%	0.29%	0.29%
Micro and SME loans	44,545	1.67%	1.63%	1.67%	1.73%
Consumer loans	72,707	3.49%	3.44%	3.47%	3.55%
Gold – pawn loans	254	0.30%	0.30%	0.30%	0.30%

Aggregation of financial instruments for collective assessment

For the purpose of a collective evaluation of impairment, financial instruments are grouped within homogeneous pools as follows: corporate loan portfolio is grouped on the basis of loan repayment source type; and retail loan portfolio is grouped on the basis of credit risk characteristics such as an asset type, collateralisation level, repayment source type and other relevant factors. As for SME and Micro loan portfolios, financial instruments are grouped based on asset type, overdue buckets, collateralisation level and other relevant factors.

Determination of expected life for revolving facilities

For revolving products, the expected life of financial instruments is determined either with reference to the next renewal date or with reference to the behavioural expected life of the financial instrument estimated based on the empirical observation of the lifetime.

Write-offs

The Group writes off financial assets when there is no reasonable expectation of recovery, which is materially unchanged for corporate and unsecured loan portfolios or for loans secured by collateral other than real estate. For mortgages and other loans secured by real estate, the balances are considered to be irrecoverable and are to be written off after 1,460 days of being overdue. If the amount to be written off is greater than the accumulated loan loss allowance, the difference is first treated as an expected credit loss expense. Any subsequent recoveries are credited to expected credit loss expense.

Backtesting of ECL calculation model

In order to monitor the quality and reliability of the Group's ECL calculation model, the Group performs backtesting and benchmarking procedures, whereby model outcomes are compared with actual results, based on internal experience as well as externally observed results. For PD, the Group uses statistical modelling to derive a predicted distribution of the number of defaults. The observed number of defaults is then compared with this distribution, allowing the Group to derive a statistical level of confidence in the model. For LGD, the backtesting compares observed losses with predicted LGDs. If any statistically significant deviations or shortcomings in parameterizations are observed, the relevant models are redefined and recalibrated. Any changes in the model as a result of backtesting procedures are accounted as changes in accounting estimates with prospective application.

Post-model adjustments

Limitations in the Group's impairment model or input data may be identified through the on-going assessment and validation of the output of the models. If management considers that impairment models do not sufficiently capture all material risks, appropriate adjustments are made to the ECL. In order to incorporate the uncertainties related to the economic outlook caused by COVID-19 pandemic into ECL calculated as at the end of the reporting period, the Group applied post-model adjustments. The effect of such overlays as at 31 December 2020 amounted to GEL 85,521.

(Thousands of Georgian Lari)

4. Significant accounting judgements and estimates continued

Post-model adjustments continued

	As at 31 December 2020			
	Modelled ECL	Post-model adjustments and management overlays	Total ECL	Adjustments as a % of total ECL
Commercial loans	173,946	4,610	178,556	2.6%
Residential mortgage loans	21,810	26,799	48,609	55.1%
Micro and SME loans	75,525	26,827	102,352	26.2%
Consumer loans	86,570	27,231	113,801	23.9%
Gold – pawn loans	174	54	228	23.7%
Total	**358,025**	**85,521**	**443,546**	**19.3%**

5. Segment information

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

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

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

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

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

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

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's operating income in 2020, 2019 or 2018.

5. Segment information continued

The following table presents the income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2020:

	Retail Banking	Corporate Investment Banking	BNB	Eliminations	Group Total
Net interest income	473,738	267,641	36,249	14	777,642
Net fee and commission income	120,985	38,585	5,678	255	165,503
Net foreign currency gain	56,879	35,959	6,202	–	99,040
Net other income	23,390	24,342	1,812	(1,070)	48,474
Operating income	**674,992**	**366,527**	**49,941**	**(801)**	**1,090,659**
Operating expenses	(319,592)	(80,894)	(32,950)	801	(432,635)
Profit from associates	782	–	–	–	782
Operating income before cost of risk	**356,182**	**285,633**	**16,991**	**–**	**658,806**
Cost of risk	(183,061)	(113,955)	(3,981)	–	(300,997)
Net operating income before non-recurring items	**173,121**	**171,678**	**13,010**	**–**	**357,809**
Net non–recurring expense/loss	(39,811)	(1,375)	(125)	–	(41,311)
Profit before income tax	**133,310**	**170,303**	**12,885**	**–**	**316,498**
Income tax expense	(4,724)	(14,097)	(2,734)	–	(21,555)
Profit for the year	**128,586**	**156,206**	**10,151**	**–**	**294,943**
Assets and liabilities					
Total assets	13,382,575	7,699,107	1,018,652	(64,414)	22,035,920
Total liabilities	11,963,455	6,700,867	886,097	(64,414)	19,486,005
Other segment information					
Property and equipment	65,097	5,910	616	–	71,623
Intangible assets	36,176	2,958	2,291	–	41,425
Capital expenditure	**101,273**	**8,868**	**2,907**	**–**	**113,048**
Depreciation, amortisation and impairment	(69,031)	(9,659)	(4,247)	–	(82,937)

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

5. Segment information continued

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

	Retail Banking	Corporate Investment Banking	BNB	Other	Eliminations	Group Total
Net interest income	545,701	217,874	27,586	(1,765)	23	789,419
Net fee and commission income	136,510	37,018	7,169	(819)	136	180,014
Net foreign currency gain (loss)	51,009	49,355	20,688	(1,689)	–	119,363
Net other income	8,230	13,506	463	214	(939)	21,474
Operating income	**741,450**	**317,753**	**55,906**	**(4,059)**	**(780)**	**1,110,270**
Operating expenses	(296,011)	(94,113)	(35,366)	(7,648)	780	(432,358)
Profit from associates	789	–	–	–	–	789
Operating income (expense) before cost of risk	**446,228**	**223,640**	**20,540**	**(11,707)**	**–**	**678,701**
Cost of risk	(89,879)	(14,548)	(2,691)	(466)	–	(107,584)
Net operating income (loss) before non-recurring items	**356,349**	**209,092**	**17,849**	**(12,173)**	**–**	**571,117**
Net non-recurring expense/loss	(3,727)	(1,397)	(110)	(9,474)	–	(14,708)
Profit (loss) before income tax	**352,622**	**207,695**	**17,739**	**(21,647)**	**–**	**556,409**
Income tax expense	(34,018)	(19,036)	(3,404)	–	–	(56,458)
Profit (loss) for the year	**318,604**	**188,659**	**14,335**	**(21,647)**	**–**	**499,951**
Assets and liabilities						
Total assets	11,304,456	6,339,367	943,070	85,426	(102,822)	18,569,497
Total liabilities	10,095,635	5,461,859	833,874	130,043	(102,822)	16,418,589
Other segment information						
Property and equipment	82,801	9,043	1,150	40	–	93,034
Intangible assets	33,830	2,781	2,083	–	–	38,694
Capital expenditure	**116,631**	**11,824**	**3,233**	**40**	**–**	**131,728**
Depreciation, amortisation and impairment	(66,136)	(8,437)	(3,543)	(2)	–	(78,118)

5. Segment information continued

The following table presents the income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2018:

	Banking Business								
	Retail Banking	Corporate Investment Banking	BNB	Other Banking Business	Banking Business Eliminations	Banking Business	Investment Business	Inter–Business Eliminations	Group Total
Net interest income	546,872	165,723	25,894	1,069	46	739,604	–	2,149	741,753
Net fee and commission income	118,858	26,680	7,805	(168)	7	153,182	–	(520)	152,662
Net foreign currency gain	56,358	54,702	16,605	1,772	–	129,437	–	(675)	128,762
Net other income (loss)	1,371	6,699	746	(117)	(884)	7,815	–	(553)	7,262
Operating income	**723,459**	**253,804**	**51,050**	**2,556**	**(831)**	**1,030,038**	**–**	**401**	**1,030,439**
Operating expenses	(264,424)	(78,321)	(32,261)	(4,342)	831	(378,517)	–	1,665	(376,852)
Profit from associates	1,339	–	–	–	–	1,339	–	–	1,339
Operating income (expense) before cost of risk	**460,374**	**175,483**	**18,789**	**(1,786)**	**–**	**652,860**	**–**	**2,066**	**654,926**
Cost of risk	(130,714)	(25,888)	(3,070)	(553)	–	(160,225)	–	–	(160,225)
Net operating income (loss) before non-recurring items	**329,660**	**149,595**	**15,719**	**(2,339)**	**–**	**492,635**	**–**	**2,066**	**494,701**
Net non-recurring expense/ loss	(35,110)	(13,630)	(716)	(7,872)	–	(57,328)	–	172	(57,156)
Profit before income tax expense from continuing operations	**294,550**	**135,965**	**15,003**	**(10,211)**	**–**	**435,307**	**–**	**2,238**	**437,545**
Income tax (expense) benefit	(36,292)	(16,827)	(3,546)	–	–	(56,665)	–	–	(56,665)
Profit (loss) for the period from continuing operations	**258,258**	**119,138**	**11,457**	**(10,211)**	**–**	**378,642**	**–**	**2,238**	**380,880**
Profit from discontinued operations	–	–	–	–	–	–	110,136	(2,238)	107,898
Profit (loss) for the period	**258,258**	**119,138**	**11,457**	**(10,211)**	**–**	**378,642**	**110,136**	**–**	**488,778**
Assets and liabilities									
Total assets	9,571,500	4,559,037	680,550	137,203	(149,987)	14,798,303	–	–	14,798,303
Total liabilities	8,455,246	3,955,420	595,287	144,064	(149,987)	13,000,030	–	–	13,000,030
Other segment information									
Property and equipment	62,738	6,642	1,841	42	–	71,263	–	–	71,263
Intangible assets	39,256	3,389	1,343	67	–	44,055	–	–	44,055
Capital expenditure	**101,994**	**10,031**	**3,184**	**109**	**–**	**115,318**	**–**	**–**	**115,318**
Depreciation, amortisation and impairment	(39,134)	(4,945)	(1,363)	–	–	(45,442)	–	–	(45,442)

(Thousands of Georgian Lari)

6. Cash and cash equivalents

	2020	2019	2018
Cash on hand	703,459	663,580	502,060
Current accounts with central banks, excluding obligatory reserves	158,588	405,560	298,788
Current accounts with credit institutions	590,331	463,498	243,622
Time deposits with credit institutions with maturities of up to 90 days	518,648	621,120	171,471
Cash and cash equivalents, gross	**1,971,026**	**2,153,758**	**1,215,941**
Less – Allowance for expected credit loss	(71)	(134)	(142)
Cash and cash equivalents, net	**1,970,955**	**2,153,624**	**1,215,799**

As at 31 December 2020, GEL 985,848 (2019: GEL 845,606, 2018: GEL 316,083) was placed on current and time deposit accounts with internationally recognised OECD banks and central banks that are the counterparties of the Group in performing international settlements. The Group earned up to 0.21% interest per annum on these deposits (2019: up to 2.20%, 2018: up to 3.00%). Management does not expect any losses from non-performance by the counterparties holding cash and cash equivalents, and there are no material differences between their book and fair values.

As at 31 December 2020, cash and cash equivalents held by BOGG of GEL 199 (2019: GEL 1,845, 2018: GEL 1,748) is represented by placements on current accounts with Georgian and the Organisation for Economic Co-operation and Development ("OECD") banks.

7. Amounts due from credit institutions

	2020	2019	2018
Obligatory reserves with central banks	1,994,662	1,577,911	1,244,885
Time deposits with maturities of more than 90 days	8,424	5,404	43,484
Deposits pledged as security for open commitments	1,856	5,691	–
Inter-bank loan receivables	11,463	30,413	17,586
Amounts due from credit institutions, gross	**2,016,405**	**1,619,419**	**1,305,955**
Less – Allowance for expected credit loss	(400)	(347)	(739)
Amounts due from credit institutions, net	**2,016,005**	**1,619,072**	**1,305,216**

Obligatory reserves with central banks represent amounts deposited with the NBG and National Bank of the Republic of Belarus (the "NBRB"). Credit institutions are required to maintain cash deposits (obligatory reserve) with the NBG and with the NBRB, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw these deposits is restricted by regulation. The Group earned up to 1.25% interest on obligatory reserves with NBG and NBRB for the years ended 31 December 2020 (2019: 1.25%, 2018: 1.00%).

As at 31 December 2020, inter-bank loan receivables include GEL 11,464 deposits placed with non-OECD banks (2019: nil, 2018: GEL 17,586).

8. Investment securities

	2020	2019	2018
Investment securities measured at FVOCI – debt instruments	2,539,019	1,783,437	2,018,061
Investment securities designated as at FVOCI – equity investments	5,378	3,367	956
Investment securities	**2,544,397**	**1,786,804**	**2,019,017**

	2020	2019	2018
Ministry of Finance of Georgia treasury bonds*	1,344,404	647,886	927,594
Ministry of Finance of Georgia treasury bills**	36,879	120,519	100,111
Foreign treasury bonds	159,537	66,961	7,762
Certificates of deposit of central banks	–	8,912	63,394
Other debt instruments***	998,199	939,159	919,200
Investment securities measured at FVOCI – debt instruments	**2,539,019**	**1,783,437**	**2,018,061**

* Treasury bonds of GEL 1,044,066 was pledged for short-term loans from the NBG (2019: GEL 576,017, 2018: GEL 573,517), and GEL 8,188 was pledged as security for cash kept by the NBG at the Group's premises under cash custodian services (2019: nil, 2018: nil).

** No treasury bills were pledged for short-term loans from the NBG (2019: GEL 74,564, 2018: nil), and GEL 9,180 was pledged as security for cash kept by the NBG at the Group's premises under cash custodian services (2019: nil, 2018: nil).

*** Corporate bonds of GEL 685,901 was pledged for short-term loans from the NBG (2019: GEL 684,546, 2018: GEL 674,616).

Other debt instruments as at 31 December 2020 mainly comprises bonds issued by the European Bank for Reconstruction and Development of GEL 312,144 (2019: GEL 309,351, 2018: GEL 249,659), GEL-denominated bonds issued by International Finance Corporation of GEL 211,250 (2019: GEL 208,948, 2018: GEL 110,545), GEL-denominated bonds issued by The Netherlands Development Finance Company of GEL 162,949 (2019: GEL 156,494, 2018: GEL 163,454), GEL-denominated bonds issued by Black Sea Trade and Development Bank of GEL 151,592 (2019: GEL 150,865, 2018: GEL 136,504), and GEL-denominated bonds issued by Asian Development Bank of GEL 61,350 (2019: GEL 58,863, 2018: GEL 65,145).

Foreign treasury bonds comprise of US Treasury Notes in amount of GEL 52,992 (2019: Nil, 2018: Nil), Ministry of Finance of the Republic of Lithuania treasury bonds in amount of GEL 26,982 (2019: Nil, 2018: Nil) and Ministry of Finance of the Republic of Belarus treasury bonds in amount of GEL 79,563 (2019: GEL 66,961, 2018: GEL 7,762).

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables

	2020	2019	2018
Commercial loans	5,123,393	4,101,950	2,956,446
Residential mortgage loans	3,796,384	3,066,683	2,549,453
Micro and SME loans	3,269,454	2,660,220	2,129,215
Consumer loans	2,208,013	2,085,108	1,876,888
Gold – pawn loans	103,384	85,540	80,770
Loans to customers at amortised cost, gross	**14,500,628**	**11,999,501**	**9,592,772**
Less – Allowance for expected credit loss	(443,546)	(225,133)	(311,843)
Loans to customers at amortised cost, net	**14,057,082**	**11,774,368**	**9,280,929**
Finance lease receivables, gross	**139,372**	**159,191**	**110,087**
Less – Allowance for expected credit loss	(4,376)	(2,297)	(1,648)
Finance lease receivables, net	**134,996**	**156,894**	**108,439**
Loans and advances to customers at FVTPL	**–**	**–**	**8,379**
Total loans to customers and finance lease receivables	**14,192,078**	**11,931,262**	**9,397,747**

As at 31 December 2020, loans to customers carried at GEL 692,052 (2019: GEL 577,246, 2018: GEL 357,342) were pledged for short-term loans from the NBG.

Expected credit loss

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

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

In 2020 there were significant transfers of loans to stage 2 and 3 as compared to previous years. This was basically driven by the COVID-19 effect on the creditworthiness of borrowers in all sectors and the related ECL model overlays to identify SICR and default cases. For details on the model overlays see Note 4.

Commercial loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**3,583,051**	**349,494**	**161,744**	**7,661**	**4,101,950**
New financial asset originated or purchased	3,223,279	45,618	2,156	–	3,271,053
Transfer to Stage 1	370,266	(370,266)	–	–	–
Transfer to Stage 2	(578,928)	626,550	(47,622)	–	–
Transfer to Stage 3	(58,408)	(79,014)	137,422	–	–
Impact on ECL of exposures transferred between stages during the year	–	–	–	–	–
Assets derecognised due to pass-through arrangement	(30,363)	(10,340)	(52)	–	(40,755)
Assets repaid	(2,637,752)	(218,169)	(61,392)	(575)	(2,917,888)
Resegmentation	21,133	–	–	–	21,133
Impact of modifications	(809)	94	(4)	(7)	(726)
Write-offs	–	–	(6,595)	–	(6,595)
Recoveries of amounts previously written off	–	–	13,531	127	13,658
Unwind of discount	–	–	9,691	6	9,697
Currency translation differences	(19,819)	(471)	(1,455)	–	(21,745)
Foreign exchange movement	634,072	37,831	31,097	928	703,928
Net other changes	(14,644)	791	3,300	236	(10,317)
Balance at 31 December 2020	**4,491,078**	**382,118**	**241,821**	**8,376**	**5,123,393**
Individually assessed	–	–	237,593	–	237,593
Collectively assessed	4,491,078	382,118	4,228	8,376	4,885,800
Balance at 31 December 2020	**4,491,078**	**382,118**	**241,821**	**8,376**	**5,123,393**

Commercial loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**16,903**	**3,414**	**77,995**	**298**	**98,610**
New financial asset originated or purchased	4,099	1,253	572	–	5,924
Transfer to Stage 1	3,906	(3,906)	–	–	–
Transfer to Stage 2	(2,773)	8,026	(5,253)	–	–
Transfer to Stage 3	(541)	(12,002)	12,543	–	–
Impact on ECL of exposures transferred between stages during the year	(27,165)	(2,523)	24,295	–	(5,393)
Assets derecognised due to pass-through arrangement	(9)	(294)	(12)	–	(315)
Assets repaid	(9,935)	(10,052)	(29,340)	(304)	(49,631)
Resegmentation	140	–	–	–	140
Impact of modifications	1	8	(6)	–	3
Write-offs	–	–	(6,595)	–	(6,595)
Recoveries of amounts previously written off	–	–	13,531	127	13,658
Unwind of discount	–	–	9,691	6	9,697
Currency translation differences	791	335	2,281	–	3,407
Foreign exchange movement	4,407	(782)	12,544	20	16,189
Net other measurement of ECL	43,999	24,680	24,326	(143)	92,862
Balance at 31 December 2020	**33,823**	**8,157**	**136,572**	**4**	**178,556**
Individually assessed	–	–	134,424	–	134,424
Collectively assessed	33,823	8,157	2,148	4	44,132
Balance at 31 December 2020	**33,823**	**8,157**	**136,572**	**4**	**178,556**

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Residential mortgage loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**2,764,959**	**160,038**	**109,413**	**32,273**	**3,066,683**
New financial asset originated or purchased	1,239,637	430	259	3,101	1,243,427
Transfer to Stage 1	460,728	(419,122)	(41,606)	–	–
Transfer to Stage 2	(541,668)	600,415	(58,747)	–	–
Transfer to Stage 3	(155,514)	(40,638)	196,152	–	–
Impact on ECL of exposures transferred between stages during the year	–	–	–	–	–
Assets derecognised due to pass-through arrangement	–	–	–	–	–
Assets repaid	(788,737)	(37,503)	(51,790)	(13,696)	(891,726)
Resegmentation	(945)	–	–	–	(945)
Impact of modifications	(8,730)	954	(134)	(854)	(8,764)
Write-offs	–	–	(5,368)	(215)	(5,583)
Recoveries of amounts previously written off	–	–	734	767	1,501
Unwind of discount	2	–	292	91	385
Currency translation differences	(1,837)	(1)	(3)	–	(1,841)
Foreign exchange movement	287,057	23,746	12,847	3,604	327,254
Net other changes	32,892	25,896	6,427	778	65,993
Balance at 31 December 2020	**3,287,844**	**314,215**	**168,476**	**25,849**	**3,796,384**
Individually assessed	–	–	3,517	–	3,517
Collectively assessed	3,287,844	314,215	164,959	25,849	3,792,867
Balance at 31 December 2020	**3,287,844**	**314,215**	**168,476**	**25,849**	**3,796,384**

Residential mortgage loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**461**	**160**	**6,588**	**1,808**	**9,017**
New financial asset originated or purchased	848	2	9	162	1,021
Transfer to Stage 1	14,030	(7,452)	(6,578)	–	–
Transfer to Stage 2	(2,420)	10,027	(7,607)	–	–
Transfer to Stage 3	(75)	(856)	931	–	–
Impact on ECL of exposures transferred between stages during the year	(19,497)	(6,049)	2,719	–	(22,827)
Assets derecognised due to pass-through arrangement	–	–	–	–	–
Assets repaid	(3,281)	(965)	(8,598)	(3,399)	(16,243)
Resegmentation	(17)	–	–	–	(17)
Impact of modifications	(15)	468	499	(213)	739
Write-offs	–	–	(5,368)	(215)	(5,583)
Recoveries of amounts previously written off	–	–	734	767	1,501
Unwind of discount	2	–	292	91	385
Currency translation differences	(11)	–	–	–	(11)
Foreign exchange movement	136	(63)	1,029	474	1,576
Net other measurement of ECL	18,491	16,138	40,586	3,836	79,051
Balance at 31 December 2020	**8,652**	**11,410**	**25,236**	**3,311**	**48,609**
Individually assessed	–	–	403	–	403
Collectively assessed	8,652	11,410	24,833	3,311	48,206
Balance at 31 December 2020	**8,652**	**11,410**	**25,236**	**3,311**	**48,609**

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Micro and SME loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**2,426,866**	**113,130**	**118,475**	**1,749**	**2,660,220**
New financial asset originated or purchased	2,089,047	6,772	887	2,928	2,099,634
Transfer to Stage 1	453,063	(439,267)	(13,796)	–	–
Transfer to Stage 2	(891,350)	925,785	(34,435)	–	–
Transfer to Stage 3	(58,496)	(104,533)	163,029	–	–
Impact on ECL of exposures transferred between stages during the year	–	–	–	–	–
Assets derecognised due to pass-through arrangement	–	–	–	–	–
Assets repaid	(1,593,656)	(154,459)	(70,067)	(1,224)	(1,819,406)
Resegmentation	(19,958)	–	–	–	(19,958)
Impact of modifications	(6,109)	(786)	(2,560)	(1)	(9,456)
Write-offs	–	–	(30,561)	(976)	(31,537)
Recoveries of amounts previously written off	–	–	7,831	102	7,933
Unwind of discount	–	–	1,319	25	1,344
Currency translation differences	(8,429)	(1,001)	(569)	–	(9,999)
Foreign exchange movement	254,683	35,131	13,036	293	303,143
Net other changes	3,446	58,633	24,882	575	87,536
Balance at 31 December 2020	**2,649,107**	**439,405**	**177,471**	**3,471**	**3,269,454**
Individually assessed	–	–	25,900	–	25,900
Collectively assessed	2,649,107	439,405	151,571	3,471	3,243,554
Balance at 31 December 2020	**2,649,107**	**439,405**	**177,471**	**3,471**	**3,269,454**

Micro and SME loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**12,890**	**5,803**	**24,976**	**876**	**44,545**
New financial asset originated or purchased	1,636	739	24	50	2,449
Transfer to Stage 1	24,865	(21,624)	(3,241)	–	–
Transfer to Stage 2	(10,906)	17,875	(6,969)	–	–
Transfer to Stage 3	(562)	(9,162)	9,724	–	–
Impact on ECL of exposures transferred between stages during the year	(25,202)	(2,771)	8,310	–	(19,663)
Assets derecognised due to pass-through arrangement	–	–	–	–	–
Assets repaid	(13,883)	(9,024)	(21,668)	(270)	(44,845)
Resegmentation	(123)	–	–	–	(123)
Impact of modifications	(158)	(173)	(1,148)	–	(1,479)
Write-offs	–	–	(30,561)	(976)	(31,537)
Recoveries of amounts previously written off	–	–	7,831	102	7,933
Unwind of discount	–	–	1,319	25	1,344
Currency translation differences	368	134	142	–	644
Foreign exchange movement	661	37	2,140	76	2,914
Net other measurement of ECL	36,571	38,737	64,681	181	140,170
Balance at 31 December 2020	**26,157**	**20,571**	**55,560**	**64**	**102,352**
Individually assessed	–	–	12,976	–	12,976
Collectively assessed	26,157	20,571	42,584	64	89,376
Balance at 31 December 2020	**26,157**	**20,571**	**55,560**	**64**	**102,352**

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Consumer loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**1,856,795**	**110,158**	**108,414**	**9,741**	**2,085,108**
New financial asset originated or purchased	1,613,372	7,125	2,925	1,016	1,624,438
Transfer to Stage 1	291,916	(245,014)	(46,902)	–	–
Transfer to Stage 2	(394,422)	435,335	(40,913)	–	–
Transfer to Stage 3	(100,329)	(49,583)	149,912	–	–
Impact on ECL of exposures transferred between stages during the year	–	–	–	–	–
Assets derecognised due to pass-through arrangement	–	–	–	–	–
Assets repaid	(1,412,334)	(80,602)	(70,082)	(3,242)	(1,566,260)
Resegmentation	(230)	–	263	–	33
Impact of modifications	(12,300)	(1,149)	(3,328)	(148)	(16,925)
Write-offs	–	–	(34,940)	(8)	(34,948)
Recoveries of amounts previously written off	–	–	21,309	65	21,374
Unwind of discount	–	–	431	18	449
Currency translation differences	(10,713)	(32)	(57)	–	(10,802)
Foreign exchange movement	16,413	3,656	3,549	419	24,037
Net other changes	56,014	14,472	10,369	654	81,509
Balance at 31 December 2020	**1,904,182**	**194,366**	**100,950**	**8,515**	**2,208,013**
Individually assessed	–	–	1,346	–	1,346
Collectively assessed	1,904,182	194,366	99,604	8,515	2,206,667
Balance at 31 December 2020	**1,904,182**	**194,366**	**100,950**	**8,515**	**2,208,013**

Consumer loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**16,823**	**6,345**	**49,325**	**214**	**72,707**
New financial asset originated or purchased	15,299	1,736	907	374	18,316
Transfer to Stage 1	45,315	(23,886)	(21,429)	–	–
Transfer to Stage 2	(17,770)	38,726	(20,956)	–	–
Transfer to Stage 3	(577)	(8,973)	9,550	–	–
Impact on ECL of exposures transferred between stages during the year	(39,380)	(13,541)	(5,993)	–	(58,914)
Assets derecognised due to pass-through arrangement	–	–	–	–	–
Assets repaid	(29,641)	(10,116)	(44,922)	(439)	(85,118)
Resegmentation	–	–	–	–	–
Impact of modifications	(519)	(171)	(1,704)	(7)	(2,401)
Write-offs	–	–	(34,940)	(8)	(34,948)
Recoveries of amounts previously written off	–	–	21,309	65	21,374
Unwind of discount	–	–	431	18	449
Currency translation differences	(186)	(7)	(49)	–	(242)
Foreign exchange movement	138	46	744	21	949
Net other measurement of ECL	51,095	35,374	94,368	792	181,629
Balance at 31 December 2020	**40,597**	**25,533**	**46,641**	**1,030**	**113,801**
Individually assessed	–	–	354	–	354
Collectively assessed	40,597	25,533	46,287	1,030	113,447
Balance at 31 December 2020	**40,597**	**25,533**	**46,641**	**1,030**	**113,801**

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Gold – pawn loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**80,794**	**1,114**	**3,632**	**–**	**85,540**
New financial asset originated or purchased	139,676	–	475	–	140,151
Transfer to Stage 1	6,565	(4,313)	(2,252)	–	–
Transfer to Stage 2	(10,625)	11,552	(927)	–	–
Transfer to Stage 3	(5,331)	(877)	6,208	–	–
Impact on ECL of exposures transferred between stages during the year	–	–	–	–	–
Assets derecognised due to pass-through arrangement	–	–	–	–	–
Assets repaid	(113,508)	(3,726)	(5,053)	–	(122,287)
Resegmentation	–	–	(263)	–	(263)
Impact of modifications	–	–	–	–	–
Write-offs	–	–	(58)	–	(58)
Recoveries of amounts previously written off	–	–	6	–	6
Unwind of discount	–	–	6	–	6
Currency translation differences	–	–	–	–	–
Foreign exchange movement	148	8	(167)	–	(11)
Net other changes	56	121	123	–	300
Balance at 31 December 2020	**97,775**	**3,879**	**1,730**	**–**	**103,384**
Individually assessed	–	–	–	–	–
Collectively assessed	97,775	3,879	1,730	–	103,384
Balance at 31 December 2020	**97,775**	**3,879**	**1,730**	**–**	**103,384**

Gold – pawn loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**9**	**1**	**244**	**–**	**254**
New financial asset originated or purchased	–	–	–	–	–
Transfer to Stage 1	79	(6)	(73)	–	–
Transfer to Stage 2	(10)	45	(35)	–	–
Transfer to Stage 3	(1)	(1)	2	–	–
Impact on ECL of exposures transferred between stages during the year	(82)	(1)	–	–	(83)
Assets derecognised due to pass-through arrangement	–	–	–	–	–
Assets repaid	(17)	(4)	(227)	–	(248)
Resegmentation	–	–	–	–	–
Impact of modifications	–	–	–	–	–
Write-offs	–	–	(58)	–	(58)
Recoveries of amounts previously written off	–	–	6	–	6
Unwind of discount	–	–	6	–	6
Currency translation differences	–	–	–	–	–
Foreign exchange movement	(1)	–	1	–	–
Net other measurement of ECL	63	(18)	306	–	351
Balance at 31 December 2020	**40**	**16**	**172**	**–**	**228**
Individually assessed	–	–	–	–	–
Collectively assessed	40	16	172	–	228
Balance at 31 December 2020	**40**	**16**	**172**	**–**	**228**

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables continued
Expected credit loss continued

Commercial loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**2,379,160**	**327,830**	**242,419**	**7,037**	**2,956,446**
New financial asset originated or purchased	4,157,804	163,280	6,632	–	4,327,716
Transfer to Stage 1	571,826	(571,826)	–	–	–
Transfer to Stage 2	(858,838)	883,222	(24,384)	–	–
Transfer to Stage 3	(10,482)	(47,956)	58,438	–	–
Assets derecognised due to pass-through arrangement	(60,246)	(17,550)	–	–	(77,796)
Assets repaid	(2,929,916)	(437,483)	(60,747)	(257)	(3,428,403)
Resegmentation	190,519	3,134	2,608	–	196,261
Impact of modifications	–	4	(233)	–	(229)
Write-offs	–	–	(97,392)	–	(97,392)
Recoveries of amounts previously written off	–	–	9,980	–	9,980
Unwind of discount	–	–	2,635	(143)	2,492
Currency translation differences	21,456	2,434	1,546	–	25,436
Foreign exchange movement	92,060	27,417	12,033	483	131,993
Net other changes	29,708	16,988	8,209	541	55,446
Balance at 31 December 2019	**3,583,051**	**349,494**	**161,744**	**7,661**	**4,101,950**
Individually assessed	–	–	157,060	–	157,060
Collectively assessed	3,583,051	349,494	4,684	7,661	3,944,890
Balance at 31 December 2019	**3,583,051**	**349,494**	**161,744**	**7,661**	**4,101,950**

Commercial loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**6,119**	**5,552**	**156,384**	**523**	**168,578**
New financial asset originated or purchased	12,672	282	887	–	13,841
Transfer to Stage 1	1,238	(1,238)	–	–	–
Transfer to Stage 2	(2,980)	5,450	(2,470)	–	–
Transfer to Stage 3	(3,491)	(1,691)	5,182	–	–
Impact on ECL of exposures transferred between stages during the year	374	322	9,643	–	10,339
Assets derecognised due to pass-through arrangement	(439)	–	–	–	(439)
Assets repaid	(3,558)	(4,576)	(28,000)	–	(36,134)
Resegmentation	274	6	–	–	280
Impact of modifications	–	–	6	–	6
Write-offs	–	–	(97,392)	–	(97,392)
Recoveries of amounts previously written off	–	–	9,980	–	9,980
Unwind of discount	–	–	2,635	(143)	2,492
Currency translation differences	208	188	509	–	905
Foreign exchange movement	45	18	10,358	49	10,470
Net other measurement of ECL	6,441	(899)	10,273	(131)	15,684
Balance at 31 December 2019	**16,903**	**3,414**	**77,995**	**298**	**98,610**
Individually assessed	–	–	77,632	–	77,632
Collectively assessed	16,903	3,414	363	298	20,978
Balance at 31 December 2019	**16,903**	**3,414**	**77,995**	**298**	**98,610**

9. Loans to customers and finance lease receivables continued
Expected credit loss continued

Residential mortgage loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**2,351,207**	**86,809**	**88,249**	**23,188**	**2,549,453**
New financial asset originated or purchased	1,425,274	472	7	23,136	1,448,889
Transfer to Stage 1	249,103	(216,701)	(32,402)	–	–
Transfer to Stage 2	(350,322)	378,751	(28,429)	–	–
Transfer to Stage 3	(110,097)	(62,530)	172,627	–	–
Assets repaid	(909,258)	(34,746)	(97,063)	(15,457)	(1,056,524)
Resegmentation	(9,538)	272	(4)	–	(9,270)
Impact of modifications	–	–	(1,372)	(389)	(1,761)
Write-offs	–	–	(4,646)	–	(4,646)
Recoveries of amounts previously written off	–	–	557	–	557
Unwind of discount	–	–	27	76	103
Currency translation differences	221	–	–	–	221
Foreign exchange movement	101,201	6,139	5,236	1,189	113,765
Net other changes	17,168	1,572	6,626	530	25,896
Balance at 31 December 2019	**2,764,959**	**160,038**	**109,413**	**32,273**	**3,066,683**
Individually assessed	–	–	1,374	–	1,374
Collectively assessed	2,764,959	160,038	108,039	32,273	3,065,309
Balance at 31 December 2019	**2,764,959**	**160,038**	**109,413**	**32,273**	**3,066,683**

Residential mortgage loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**238**	**31**	**5,383**	**1,089**	**6,741**
New financial asset originated or purchased	1,925	–	1	320	2,246
Transfer to Stage 1	598	(254)	(344)	–	–
Transfer to Stage 2	(137)	795	(658)	–	–
Transfer to Stage 3	(1,706)	(60)	1,766	–	–
Impact on ECL of exposures transferred between stages during the year	(440)	(528)	2,005	–	1,037
Assets repaid	(157)	(37)	(3,294)	(1,005)	(4,493)
Resegmentation	–	–	–	–	–
Impact of modifications	–	–	(43)	(1)	(44)
Write-offs	–	–	(4,646)	–	(4,646)
Recoveries of amounts previously written off	–	–	557	–	557
Unwind of discount	–	–	27	76	103
Currency translation differences	2	–	–	–	2
Foreign exchange movement	15	3	363	88	469
Net other measurement of ECL	123	210	5,471	1,241	7,045
Balance at 31 December 2019	**461**	**160**	**6,588**	**1,808**	**9,017**
Individually assessed	–	–	–	–	–
Collectively assessed	461	160	6,588	1,808	9,017
Balance at 31 December 2019	**461**	**160**	**6,588**	**1,808**	**9,017**

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Micro and SME loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**1,913,964**	**85,311**	**127,705**	**2,235**	**2,129,215**
New financial asset originated or purchased	2,452,219	5,862	1,775	597	2,460,453
Transfer to Stage 1	133,332	(121,808)	(11,524)	–	–
Transfer to Stage 2	(256,554)	267,701	(11,147)	–	–
Transfer to Stage 3	(35,775)	(70,824)	106,599	–	–
Assets repaid	(1,669,000)	(54,135)	(75,885)	(1,715)	(1,800,735)
Resegmentation	(180,881)	(3,134)	(2,605)	–	(186,620)
Impact of modifications	–	(26)	(3,985)	(27)	(4,038)
Write-offs	–	–	(36,746)	–	(36,746)
Recoveries of amounts previously written off	–	–	6,865	–	6,865
Unwind of discount	–	–	1,309	32	1,341
Currency translation differences	9,034	2,026	940	–	12,000
Foreign exchange movement	52,239	1,547	4,634	190	58,610
Net other changes	8,288	610	10,540	437	19,875
Balance at 31 December 2019	**2,426,866**	**113,130**	**118,475**	**1,749**	**2,660,220**
Individually assessed	–	–	11,284	–	11,284
Collectively assessed	2,426,866	113,130	107,191	1,749	2,648,936
Balance at 31 December 2019	**2,426,866**	**113,130**	**118,475**	**1,749**	**2,660,220**

Micro and SME loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**9,439**	**5,453**	**29,726**	**70**	**44,688**
New financial asset originated or purchased	14,972	616	776	–	16,364
Transfer to Stage 1	7,227	(4,937)	(2,290)	–	–
Transfer to Stage 2	(4,437)	8,484	(4,047)	–	–
Transfer to Stage 3	(2,289)	(5,268)	7,557	–	–
Impact on ECL of exposures transferred between stages during the year	(3,765)	(2,214)	(690)	–	(6,669)
Assets repaid	(9,711)	(2,034)	(15,660)	(358)	(27,763)
Resegmentation	(274)	(6)	–	–	(280)
Impact of modifications	–	–	(1,022)	(1)	(1,023)
Write-offs	–	–	(36,746)	–	(36,746)
Recoveries of amounts previously written off	–	–	6,865	–	6,865
Unwind of discount	–	–	1,309	32	1,341
Currency translation differences	186	293	188	–	667
Foreign exchange movement	12	(27)	462	55	502
Net other measurement of ECL	1,530	5,443	38,548	1,078	46,599
Balance at 31 December 2019	**12,890**	**5,803**	**24,976**	**876**	**44,545**
Individually assessed	–	–	3,894	–	3,894
Collectively assessed	12,890	5,803	21,082	876	40,651
Balance at 31 December 2019	**12,890**	**5,803**	**24,976**	**876**	**44,545**

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Consumer loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**1,650,080**	**101,146**	**121,191**	**4,471**	**1,876,888**
New financial asset originated or purchased	2,053,009	9,012	2,534	9,421	2,073,976
Transfer to Stage 1	225,501	(163,946)	(61,555)	–	–
Transfer to Stage 2	(321,349)	359,360	(38,011)	–	–
Transfer to Stage 3	(219,354)	(117,177)	336,531	–	–
Assets repaid	(1,560,409)	(77,936)	(199,564)	(4,323)	(1,842,232)
Resegmentation	(100)	(272)	138	–	(234)
Impact of modifications	–	–	(3,270)	(62)	(3,332)
Write-offs	–	–	(86,364)	–	(86,364)
Recoveries of amounts previously written off	–	–	18,121	–	18,121
Unwind of discount	–	–	3,859	15	3,874
Currency translation differences	6,578	29	32	–	6,639
Foreign exchange movement	16,513	1,232	1,566	86	19,397
Net other changes	6,326	(1,290)	13,206	133	18,375
Balance at 31 December 2019	**1,856,795**	**110,158**	**108,414**	**9,741**	**2,085,108**
Individually assessed	–	–	2,023	–	2,023
Collectively assessed	1,856,795	110,158	106,391	9,741	2,083,085
Balance at 31 December 2019	**1,856,795**	**110,158**	**108,414**	**9,741**	**2,085,108**

Consumer loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**19,654**	**9,355**	**62,143**	**389**	**91,541**
New financial asset originated or purchased	64,876	1,384	1,337	42	67,639
Transfer to Stage 1	33,555	(9,958)	(23,597)	–	–
Transfer to Stage 2	(9,492)	27,018	(17,526)	–	–
Transfer to Stage 3	(55,580)	(9,651)	65,231	–	–
Impact on ECL of exposures transferred between stages during the year	(25,472)	(13,980)	38,527	–	(925)
Assets repaid	(11,730)	(6,557)	(64,332)	(311)	(82,930)
Resegmentation	–	–	–	–	–
Impact of modifications	–	–	(895)	(5)	(900)
Write-offs	–	–	(86,364)	–	(86,364)
Recoveries of amounts previously written off	–	–	18,121	–	18,121
Unwind of discount	–	–	3,859	15	3,874
Currency translation differences	17	10	(358)	–	(331)
Foreign exchange movement	53	22	242	17	334
Net other measurement of ECL	942	8,702	52,937	67	62,648
Balance at 31 December 2019	**16,823**	**6,345**	**49,325**	**214**	**72,707**
Individually assessed	–	–	248	–	248
Collectively assessed	16,823	6,345	49,077	214	72,459
Balance at 31 December 2019	**16,823**	**6,345**	**49,325**	**214**	**72,707**

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Gold – pawn loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**75,483**	**541**	**4,746**	**–**	**80,770**
New financial asset originated or purchased	106,339	–	154	–	106,493
Transfer to Stage 1	5,671	(1,307)	(4,364)	–	–
Transfer to Stage 2	(2,414)	3,825	(1,411)	–	–
Transfer to Stage 3	(10,459)	(1,333)	11,792	–	–
Assets repaid	(93,933)	(604)	(6,750)	–	(101,287)
Resegmentation	–	–	(137)	–	(137)
Impact of modifications	–	–	–	–	–
Write-offs	–	–	(292)	–	(292)
Recoveries of amounts previously written off	–	–	1	–	1
Unwind of discount	–	–	(2)	–	(2)
Currency translation differences	–	–	–	–	–
Foreign exchange movement	175	2	28	–	205
Net other changes	(68)	(10)	(133)	–	(211)
Balance at 31 December 2019	**80,794**	**1,114**	**3,632**	**–**	**85,540**
Individually assessed	–	–	–	–	–
Collectively assessed	80,794	1,114	3,632	–	85,540
Balance at 31 December 2019	**80,794**	**1,114**	**3,632**	**–**	**85,540**

Gold – pawn loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**12**	**–**	**283**	**–**	**295**
New financial asset originated or purchased	214	–	–	–	214
Transfer to Stage 1	36	–	(36)	–	–
Transfer to Stage 2	–	61	(61)	–	–
Transfer to Stage 3	(215)	–	215	–	–
Impact on ECL of exposures transferred between stages during the year	(36)	(61)	218	–	121
Assets repaid	(7)	–	(295)	–	(302)
Resegmentation	–	–	–	–	–
Impact of modifications	–	–	–	–	–
Write-offs	–	–	(292)	–	(292)
Recoveries of amounts previously written off	–	–	1	–	1
Unwind of discount	–	–	(2)	–	(2)
Currency translation differences	–	–	–	–	–
Foreign exchange movement	–	–	2	–	2
Net other measurement of ECL	5	1	211	–	217
Balance at 31 December 2019	**9**	**1**	**244**	**–**	**254**
Individually assessed	–	–	–	–	–
Collectively assessed	9	1	244	–	254
Balance at 31 December 2019	**9**	**1**	**244**	**–**	**254**

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Commercial loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	**1,920,508**	**362,673**	**293,105**	**26,847**	**2,603,133**
New financial asset originated or purchased	2,901,831	88,529	9,875	–	3,000,235
Transfer to Stage 1	353,609	(353,487)	(122)	–	–
Transfer to Stage 2	(490,844)	540,968	(50,124)	–	–
Transfer to Stage 3	(34,031)	(43,065)	77,096	–	–
Assets derecognised (excluding write-offs)	(332,561)	(847)	–	–	(333,408)
Assets repaid	(2,066,508)	(266,330)	(71,492)	(13,664)	(2,417,994)
Impact of modifications	–	–	–	–	–
Write-offs	–	–	(44,675)	–	(44,675)
Recoveries of amounts previously written off	–	–	2,914	–	2,914
Unwind of discount	–	–	3,437	(151)	3,286
Currency translation differences	(11,571)	(1,553)	(499)	–	(13,623)
Net other changes	138,727	942	22,904	(5,995)	156,578
Balance at 31 December 2018	**2,379,160**	**327,830**	**242,419**	**7,037**	**2,956,446**
Individually assessed	–	–	240,708	988	241,696
Collectively assessed	2,379,160	327,830	1,711	6,049	2,714,750
Balance at 31 December 2018	**2,379,160**	**327,830**	**242,419**	**7,037**	**2,956,446**

Commercial loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	**7,102**	**5,305**	**167,520**	**5,506**	**185,433**
New financial asset originated or purchased	9,074	43	277	–	9,394
Transfer to Stage 1	1,338	(1,338)	–	–	–
Transfer to Stage 2	(1,349)	1,693	(344)	–	–
Transfer to Stage 3	(1,472)	(647)	2,119	–	–
Impact on ECL of exposures transferred between stages during the year	(495)	884	2,938	–	3,327
Assets derecognised (excluding write-offs)	(2,177)	–	–	–	(2,177)
Assets repaid	(2,848)	(2,838)	(14,260)	(417)	(20,363)
Impact of modifications	–	–	–	–	–
Write-offs	–	–	(44,675)	–	(44,675)
Recoveries of amounts previously written off	–	–	2,914	–	2,914
Unwind of discount	–	–	3,437	(151)	3,286
Currency translation differences	424	246	(120)	–	550
Net other measurement of ECL	(3,478)	2,204	36,578	(4,415)	30,889
Balance at 31 December 2018	**6,119**	**5,552**	**156,384**	**523**	**168,578**
Individually assessed	–	–	155,946	495	156,441
Collectively assessed	6,119	5,552	438	28	12,137
Balance at 31 December 2018	**6,119**	**5,552**	**156,384**	**523**	**168,578**

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Residential mortgage loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	**1,583,402**	**83,581**	**52,043**	**751**	**1,719,777**
New financial asset originated or purchased	1,784,950	532	17	24,088	1,809,587
Transfer to Stage 1	161,836	(152,752)	(9,084)	–	–
Transfer to Stage 2	(226,504)	234,139	(7,635)	–	–
Transfer to Stage 3	(73,754)	(49,756)	123,510	–	–
Assets derecognised (excluding write-offs)	–	–	(1,830)	–	(1,830)
Assets repaid	(939,819)	(31,367)	(71,161)	(2,025)	(1,044,372)
Impact of modifications	–	–	(689)	(1)	(690)
Write-offs	–	–	(2,195)	(86)	(2,281)
Recoveries of amounts previously written off	–	–	2,338	–	2,338
Unwind of discount	–	–	414	21	435
Currency translation differences	(2)	–	–	–	(2)
Net other changes	61,098	2,432	2,521	440	66,491
Balance at 31 December 2018	**2,351,207**	**86,809**	**88,249**	**23,188**	**2,549,453**
Individually assessed	–	–	732	2,451	3,183
Collectively assessed	2,351,207	86,809	87,517	20,737	2,546,270
Balance at 31 December 2018	**2,351,207**	**86,809**	**88,249**	**23,188**	**2,549,453**

Residential mortgage loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	**302**	**59**	**3,267**	**61**	**3,689**
New financial asset originated or purchased	1,315	–	–	595	1,910
Transfer to Stage 1	230	(92)	(138)	–	–
Transfer to Stage 2	(57)	209	(152)	–	–
Transfer to Stage 3	(982)	(37)	1,019	–	–
Impact on ECL of exposures transferred between stages during the year	(173)	(106)	1,436	–	1,157
Assets derecognised (excluding write-offs)	–	–	(41)	–	(41)
Assets repaid	(94)	(9)	(4,237)	(94)	(4,434)
Impact of modifications	–	–	–	–	–
Write-offs	–	–	(2,195)	(86)	(2,281)
Recoveries of amounts previously written off	–	–	2,338	–	2,338
Unwind of discount	–	–	414	21	435
Currency translation differences	–	–	–	–	–
Net other measurement of ECL	(303)	7	3,672	592	3,968
Balance at 31 December 2018	**238**	**31**	**5,383**	**1,089**	**6,741**
Individually assessed	–	–	–	–	–
Collectively assessed	238	31	5,383	1,089	6,741
Balance at 31 December 2018	**238**	**31**	**5,383**	**1,089**	**6,741**

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Micro and SME loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	**1,625,728**	**57,178**	**114,928**	**3,401**	**1,801,235**
New financial asset originated or purchased	1,923,582	3,787	96	1,123	1,928,588
Transfer to Stage 1	84,240	(78,991)	(5,249)	–	–
Transfer to Stage 2	(212,351)	222,077	(9,726)	–	–
Transfer to Stage 3	(38,253)	(63,122)	101,375	–	–
Assets derecognised (excluding write-offs)	–	–	(956)	–	(956)
Assets repaid	(1,498,299)	(57,258)	(57,425)	(1,098)	(1,614,080)
Impact of modifications	–	–	(1,150)	(2)	(1,152)
Write-offs	–	–	(31,200)	(28)	(31,228)
Recoveries of amounts previously written off	–	–	7,198	–	7,198
Unwind of discount	–	–	2,197	10	2,207
Currency translation differences	(5,179)	(348)	(1,506)	–	(7,033)
Net other changes	34,496	1,988	9,123	(1,171)	44,436
Balance at 31 December 2018	**1,913,964**	**85,311**	**127,705**	**2,235**	**2,129,215**
Individually assessed	–	–	9,806	–	9,806
Collectively assessed	1,913,964	85,311	117,899	2,235	2,119,409
Balance at 31 December 2018	**1,913,964**	**85,311**	**127,705**	**2,235**	**2,129,215**

Micro and SME loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	**6,690**	**2,934**	**34,533**	**410**	**44,567**
New financial asset originated or purchased	10,485	–	–	201	10,686
Transfer to Stage 1	3,622	(2,473)	(1,149)	–	–
Transfer to Stage 2	(3,692)	5,215	(1,523)	–	–
Transfer to Stage 3	(1,990)	(2,185)	4,175	–	–
Impact on ECL of exposures transferred between stages during the year	(1,162)	1,111	3,247	–	3,196
Assets derecognised (excluding write-offs)	–	–	(200)	–	(200)
Assets repaid	(5,500)	(1,377)	(13,533)	(1)	(20,411)
Impact of modifications	–	–	–	(183)	(183)
Write-offs	–	–	(31,200)	(28)	(31,228)
Recoveries of amounts previously written off	–	–	7,198	–	7,198
Unwind of discount	–	–	2,197	10	2,207
Currency translation differences	97	256	(665)	–	(312)
Net other measurement of ECL	889	1,972	26,646	(339)	29,168
Balance at 31 December 2018	**9,439**	**5,453**	**29,726**	**70**	**44,688**
Individually assessed	–	–	7,091	–	7,091
Collectively assessed	9,439	5,453	22,635	70	37,597
Balance at 31 December 2018	**9,439**	**5,453**	**29,726**	**70**	**44,688**

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Consumer loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	**1,529,130**	**147,105**	**75,918**	**88**	**1,752,241**
New financial asset originated or purchased	2,139,297	11,259	2,224	4,776	2,157,556
Transfer to Stage 1	272,027	(241,184)	(30,843)	–	–
Transfer to Stage 2	(457,067)	470,935	(13,868)	–	–
Transfer to Stage 3	(167,089)	(175,960)	343,049	–	–
Assets derecognised (excluding write-offs)	–	–	(363)	–	(363)
Assets repaid	(1,679,766)	(110,816)	(174,039)	(472)	(1,965,093)
Impact of modifications	–	–	(2,124)	59	(2,065)
Write-offs	–	–	(127,298)	(73)	(127,371)
Recoveries of amounts previously written off	–	–	22,743	–	22,743
Unwind of discount	–	–	5,839	16	5,855
Currency translation differences	(872)	(8)	(29)	–	(909)
Net other changes	14,420	(185)	19,982	77	34,294
Balance at 31 December 2018	**1,650,080**	**101,146**	**121,191**	**4,471**	**1,876,888**
Individually assessed	–	–	325	–	325
Collectively assessed	1,650,080	101,146	120,866	4,471	1,876,563
Balance at 31 December 2018	**1,650,080**	**101,146**	**121,191**	**4,471**	**1,876,888**

Consumer loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	**38,560**	**15,646**	**43,134**	**14**	**97,354**
New financial asset originated or purchased	92,269	2,050	883	255	95,457
Transfer to Stage 1	40,697	(26,102)	(14,595)	–	–
Transfer to Stage 2	(29,909)	36,760	(6,851)	–	–
Transfer to Stage 3	(52,634)	(21,277)	73,911	–	–
Impact on ECL of exposures transferred between stages during the year	(17,251)	(2,270)	26,661	–	7,140
Assets derecognised (excluding write-offs)	–	–	(3)	–	(3)
Assets repaid	(37,773)	(12,836)	(73,098)	(36)	(123,743)
Impact of modifications	–	–	–	(420)	(420)
Write-offs	–	–	(127,298)	(73)	(127,371)
Recoveries of amounts previously written off	–	–	22,743	–	22,743
Unwind of discount	–	–	5,839	16	5,855
Currency translation differences	57	34	5	–	96
Net other measurement of ECL	(14,362)	17,350	110,812	633	114,433
Balance at 31 December 2018	**19,654**	**9,355**	**62,143**	**389**	**91,541**
Individually assessed	–	–	111	–	111
Collectively assessed	19,654	9,355	62,032	389	91,430
Balance at 31 December 2018	**19,654**	**9,355**	**62,143**	**389**	**91,541**

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Gold – pawn loans at amortised cost, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	**65,670**	**431**	**1,839**	**–**	**67,940**
New financial asset originated or purchased	80,944	–	96	–	81,040
Transfer to Stage 1	4,299	(1,855)	(2,444)	–	–
Transfer to Stage 2	(3,396)	3,694	(298)	–	–
Transfer to Stage 3	(8,800)	(1,641)	10,441	–	–
Assets derecognised (excluding write-offs)	–	–	–	–	–
Assets repaid	(63,239)	(92)	(4,553)	–	(67,884)
Impact of modifications	–	–	–	–	–
Write-offs	–	–	(609)	–	(609)
Recoveries of amounts previously written off	–	–	113	–	113
Unwind of discount	–	–	8	–	8
Currency translation differences	–	–	–	–	–
Net other changes	5	4	153	–	162
Balance at 31 December 2018	**75,483**	**541**	**4,746**	**–**	**80,770**
Individually assessed	–	–	–	–	–
Collectively assessed	75,483	541	4,746	–	80,770
Balance at 31 December 2018	**75,483**	**541**	**4,746**	**–**	**80,770**

Gold – pawn loans at amortised cost, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	**–**	**–**	**34**	**–**	**34**
New financial asset originated or purchased	76	–	–	–	76
Transfer to Stage 1	22	–	(22)	–	–
Transfer to Stage 2	–	10	(10)	–	–
Transfer to Stage 3	(76)	–	76	–	–
Impact on ECL of exposures transferred between stages during the year	(22)	(10)	77	–	45
Assets derecognised (excluding write-offs)	–	–	–	–	–
Assets repaid	(2)	(1)	(220)	–	(223)
Impact of modifications	–	–	–	–	–
Write-offs	–	–	(609)	–	(609)
Recoveries of amounts previously written off	–	–	113	–	113
Unwind of discount	–	–	8	–	8
Currency translation differences	–	–	–	–	–
Net other measurement of ECL	14	1	836	–	851
Balance at 31 December 2018	**12**	**–**	**283**	**–**	**295**
Individually assessed	–	–	–	–	–
Collectively assessed	12	–	283	–	295
Balance at 31 December 2018	**12**	**–**	**283**	**–**	**295**

The contractual amounts outstanding on loans to customers that have been written off during the reporting period but are still subject to enforcement activity was GEL 50,718 (2019: GEL 58,627, 2018: GEL 67,001).

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables continued

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, equipment and machinery, corporate shares, inventory, trade receivables, third-party corporate guarantees and personal guarantees of shareholders.
- For retail lending, mortgages over residential properties, cars, gold and jewellery, third-party corporate guarantees and personal guarantees of shareholders.

Management requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for expected credit loss/impairment of loans.

It is the Group's policy to dispose of repossessed properties in an orderly fashion or to hold them for capital appreciation or earning rentals, as appropriate in each case. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

Without taking into account the discounted value of collateral, the ECL for credit-impaired loans would be as follows:

- for commercial loans: GEL 243,178 as at 31 December 2020 (2019: GEL 162,684, 2018: GEL 249,514);
- for residential mortgage loans: GEL 146,945 as at 31 December 2020 (2019: GEL 101,542, 2018: GEL 75,073);
- for micro and SME: GEL 160,862 as at 31 December 2020 (2019: GEL104,075, 2018: GEL107,980);
- for consumer loans: GEL 85,569 as at 31 December 2020 (2019: GEL 85,890, 2018: GEL 86,622); and
- gold – pawn loans: GEL 1,430 as at 31 December 2020 (2019: GEL 2,561, 2018: GEL 283).

Without taking into account the discounted value of collateral, the allowance for expected credit loss/impairment of loans would be GEL 369,394 higher as at 31 December 2020 (2019: GEL 294,428 higher, 2018: GEL 263,482 higher).

Concentration of loans to customers

As at 31 December 2020, the concentration of loans granted by the Group to the ten largest third-party borrowers comprised GEL 1,415,618 accounting for 10% of the gross loan portfolio of the Group (2019: GEL 1,199,596 and 10% respectively, 2018: GEL 952,411 and 10% respectively). An allowance of GEL 13,612 (2019: GEL 9,634, 2018: GEL 45,658) was established against these loans.

As at 31 December 2020, the concentration of loans granted by the Group to the ten largest third-party group of borrowers comprised GEL 2,051,055 accounting for 14% of the gross loan portfolio of the Group (2019: GEL 1,771,490 and 15% respectively, 2018: GEL 1,231,913 and 13% respectively). An allowance of GEL 16,927 (2019: GEL 10,211, 2018: GEL 43,687) was established against these loans.

As at 31 December 2020, 31 December 2019 and 31 December 2018, loans were principally issued within Georgia, and their distribution by industry sector was as follows:

	2020	2019	2018
Individuals	7,608,953	6,507,095	5,509,279
Manufacturing	1,360,213	1,315,154	1,101,649
Trade	1,214,835	1,264,111	1,032,155
Real estate	1,068,176	717,063	436,450
Hospitality	848,630	399,148	301,415
Transport & communication	303,030	248,210	132,588
Service	276,759	222,179	128,535
Construction	275,070	572,159	366,009
Electricity, gas and water supply	251,892	50,318	76,574
Mining and quarrying	200,494	117,801	127,835
Financial intermediation	112,988	85,814	62,180
Other	979,588	500,449	326,482
Loans to customers, gross	**14,500,628**	**11,999,501**	**9,601,151**
Less – Allowance for expected credit loss	(443,546)	(225,133)	(311,843)
Loans to customers, net	**14,057,082**	**11,774,368**	**9,289,308**

9. Loans to customers and finance lease receivables continued

Concentration of loans to customers continued

COVID-19 had affected many areas of the country's economy. However, some of the sectors, such as the hospitality sector, retail and micro businesses were more affected than others.

Loans have been extended to the following types of customers:

	2020	2019	2018
Individuals	7,608,953	6,507,095	5,509,279
Private companies	6,871,541	5,477,804	4,089,095
State-owned entities	20,134	14,602	2,777
Loans to customers, gross	**14,500,628**	**11,999,501**	**9,601,151**
Less – Allowance for expected credit loss	(443,546)	(225,133)	(311,843)
Loans to customers, net	**14,057,082**	**11,774,368**	**9,289,308**

Finance lease receivables

	2020	2019	2018
Minimum lease payments receivable	189,959	220,543	155,043
Less – Unearned finance lease income	(50,587)	(61,352)	(44,956)
	139,372	**159,191**	**110,087**
Less – Allowance for expected credit loss/impairment loss	(4,376)	(2,297)	(1,648)
Finance lease receivables, net	**134,996**	**156,894**	**108,439**

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

As at 31 December 2020, finance lease receivables carried at GEL 75,134 were pledged for inter-bank loans received from several credit institutions (2019: GEL 74,489, 2018: 46,867).

As at 31 December 2020, the concentration of investment in the five largest lease receivables comprised GEL 20,486 or 15% of total finance lease receivables (2019: GEL 16,249 or 10%, 2018: GEL 9,803 or 9%) and finance income received from them for the year ended 31 December 2020 comprised GEL 3,161 or 10% of total finance income from lease (2019: GEL 2,226 or 9%, 2018: GEL 1,185 or 7%).

Future minimum lease payments to be received after 31 December 2020, 31 December 2019 and 31 December 2018 are as follows:

	2020	2019	2018
Within 1 year	92,391	85,815	62,475
From 1 to 5 years	94,753	130,700	89,781
More than 5 years	2,815	4,028	2,787
Minimum lease payment receivables	**189,959**	**220,543**	**155,043**

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables continued

Finance lease receivables continued

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

Finance lease receivables, gross	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**130,232**	**12,498**	**16,461**	**–**	**159,191**
New financial asset originated or purchased	77,711	–	2,254	–	79,965
Transfer to Stage 1	53,417	(49,918)	(3,499)	–	–
Transfer to Stage 2	(130,587)	148,126	(17,539)	–	–
Transfer to Stage 3	(12,089)	(55,528)	67,617	–	–
Impact on ECL of exposures transferred between stages during the year	–	–	–	–	–
Assets derecognised due to pass-through arrangement	–	–	–	–	–
Assets repaid	(57,227)	(6,157)	(13,094)	–	(76,478)
Resegmentation	–	–	–	–	–
Impact of modifications	–	(973)	(199)	–	(1,172)
Write-offs	–	–	(34,933)	–	(34,933)
Recoveries of amounts previously written off	–	–	–	–	–
Unwind of discount	–	–	(16)	–	(16)
Currency translation differences	(1,402)	(90)	(107)	–	(1,599)
Foreign exchange movement	5,801	5,312	1,891	–	13,004
Net other changes	1,490	6	(86)	–	1,410
Balance at 31 December 2020	**67,346**	**53,276**	**18,750**	**–**	**139,372**
Individually assessed	–	–	3,139	–	3,139
Collectively assessed	67,346	53,276	15,611	–	136,233
Balance at 31 December 2020	**67,346**	**53,276**	**18,750**	**–**	**139,372**

Finance lease receivables, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2019	**759**	**95**	**1,443**	**–**	**2,297**
New financial asset originated or purchased	869	–	945	–	1,814
Transfer to Stage 1	305	(292)	(13)	–	–
Transfer to Stage 2	(1,162)	1,513	(351)	–	–
Transfer to Stage 3	(812)	(4,588)	5,400	–	–
Impact on ECL of exposures transferred between stages during the year	1,396	4,449	1,416	–	7,261
Assets derecognised due to pass-through arrangement	–	–	–	–	–
Assets repaid	(528)	(70)	(347)	–	(945)
Resegmentation	–	–	–	–	–
Impact of modifications	–	(1)	(18)	–	(19)
Write-offs	–	–	(6,161)	–	(6,161)
Recoveries of amounts previously written off	–	–	–	–	–
Unwind of discount	–	–	(16)	–	(16)
Currency translation differences	200	(4)	35	–	231
Foreign exchange movement	5	27	191	–	223
Net other measurement of ECL	(383)	(20)	94	–	(309)
Balance at 31 December 2020	**649**	**1,109**	**2,618**	**–**	**4,376**
Individually assessed	–	–	1,022	–	1,022
Collectively assessed	649	1,109	1,596	–	3,354
Balance at 31 December 2020	**649**	**1,109**	**2,618**	**–**	**4,376**

9. Loans to customers and finance lease receivables continued

Finance lease receivables continued

Finance lease receivables, gross	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**100,950**	**5,806**	**3,331**	**–**	**110,087**
New financial asset originated or purchased	132,404	–	–	–	132,404
Transfer to Stage 1	25,731	(25,315)	(416)	–	–
Transfer to Stage 2	(64,572)	64,754	(182)	–	–
Transfer to Stage 3	(4,889)	(28,799)	33,688	–	–
Assets repaid	(64,621)	(4,476)	(6,268)	–	(75,365)
Resegmentation	–	–	–	–	–
Impact of modifications	–	–	–	–	–
Write-offs	–	–	(14,340)	–	(14,340)
Recoveries of amounts previously written off	–	–	–	–	–
Unwind of discount	–	–	–	–	–
Currency translation differences	1,340	46	117	–	1,503
Foreign exchange movement	3,040	485	403	–	3,928
Net other changes	849	(3)	128	–	974
Balance at 31 December 2019	**130,232**	**12,498**	**16,461**	**–**	**159,191**
Individually assessed	–	–	–	–	–
Collectively assessed	130,232	12,498	16,461	–	159,191
Balance at 31 December 2019	**130,232**	**12,498**	**16,461**	**–**	**159,191**

Finance lease receivables, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2018	**479**	**59**	**1,110**	**–**	**1,648**
New financial asset originated or purchased	939	–	–	–	939
Transfer to Stage 1	207	(194)	(13)	–	–
Transfer to Stage 2	(297)	303	(6)	–	–
Transfer to Stage 3	(64)	(422)	486	–	–
Impact on ECL of exposures transferred between stages during the year	(267)	378	2,038	–	2,149
Assets repaid	(249)	(32)	(1,948)	–	(2,229)
Resegmentation	–	–	–	–	–
Impact of modifications	–	–	–	–	–
Write-offs	–	–	(345)	–	(345)
Recoveries of amounts previously written off	–	–	–	–	–
Unwind of discount	–	–	–	–	–
Currency translation differences	31	4	74	–	109
Foreign exchange movement	(20)	(1)	(6)	–	(27)
Net other measurement of ECL	–	–	53	–	53
Balance at 31 December 2019	**759**	**95**	**1,443**	**–**	**2,297**
Individually assessed	–	–	–	–	–
Collectively assessed	759	95	1,443	–	2,297
Balance at 31 December 2019	**759**	**95**	**1,443**	**–**	**2,297**

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

9. Loans to customers and finance lease receivables continued

Finance lease receivables continued

Finance lease receivables, gross	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	**60,306**	**6,005**	**1,375**	**–**	**67,686**
New financial asset originated or purchased	110,810	–	–	–	110,810
Transfer to Stage 1	15,056	(15,044)	(12)	–	–
Transfer to Stage 2	(27,189)	27,420	(231)	–	–
Transfer to Stage 3	(509)	(7,794)	8,303	–	–
Assets derecognised (excluding write-offs)	–	–	–	–	–
Assets repaid	(41,006)	(2,859)	(462)	–	(44,327)
Impact of modifications	–	–	–	–	–
Write-offs	–	–	(5,491)	–	(5,491)
Recoveries of amounts previously written off	–	–	–	–	–
Unwind of discount	–	–	–	–	–
Currency translation differences	(580)	(113)	(38)	–	(731)
Net other changes	(15,938)	(1,809)	(113)	–	(17,860)
Balance at 31 December 2018	**100,950**	**5,806**	**3,331**	**–**	**110,087**
Individually assessed	–	–	1,140	–	1,140
Collectively assessed	100,950	5,806	2,191	–	108,947
Balance at 31 December 2018	**100,950**	**5,806**	**3,331**	**–**	**110,087**

Finance lease receivables, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	**424**	**894**	**970**	**–**	**2,288**
New financial asset originated or purchased	781	–	–	–	781
Transfer to Stage 1	692	(688)	(4)	–	–
Transfer to Stage 2	(340)	426	(86)	–	–
Transfer to Stage 3	(220)	(549)	769	–	–
Impact on ECL of exposures transferred between stages during the year	(218)	228	352	–	362
Assets derecognised (excluding write-offs)	–	–	–	–	–
Assets repaid	(659)	(170)	(318)	–	(1,147)
Impact of modifications	–	–	–	–	–
Write-offs	–	–	(756)	–	(756)
Recoveries of amounts previously written off	–	–	–	–	–
Unwind of discount	–	–	47	–	47
Currency translation differences	(16)	(43)	(36)	–	(95)
Net other measurement of ECL	35	(39)	172	–	168
Balance at 31 December 2018	**479**	**59**	**1,110**	**–**	**1,648**
Individually assessed	–	–	518	–	518
Collectively assessed	479	59	592	–	1,130
Balance at 31 December 2018	**479**	**59**	**1,110**	**–**	**1,648**

10. Right-of-use assets, lease liabilities, property and equipment, and intangible assets

	2020	2019	2018
Right-of-use assets	83,208	96,095	N/A
Lease liability	95,635	94,616	N/A

Administrative expenses include occupancy and rent expenses on lease contracts where the recognition exemptions have been applied:

	2020	2019	2018
Short-term leases	(4,142)	(7,199)	N/A
Leases of low-value assets	(1,835)	(1,107)	N/A
	(5,977)	**(8,306)**	**N/A**

The movements in right-of-use assets were as follows:

	Office buildings & service centres	Computers & equipment	Total
Cost			
31 December 2019	**115,220**	**–**	**115,220**
Additions	11,988	–	11,988
Disposals	(7,794)	–	(7,794)
Transfers	(2,965)	2,965	–
Currency translation differences	(479)	(216)	(695)
31 December 2020	**115,970**	**2,749**	**118,719**
Accumulated impairment			
31 December 2019	**–**	**–**	**–**
31 December 2020	**–**	**–**	**–**
Accumulated depreciation			
31 December 2019	**19,125**	**–**	**19,125**
Depreciation charge	18,466	391	18,857
Disposals	(2,061)	–	(2,061)
Transfers	(139)	139	–
Currency translation differences	(396)	(14)	(410)
31 December 2020	**34,995**	**516**	**35,511**
Net book value			
31 December 2019	**96,095**	**–**	**96,095**
31 December 2020	**80,975**	**2,233**	**83,208**

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

10. Right-of-use assets, lease liabilities, property and equipment, and intangible assets continued

	Office buildings & service centres	Computers & equipment	Total
Cost			
1 January 2019	**79,359**	**–**	**79,359**
Additions	39,534	–	39,534
Disposals	(3,714)	–	(3,714)
Currency translation differences	41	–	41
31 December 2019	**115,220**	**–**	**115,220**
Accumulated impairment			
1 January 2019	**–**	**–**	**–**
31 December 2019	**–**	**–**	**–**
Accumulated depreciation			
1 January 2019	**–**	**–**	**–**
Depreciation charge	19,837	–	19,837
Disposals	(729)	–	(729)
Currency translation differences	17	–	17
31 December 2019	**19,125**	**–**	**19,125**
Net book value			
1 January 2019	**79,359**	**–**	**79,359**
31 December 2019	**96,095**	**–**	**96,095**

10. Right-of-use assets, lease liabilities, property and equipment, and intangible assets continued

The movements in property and equipment were as follows:

	Office buildings & service centres	Furniture & fixtures	Computers & equipment	Motor vehicles	Leasehold improvements	Assets under construction	Total
Cost							
31 December 2019	**204,753**	**178,391**	**207,329**	**5,624**	**30,589**	**10,046**	**636,732**
Additions	274	8,908	33,186	1,602	110	27,543	71,623
Transfers	21,600	(439)	4,158	41	6,625	(31,985)	–
Transfers to investment properties	(11,068)	–	–	(22)	–	–	(11,090)
Transfers to assets held for sale	1,333	–	–	(46)	–	–	1,287
Transfers to other assets	(101)	(4,930)	(8,895)	–	–	(867)	(14,793)
Disposals	–	(257)	(476)	(220)	–	–	(953)
Write-offs	(293)	(3,029)	(3,452)	(174)	(2,990)	–	(9,938)
Currency translation differences	297	(163)	(414)	(37)	(59)	(5)	(381)
31 December 2020	**216,795**	**178,481**	**231,436**	**6,768**	**34,275**	**4,732**	**672,487**
Accumulated impairment							
31 December 2019	**2,557**	**36**	**98**	**8**	**–**	**–**	**2,699**
Currency translation differences	–	–	–	–	–	–	–
31 December 2020	**2,557**	**36**	**98**	**8**	**–**	**–**	**2,699**
Accumulated depreciation							
31 December 2019	**23,731**	**93,751**	**119,081**	**3,051**	**14,631**	**–**	**254,245**
Depreciation charge	4,085	12,497	22,008	1,072	4,927	–	44,589
Transfers	–	(138)	–	4	134	–	–
Transfers to investment properties	(2,160)	–	–	(20)	–	–	(2,180)
Transfers to assets held for sale	–	–	–	(30)	–	–	(30)
Transfers to other assets	–	(1,111)	(3,077)	–	–	–	(4,188)
Disposals	–	(105)	(274)	(103)	–	–	(482)
Write-offs	(263)	(2,635)	(3,418)	(121)	(2,857)	–	(9,294)
Currency translation differences	(177)	(122)	(362)	(20)	(42)	–	(723)
31 December 2020	**25,216**	**102,137**	**133,958**	**3,833**	**16,793**	**–**	**281,937**
Net book value							
31 December 2019	**178,465**	**84,604**	**88,150**	**2,565**	**15,958**	**10,046**	**379,788**
31 December 2020	**189,022**	**76,308**	**97,380**	**2,927**	**17,482**	**4,732**	**387,851**

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

10. Right-of-use assets, lease liabilities, property and equipment, and intangible assets continued

	Office buildings & service centres	Furniture & fixtures	Computers & equipment	Motor vehicles	Leasehold improvements	Assets under construction	Total
Cost							
31 December 2018	**202,347**	**206,803**	**117,634**	**5,134**	**25,790**	**12,716**	**570,424**
Additions	1,522	27,166	32,317	1,513	550	29,966	93,034
Transfers	13,000	(51,733)	64,467	–	5,463	(31,197)	–
Transfers to investment properties	(3,211)	(3)	–	(47)	–	–	(3,261)
Transfers to assets held for sale	(2,127)	–	–	–	–	–	(2,127)
Transfers to other assets	–	(1,994)	(6,359)	–	–	(1,451)	(9,804)
Disposals	(4,101)	(444)	(604)	(980)	–	–	(6,129)
Write-offs	(4,601)	(1,599)	(635)	(28)	(1,264)	–	(8,127)
Currency translation differences	1,924	195	509	32	50	12	2,722
31 December 2019	**204,753**	**178,391**	**207,329**	**5,624**	**30,589**	**10,046**	**636,732**
Accumulated impairment							
31 December 2018	**2,417**	**32**	**87**	**7**	**–**	**–**	**2,543**
Currency translation differences	140	4	11	1	–	–	156
31 December 2019	**2,557**	**36**	**98**	**8**	**–**	**–**	**2,699**
Accumulated depreciation							
31 December 2018	**20,352**	**115,992**	**73,579**	**2,631**	**11,268**	**–**	**223,822**
Depreciation charge	4,818	11,087	17,986	928	4,552	–	39,371
Transfers	–	(31,200)	31,200	–	–	–	–
Transfers to investment properties	(331)	–	–	(36)	–	–	(367)
Transfers to assets held for sale	(437)	–	–	–	–	–	(437)
Transfers to other assets	–	(1,883)	(3,290)	–	–	–	(5,173)
Disposals	(74)	(273)	(414)	(462)	–	–	(1,223)
Write-offs	(961)	(81)	(239)	(27)	(1,237)	–	(2,545)
Currency translation differences	364	109	259	17	48	–	797
31 December 2019	**23,731**	**93,751**	**119,081**	**3,051**	**14,631**	**–**	**254,245**
Net book value							
31 December 2018	**179,578**	**90,779**	**43,968**	**2,496**	**14,522**	**12,716**	**344,059**
31 December 2019	**178,465**	**84,604**	**88,150**	**2,565**	**15,958**	**10,046**	**379,788**

10. Right-of-use assets, lease liabilities, property and equipment, and intangible assets continued

	Office buildings & service centres	Furniture & fixtures	Computers & equipment	Motor vehicles	Leasehold improve-ments	Assets under construction	Infrastruc-ture assets	Factory & equipment	Other	Total
Cost										
31 December 2017	**346,263**	**205,135**	**117,165**	**37,126**	**20,871**	**153,990**	**275,667**	**91,023**	**2,138**	**1,249,378**
Additions	282	24,498	19,794	1,124	367	25,198	–	–	–	71,263
Transfers	11,200	(438)	(779)	–	6,651	(16,634)	–	–	–	–
Transfers to investment properties	(10,737)	–	–	–	–	(3,741)	–	–	–	(14,478)
Transfers (to) from other assets	–	(12,874)	(2,201)	(1,101)	–	43	–	–	–	(16,133)
Revaluation	2,607	–	–	–	–	–	–	–	–	2,607
Disposals	(1,679)	(3,069)	(2,706)	(2,700)	(859)	–	–	–	–	(11,013)
Demerger	(144,730)	(6,340)	(13,199)	(29,298)	(1,210)	(146,120)	(275,667)	(91,023)	(2,138)	(709,725)
Currency translation differences	(859)	(109)	(440)	(17)	(30)	(20)	–	–	–	(1,475)
31 December 2018	**202,347**	**206,803**	**117,634**	**5,134**	**25,790**	**12,716**	**–**	**–**	**–**	**570,424**
Accumulated impairment										
31 December 2017	**2,862**	**38**	**79**	**7**	**–**	**9**	**–**	**–**	**–**	**2,995**
Demerger	(390)	–	4	–	–	–	–	–	–	(386)
Currency translation differences	(55)	(6)	4	–	–	(9)	–	–	–	(66)
31 December 2018	**2,417**	**32**	**87**	**7**	**–**	**–**	**–**	**–**	**–**	**2,543**
Accumulated depreciation										
31 December 2017	**26,306**	**119,716**	**70,379**	**7,338**	**7,095**	**2**	**23,084**	**3,887**	**140**	**257,947**
Depreciation charge	2,141	15,063	11,493	975	5,236	–	–	–	–	34,908
Transfers	–	235	(235)	–	–	–	–	–	–	–
Transfers to investment properties	(914)	–	–	–	–	–	–	–	–	(914)
Transfers (to) from other assets	–	(14,760)	(1,048)	–	–	–	–	–	–	(15,808)
Revaluation	(32)	–	–	–	–	–	–	–	–	(32)
Disposals	(1,237)	(2,393)	(999)	(2,678)	(801)	–	–	–	–	(8,108)
Transfer to assets of disposal group held for sale	(5,658)	(1,867)	(5,949)	(3,006)	(238)	(2)	(23,201)	(3,887)	(25)	(43,833)
Currency translation differences	(254)	(2)	(62)	2	(24)	–	117	–	(115)	(338)
31 December 2018	**20,352**	**115,992**	**73,579**	**2,631**	**11,268**	**–**	**–**	**–**	**–**	**223,822**
Net book value										
31 December 2017	**317,095**	**85,381**	**46,707**	**29,781**	**13,776**	**153,979**	**252,583**	**87,136**	**1,998**	**988,436**
31 December 2018	**179,578**	**90,779**	**43,968**	**2,496**	**14,522**	**12,716**	**–**	**–**	**–**	**344,059**

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

10. Right-of-use assets, lease liabilities, property and equipment, and intangible assets continued

The movements in intangible assets were as follows:

	Software and licence	Other	Total
Cost			
31 December 2019	**139,750**	**26,797**	**166,547**
Additions	41,262	163	41,425
Disposals	(235)	–	(235)
Write-offs	(3,329)	(16)	(3,345)
Currency translation differences	(436)	–	(436)
31 December 2020	**177,012**	**26,944**	**203,956**
Accumulated impairment			
31 December 2019	**–**	**–**	**–**
31 December 2020	**–**	**–**	**–**
Accumulated amortisation			
31 December 2019	**56,789**	**3,468**	**60,257**
Amortisation charge	18,985	2,165	21,150
Disposals	(235)	–	(235)
Write-offs	(2,884)	(15)	(2,899)
Currency translation differences	(123)	–	(123)
31 December 2020	**72,532**	**5,618**	**78,150**
Net book value			
31 December 2019	**82,961**	**23,329**	**106,290**
31 December 2020	**104,480**	**21,326**	**125,806**

	Software and licence	Other	Total
Cost			
31 December 2018	**102,133**	**26,722**	**128,855**
Additions	38,528	166	38,694
Disposals	(1,223)	–	(1,223)
Write-offs	(2,376)	(91)	(2,467)
Currency translation differences	2,688	–	2,688
31 December 2019	**139,750**	**26,797**	**166,547**
Accumulated impairment			
31 December 2018	**–**	**–**	**–**
31 December 2019	**–**	**–**	**–**
Accumulated amortisation			
31 December 2018	**44,570**	**919**	**45,489**
Amortisation charge	13,189	2,557	15,746
Disposals	(1,223)	–	(1,223)
Write-offs	(2,049)	(10)	(2,059)
Currency translation differences	2,302	2	2,304
31 December 2019	**56,789**	**3,468**	**60,257**
Net book value			
31 December 2018	**57,563**	**25,803**	**83,366**
31 December 2019	**82,961**	**23,329**	**106,290**

10. Right-of-use assets, lease liabilities, property and equipment, and intangible assets continued

	Software and licence	Other	Total
Cost			
31 December 2017	**103,893**	**4,610**	**108,503**
Additions	20,684	23,371	44,055
Disposals	(112)	(1)	(113)
Demerger	(7,798)	(1,120)	(8,918)
Write-offs	(14,419)	(138)	(14,557)
Currency translation differences	(115)	–	(115)
31 December 2018	**102,133**	**26,722**	**128,855**
Accumulated impairment			
31 December 2017	**226**	**–**	**226**
Demerger	(226)	–	(226)
31 December 2018	**–**	**–**	**–**
Accumulated amortisation			
31 December 2017	**46,673**	**624**	**47,297**
Amortisation charge	10,092	400	10,492
Disposals	(107)	(1)	(108)
Demerger	(3,189)	–	(3,189)
Write-offs	(8,873)	(58)	(8,931)
Currency translation differences	(26)	(46)	(72)
31 December 2018	**44,570**	**919**	**45,489**
Net book value			
31 December 2017	**56,994**	**3,986**	**60,980**
31 December 2018	**57,563**	**25,803**	**83,366**

11. Investment properties

	2020	2019	2018
At 1 January	225,073	151,446	353,565
Additions	79,761	109,278	71,785
Disposals	(44,908)	(39,223)	(74,278)
Net gains (losses) from revaluation of investment property	20,346	12,805	(994)
Demerger	–	–	(151,031)
Net transfers to property and equipment, other assets and assets held for sale*	(47,645)	(11,537)	(47,601)
Currency translation differences	(1,386)	2,304	–
At 31 December	**231,241**	**225,073**	**151,446**

* Comprised GEL 56,810 transfer to assets held for sale (2019: GEL 14,402, 2018: GEL 54,687), GEL 8,910 transfer from property and equipment (2019: GEL 2,894, 2018: GEL 13,564), GEL 532 transfer from finance lease receivables (2019: transfer to finance lease receivables GEL 29 and 2018: transfer to finance lease receivables GEL 6,478), and GEL 277 transfer to other assets – inventories (2019: nil, 2018: nil).

Investment properties are stated at fair value. The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. As at 31 December 2020, the fair values of the properties are based on valuations performed by accredited independent valuers. Refer to Note 27 for details on fair value measurements of investment properties.

(Thousands of Georgian Lari)

12. Goodwill

Movements in goodwill were as follows:

	2020	2019	2018
Cost			
1 January	**57,745**	**57,745**	**83,726**
Demerger	–	–	(25,981)
At 31 December	**57,745**	**57,745**	**57,745**
Accumulated impairment			
1 January	**24,394**	**24,394**	**28,450**
Demerger	–	–	(4,056)
At 31 December	**24,394**	**24,394**	**24,394**
Net book value:			
1 January	**33,351**	**33,351**	**55,276**
At 31 December	**33,351**	**33,351**	**33,351**

Impairment test for goodwill

Goodwill acquired through business combinations with indefinite lives have been allocated to two individual cash-generating units, for impairment testing: Corporate Banking and Retail Banking.

The carrying amount of goodwill allocated to each of the cash-generating units ("CGU") is as follows:

	2020	2019	2018
Retail Banking	23,386	23,386	23,386
Corporate Banking	9,965	9,965	9,965
Total	**33,351**	**33,351**	**33,351**

Key assumptions used in value-in-use calculations

The recoverable amounts of the CGUs have been determined based on a value-in-use calculation, using cash flow projections based on financial budgets approved by senior management covering a one to three-year period. Discount rates were not adjusted for either a constant or a declining growth rate beyond the three-year periods covered in financial budgets. For the purposes of the impairment test, a 3% permanent growth rate has been assumed when assessing the future operating cash flows of the CGU.

The following discount rates were used by the Group for Corporate Banking and Retail Banking:

	Corporate Banking			Retail Banking		
	2020, %	2019, %	2018, %	2020, %	2019, %	2018, %
Discount rate	4.4%	5.0%	4.7%	7.7%	6.7%	6.2%

Discount rates

Discount rates reflect management's estimate of return required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using pre-tax weighted average cost of capital ("WACC").

For the Retail and Corporate Banking CGUs, the following additional assumptions were made:

- stable, business as usual growth of loans and deposits;
- no material changes in cost/income structure or ratio; and
- stable, business as usual growth of trade finance and other documentary businesses.

Sensitivity to changes in assumptions

Management believes that reasonable possible changes to key assumptions used to determine the recoverable amount for each CGU will not result in an impairment of goodwill. The excess of value-in-use over carrying value is determined by reference to the net book value as at 31 December 2020. Possible change was taken as +/-1% in discount rate and growth rate.

13. Taxation

The corporate income tax expense in income statement comprises:

	2020	2019	2018
Current income benefit (expense)	4,539	(48,341)	(39,169)
Deferred income tax expense	(26,094)	(8,117)	(18,682)
Income tax expense	**(21,555)**	**(56,458)**	**(57,851)**
Income tax expense attributable to continuing operations	(21,555)	(56,458)	(56,665)
Income tax expense attributable to a discontinued operation	–	–	(1,186)

Income tax expense in other comprehensive income comprises solely of deferred tax related to items charged or credited to other comprehensive income during the years ended 31 December 2020, 2019 and 2018 was as follows:

	2020	2019	2018
Net losses on investment securities	–	–	(265)
Income tax expense in other comprehensive income	**–**	**–**	**(265)**

The income tax rate applicable to most of the Group's income is the income tax rate applicable to subsidiaries' income, which ranges from 15% to 25% (2019: from 15% to 25%, 2018: from 15% to 27%).

On 12 June 2018, an amendment to the current corporate taxation model applicable to financial institutions, including banks and insurance businesses, became effective. The change implies a zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings starting from 1 January 2023, instead of 1 January 2019 as previously enacted in 2016. The change had an immediate impact on deferred tax asset and deferred tax liability balances attributable to previously recognised temporary differences arising from prior periods. As at 30 June 2018, deferred tax assets and liabilities balances have been re-measured, in line with the new date for the change to be implemented. The Group has calculated the portion of deferred taxes that is expected to be realised before 1 January 2023 for financial businesses and has recognised the respective portion of deferred tax assets and liabilities. During the transitional period, the Group will only continue to recognise the portion of deferred tax assets and liabilities arising on items charged or credited to the income statement during the same period, which it expects to be realised before 1 January 2023.

The effective income tax rate differs from the statutory income tax rates. As at 31 December 2020, 31 December 2019 and 31 December 2018, a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows:

	2020	2019	2018
Profit before income tax expense from continuing operations	316,498	556,409	437,545
Net gain before income tax benefit from discontinued operations	–	–	109,084
Profit before income tax expense	**316,498**	**556,409**	**546,629**
Average tax rate	15%	15%	15%
Theoretical income tax expense at average tax rate	**(47,475)**	**(83,461)**	**(81,994)**
Non-taxable income	35,910	29,515	58,741
Non-deductible expenses	(6,425)	(2,218)	(4,752)
Correction of prior year declarations	(3,343)	–	–
Tax at the domestic rates applicable to profits in each country	(525)	(540)	(829)
Effects from changes in tax legislation	–	–	(30,275)
Other	303	246	1,258
Income tax expense	**(21,555)**	**(56,458)**	**(57,851)**

Applicable taxes in Georgia and Belarus include corporate income tax (profit tax), individuals' withholding taxes, property tax and value added tax, among others. However, regulations are often unclear or non-existent and few precedents have been established. This creates tax risks in Georgia and Belarus, substantially more significant than typically found in countries with more developed tax systems. Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretative issues.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

13. Taxation continued

As at 31 December 2020, 31 December 2019 and 31 December 2018, income tax assets and liabilities consist of the following:

	2020	2019	2018
Current income tax assets	21,841	75	19,328
Deferred income tax assets	192	207	123
Income tax assets	**22,033**	**282**	**19,451**
Current income tax liabilities	–	1,563	701
Deferred income tax liabilities	62,434	36,355	28,154
Income tax liabilities	**62,434**	**37,918**	**28,855**

Deferred tax assets and liabilities as at 31 December 2020, 31 December 2019 and 31 December 2018, and their movements for the respective years, are as follows:

		Origination and reversal of temporary differences					Origination and reversal of temporary differences		Origination and reversal of temporary differences	
	2017	In the income statement	IFRS 9 adoption	Demerger	In other comprehensive income	2018	In the income statement	2019	In the income statement	2020
Tax effect of deductible temporary differences:										
Amounts due to credit institutions	–	26	77	–	–	103	(40)	63	(63)	–
Investment securities	–	–	–	–	–	–	66	66	(66)	–
Investment properties	188	17	–	–	–	205	23	228	(169)	59
Insurance premiums receivables	487	–	–	(487)	–	–	–	–	–	–
Allowances for impairment and provisions for other losses	7,776	(7,159)	–	–	–	617	(617)	–	–	–
Tax losses carried forward	–	8	10	–	–	18	(18)	–	–	–
Property and equipment	728	1,249	–	–	–	1,977	150	2,127	258	2,385
Intangible assets	–	–	–	–	–	–	199	199	(199)	–
Lease liability	–	–	–	–	–	–	8,306	8,306	(2,300)	6,006
Accruals and deferred income	–	–	–	–	–	–	1,691	1,691	5,514	7,205
Other assets and liabilities	4,320	3,828	(87)	(522)	–	7,539	(4,780)	2,759	(2,692)	67
Deferred tax assets	**13,499**	**(2,031)**	**–**	**(1,009)**	**–**	**10,459**	**4,980**	**15,439**	**283**	**15,722**
Tax effect of taxable temporary differences:										
Amounts due to credit institutions	761	1,824	–	–	–	2,585	(635)	1,950	278	2,228
Debt securities issued	–	2,722	–	–	–	2,722	(411)	2,311	(687)	1,624
Cash and cash equivalents	–	2,669	–	–	–	2,669	(599)	2,070	(2,070)	–
Investment securities	–	(26)	83	–	265	322	(114)	208	(208)	–
Loans to customers and finance lease receivables	13,781	3,464	(1,974)	–	–	15,271	10,425	25,696	28,370	54,066
Client deposits and notes	–	–	–	–	–	–	35	35	141	176
Property and equipment	4,951	5,469	–	–	–	10,420	(1,269)	9,151	(130)	9,021
Right-of-use assets	–	–	–	–	–	–	8,465	8,465	(2,955)	5,510
Investment properties	–	584	–	–	–	584	(356)	228	112	340
Intangible assets	16	(4)	–	–	–	12	9	21	(21)	–
Assets held for sale	–	–	–	–	–	–	1,227	1,227	313	1,540
Accruals and deferred income	–	–	–	–	–	–	225	225	68	293
Other assets and liabilities	4,194	(51)	(238)	–	–	3,905	(3,905)	–	3,166	3,166
Deferred tax liabilities	**23,703**	**16,651**	**(2,129)**	**–**	**265**	**38,490**	**13,097**	**51,587**	**26,377**	**77,964**
Net deferred tax liabilities	**(10,204)**	**(18,682)**	**2,129**	**(1,009)**	**(265)**	**(28,031)**	**(8,117)**	**(36,148)**	**(26,094)**	**(62,242)**

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

14. Other assets and other liabilities

Other assets comprise:

	2020	2019	2018
Derivatives margin	210,816	2,093	–
Assets purchased for finance lease purposes	39,742	22,984	15,393
Receivables from remittance operations	26,045	33,955	8,906
Investments in associates	14,261	14,273	13,189
Other receivables	14,174	11,111	19,758
Derivative financial assets	9,154	34,559	35,557
Operating tax assets	8,398	10,473	5,099
Foreclosed assets	5,989	7,164	4,374
Trading securities owned	5,731	7,493	4,652
Other	6,663	7,786	25,121
Other assets, gross	**340,973**	**151,891**	**132,049**
Less – Allowance for impairment of other assets	(14,979)	(8,737)	(6,041)
Other assets, net	**325,994**	**143,154**	**126,008**

Other liabilities comprise:

	2020	2019	2018
Derivative financial liabilities	247,520	10,836	11,569
Creditors	30,678	23,355	9,010
Provisions	15,325	6,154	4,582
Accounts payable	11,651	4,081	1,817
Other taxes payable	10,045	12,369	6,976
Payables for remittance operations	8,597	19,331	10,107
Dividends payable to non-controlling shareholders	1,578	1,611	1,337
Advances received	731	5,072	8,279
Derivatives margin	–	12,532	–
Other	6,197	7,321	11,289
Other liabilities	**332,322**	**102,662**	**64,966**

In 2020, the Bank's derivative financial liabilities comprised mainly of USD-EUR contracts, the balance on which has significantly increased as a result of an apparent devaluation of USD as compared to EUR. The Bank was also required to provide respective collateral for the exposure in the form of a derivatives margin.

14. Other assets and other liabilities continued

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

	2020		
	Notional amount	Fair value	
		Asset	Liability
Foreign exchange contracts			
Forwards and swaps – domestic	574,563	6,881	2,908
Forwards and swaps – foreign	7,057,736	724	243,510
Interest rate contracts			
Options – foreign (IR)	7,864	1,549	1,102
Total derivative assets/liabilities	**7,640,163**	**9,154**	**247,520**

	2019			2018		
	Notional amount	Fair value		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
Foreign exchange contracts						
Forwards and swaps – domestic	797,784	5,620	1,242	721,906	3,110	981
Forwards and swaps – foreign	5,482,178	26,373	7,680	1,920,039	19,811	4,228
Interest rate contracts						
Forwards and swaps – foreign	–	–	–	1,109,990	12,636	6,360
Options – foreign (IR)	8,351	2,566	1,914	–	–	–
Total derivative assets/liabilities	**6,288,313**	**34,559**	**10,836**	**3,751,935**	**35,557**	**11,569**

15. Client deposits and notes

The amounts due to customers include the following:

	2020	2019	2018
Time deposits	8,025,100	5,042,851	4,061,604
Current accounts	5,995,109	5,033,884	4,072,249
Client deposits and notes	**14,020,209**	**10,076,735**	**8,133,853**

At 31 December 2020, amounts due to customers of GEL 2,951,893 (21%) were due to the ten largest customers (2019: GEL 828,952 (8%), 2018: GEL 962,322 (12%)).

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

	2020	2019	2018
Individuals	7,801,351	6,460,756	4,832,966
Private enterprises	4,303,313	3,253,970	2,760,667
State and state-owned entities	1,915,545	362,009	540,220
Client deposits and notes	**14,020,209**	**10,076,735**	**8,133,853**

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

15. Client deposits and notes continued

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

	2020	2019	2018
Individuals	7,801,351	6,460,756	4,832,966
Government services	1,866,346	320,470	508,410
Trade	858,474	533,483	536,619
Financial intermediation	778,226	502,513	397,638
Construction	588,880	632,389	572,628
Transport & communication	541,154	427,529	342,745
Service	390,856	287,975	300,671
Manufacturing	317,961	269,684	178,619
Real estate	159,503	125,719	101,020
Electricity, gas and water supply	75,221	93,757	95,987
Hospitality	65,825	62,084	40,216
Other	576,412	360,376	226,334
Client deposits and notes	**14,020,209**	**10,076,735**	**8,133,853**

Growth in Government services deposits were mainly driven by deposits placed by Ministry of Finance of Georgia and Pension Agency during the year ended 31 December 2020.

16. Amounts owed to credit institutions

Amounts due to credit institutions comprise:

	2020	2019	2018
Borrowings from international credit institutions	1,583,056	1,387,318	989,740
Short-term loans from National Bank of Georgia	590,293	1,551,953	1,118,957
Time deposits and inter-bank loans	258,920	234,962	214,479
Correspondent accounts	196,049	263,974	118,692
Other borrowings*	–	34,423	133,830
	2,628,318	3,472,630	2,575,698
Non-convertible subordinated debt	707,648	461,493	419,181
Amounts due to credit institutions	**3,335,966**	**3,934,123**	**2,994,879**

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

During the year ended 31 December 2020, the Group paid up to 5.49% on US$ borrowings from international credit institutions (2019: up to 6.50%, 2018: up to 6.10%). During the year ended 31 December 2020, the Group paid up to 9.39% on Dollar subordinated debt (2019: up to 11.13%, 2018: up to 10.00%).

Some long-term borrowings from international credit institutions are received upon certain conditions (the "Lender Covenants") that the Group maintains different limits for capital adequacy, liquidity, currency positions, credit exposures, leverage and others. At 31 December 2020, 31 December 2019 and 31 December 2018, the Group complied with all the Lender Covenants of the significant borrowings from international credit institutions.

In June 2019, the Bank and the European Fund for Southeast Europe ("EFSE") have entered into a USD 10 million subordinated loan agreement with a maturity of ten years. The subordinated loan facility qualifies for Tier II capital under the Basel III framework recently introduced in Georgia.

In September 2019, the Bank and responsAbility Micro and SME Finance Fund have entered into a USD 10 million subordinated loan agreement with a maturity of ten years. The subordinated loan facility qualifies for Tier II capital under the Basel III framework recently introduced in Georgia.

In December 2019, the Bank signed a ten-year USD 107 million subordinated syndicated loan agreement arranged by FMO – Dutch entrepreneurial development bank in collaboration with other participating lenders. The disbursed portion of the facility has been included into the Bank's Tier 2 capital by approval of the National Bank of Georgia under the Basel III framework in the amount of USD 52 million for which the regulatory approval on classification was received in December 2019. The remaining undrawn portions are similarly expected to be included into the Bank's Tier 2 Capital subject to the relevant NBG approvals.

16. Amounts owed to credit institutions continued

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

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

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

Other borrowings of BOGG were formed as a result of the Demerger, during which BGEO Group limited, former BGEO Group PLC, contributed the entire issued share capital of JSC Georgia Capital, the Investment Business, in exchange for an interest-bearing loan.

17. Debt securities issued

Debt securities issued comprise:

	2020	2019	2018
Eurobonds and notes issued	1,019,120	1,406,200	1,349,853
Additional Tier 1 capital notes issued	323,320	282,407	–
Local bonds	102,187	87,921	57,389
Certificates of deposit	140,918	343,536	323,172
Debt securities issued	**1,585,545**	**2,120,064**	**1,730,414**

On 21 March 2019, JSC Bank of Georgia successfully issued an inaugural US$ 100 million offering of 11.125% Additional Tier 1 Capital Perpetual Subordinated Notes callable after 5.25 years and on every subsequent interest payment date, subject to prior consent of the National Bank of Georgia (the "Notes"). The Notes have been issued in accordance with Regulation S as adopted by the United States SEC and sold at an issue price of 100.00%. The notes qualify as the Bank's Additional Tier 1 Capital under Basel III framework, with the NBG's approval.

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

Changes in liabilities arising from financing activities

	Eurobonds and notes issued	Additional Tier 1 capital notes issued
Carrying amount at 31 December 2017	**1,344,334**	**–**
Other movements	5,519	–
Carrying amount at 31 December 2018	**1,349,853**	**–**
Proceeds from debt securities issued	–	268,160
Other movements	56,347	14,247
Carrying amount at 31 December 2019	**1,406,200**	**282,407**
Repurchase of debt securities issued	(120,549)	–
Repayment of the principal portion of the debt securities issued	(440,410)	–
Other movements	173,879	40,913
Carrying amount at 31 December 2020	**1,019,120**	**323,320**

(Thousands of Georgian Lari)

18. Commitments and contingencies

Legal

Sai-invest

As at 31 December 2020, the Bank was engaged in litigation with Sai-Invest LLC in relation to a deposit pledge in the amount of EUR 7 million used to reduce the outstanding loan of LTD Sport Invest towards JSC Bank of Georgia. The Bank's management is of the opinion that the probability of incurring material losses on this claim is low, and, accordingly, no provision has been made in these consolidated financial statements.

Roman Pipia

As at 31 December 2020, BGEO Group Limited (former BGEO Group PLC), was engaged in litigation in the High Court of Justice of England and Wales (Commercial Court) with Roman Pipia (claimant), who asserts that BGEO Group Limited is liable to the claimant under Georgian law in relation to the loss of the Rustavi Azoti plant, which he alleges he formerly beneficially owned. The Bank had initiated the sale of collateral pledged by Rustavi Azoti LLC and its parent company to secure loans granted by the Bank following default by the borrowers in 2016. Based on the revised claim submitted in December 2018, the claimed amount is approximating USD 286.5m (alternatively USD 291m). No provision has been made as the Group believes that the claim is groundless and that it is extremely unlikely that any significant loss will eventuate from this claim.

Rustavi Azoti

The dispute launched by East-West United Bank S.A., Agrochim S.A. and Systema Holding Limited (claimants) against the Bank, JSC BGEO Group and others (respondents) claiming restitution and/or damages (in the amount of c.US$ 93.6 million) in relation to foreclosure on security (movable and immovable property and intangible assets) through auction on a defaulted loan of Rustavi Azoti LLC, disclosed in 2019 financial statements, finalized in favour of the Bank and BGEO in December 2020, by Supreme Court of Georgia's full and final dismissal of all claims of claimants against respondents.

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

Financial commitments and contingencies

As at 31 December 2020, 31 December 2019 and 31 December 2018, the Group's financial commitments and contingencies comprised the following:

	2020	2019	2018
Credit-related commitments			
Guarantees issued	1,490,028	1,347,841	1,015,566
Letters of credit	125,031	54,815	42,009
Undrawn loan facilities	685,533	281,615	278,254
	2,300,592	**1,684,271**	**1,335,829**
Less – Cash held as security against letters of credit and guarantees (Note 15)	(131,946)	(90,346)	(125,393)
Less – Provisions	(15,325)	(6,154)	(4,582)
Operating lease commitments			
Not later than 1 year	2,356	2,294	29,397
Later than 1 year but not later than 5 years	2,774	2,117	74,341
Later than 5 years	1,657	146	28,754
	6,787	**4,557**	**132,492**
Capital expenditure commitments	**2,863**	**4,279**	**6,616**

The Group discloses its undrawn loan facility balances based on the contractual terms and existing practice in regards to disbursement of these amounts. The balances are disclosed as commitments if the Group has an established practice of disbursing undrawn amounts without any subsequent approval. In 2020 the Group has modified its disbursement practice in regards to certain revolving credit facilities resulting in increased commitment balances.

19. Equity

Share capital

As at 31 December 2020, 31 December 2019 and 31 December 2018, issued share capital comprised 49,169,428 common shares of BOGG, all of which were fully paid. Each share has a nominal value of one (1) British penny. Shares issued and outstanding as at 31 December 2020 are described below:

	Number of ordinary shares	Amount of ordinary shares
31 December 2017	**39,384,712**	**1,151**
Replacement of BGEO as the Group's parent	(39,384,712)	(1,151)
Establishment and share issue by the new parent company	39,384,714	4,375,378
Capital reduction	–	(4,373,910)
Cancellation of redeemable shares	(2)	(172)
Issue of share capital in course of demerger	9,784,716	322
31 December 2018	**49,169,428**	**1,618**
31 December 2019	**49,169,428**	**1,618**
31 December 2020	**49,169,428**	**1,618**

Separate share capital of Bank of Georgia Group PLC is described below:

	Number of ordinary shares	Amount of ordinary shares
31 December 2017 (Bank of Georgia Group PLC)	**2**	**172**
Issue of share capital	39,384,712	4,375,206
Capital reduction	–	(4,373,910)
Cancellation of redeemable shares	(2)	(172)
Issue of share capital in course of demerger	9,784,716	322
31 December 2018 (Bank of Georgia Group PLC)	**49,169,428**	**1,618**
31 December 2019 (Bank of Georgia Group PLC)	**49,169,428**	**1,618**
31 December 2020 (Bank of Georgia Group PLC)	**49,169,428**	**1,618**

As part of the Demerger, Bank of Georgia Group PLC was established and on 18 May 2018 issued 39,384,712 additional ordinary shares at nominal value of £32 each in exchange for the entire issued capital of BGEO Group PLC and became the parent company of BGEO. On 23 May 2018 the Company undertook a planned reduction of capital to create distributable reserves for Bank of Georgia Group PLC.

Following the reduction of capital, the nominal value of the Company's ordinary shares was reduced to one (1) British Penny from thirty-two (32) British Pounds. As a result of the capital reduction, resources which became distributable to the shareholders were fully reclassified to retained earnings. The reduction of capital was a legal and accounting adjustment without any changes in assets and liabilities of the Group.

On 29 May 2018, as a result of the Demerger, the Company distributed its investment in the Investment Business with a fair value of GEL 1,441,552 to the shareholders of BOGG.

On 29 May 2018, BOGG issued additional 9,784,716 ordinary shares at nominal value of one (1) British Penny each.

Treasury shares

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

The number of treasury shares held by the Group as at 31 December 2020, comprised 1,638,844 (31 December 2019: 1,958,552, 31 December 2018: 1,543,281), with nominal amount of GEL 54 (31 December 2019: GEL 64, 31 December 2018: GEL 51).

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

19. Equity continued

Dividends

Shareholders are entitled to dividends in Pounds Sterling.

In 2020, 2019 and 2018 the Group distributed dividends on the shares vested and exercised during 2020, 2019 and 2018, respectively.

No other dividends have been declared by Bank of Georgia Group PLC in 2020.

On 17 May 2019, the shareholders of Bank of Georgia Group PLC declared a final dividend for 2018 of Georgian Lari 2.55 per share. The currency conversion period was set to be 27 to 31 May 2019, with the official GEL:GBP exchange rate of 3.5337, resulting in a GBP-denominated final dividend of 0.7216 per share. Payment of the total GEL 123,705 final dividends was received by shareholders on 28 June 2019.

On 9 July 2018, the shareholders of the Bank of Georgia Group PLC declared an interim dividend for 2018 of Georgian Lari 2.44 per share. The currency conversion period was set to be 16 to 20 July 2018, with the official GEL:GBP exchange rate of 3.2167, resulting in a GBP-denominated final dividend of 0.7585 per share. Payment of the total GEL 122,199 interim dividends was received by shareholders on 31 July 2018.

Nature and purpose of other reserves

Unrealised gains (losses) on investment securities

This reserve records fair value changes on investment securities.

Unrealised gains (losses) from dilution or sale/acquisition of shares in existing subsidiaries

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

Foreign currency translation reserve

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

Movements on this account during the years ended 31 December 2020, 31 December 2019 and 31 December 2018, are presented in the statements of other comprehensive income.

Earnings per share

	2020	2019	2018
Basic earnings per share			
Profit for the year attributable to ordinary shareholders of the Group	293,584	497,664	468,996
Profit for the year from continuing operations attributable to ordinary shareholders of the Group	293,584	497,664	379,313
Profit for the year from discontinued operations attributable to ordinary shareholders of the Group	–	–	89,683
Weighted average number of ordinary shares outstanding during the year	47,563,734	47,642,789	43,512,857
Basic earnings per share	6.1724	10.4457	10.7783
Earnings per share from continuing operations	6.1724	10.4457	8.7173
Earnings per share from discontinued operations	–	–	2.0610

	2020	2019	2018
Diluted earnings per share			
Effect of dilution on weighted average number of ordinary shares:			
Dilutive unvested share options	13,690	100,222	267,419
Weighted average number of ordinary shares adjusted for the effect of dilution	47,577,424	47,743,011	43,780,276
Diluted earnings per share	6.1707	10.4238	10.7125
Diluted earnings per share from continuing operations	6.1707	10.4238	8.6640
Diluted earnings per share from discontinued operations	–	–	2.0485

20. Net interest income

	2020	2019	2018
Interest income calculated using EIR method	1,563,362	1,411,359	1,302,906
From loans to customers	1,371,392	1,252,945	1,143,123
From investment securities	170,281	140,581	134,952
From amounts due from credit institutions	19,002	27,193	28,738
Net gain (loss) on modification of financial assets	2,687	(9,360)	(3,907)
Other interest income	32,065	25,802	19,391
From finance lease receivable	31,999	25,610	17,947
From other assets	66	–	–
From loans and advances to customers measured at FVTPL	–	192	1,444
Interest income	**1,595,427**	**1,437,161**	**1,322,297**
On client deposits and notes	(443,616)	(289,668)	(250,302)
On amounts owed to credit institutions	(267,306)	(222,567)	(206,104)
On debt securities issued	(142,373)	(165,336)	(118,183)
Interest element of cross-currency swaps	52,312	43,048	–
On lease liability	(5,387)	(4,921)	–
Interest expense	**(806,370)**	**(639,444)**	**(574,589)**
Deposit insurance fees	(11,415)	(8,298)	(5,955)
Net interest income	**777,642**	**789,419**	**741,753**

In 2020, a GEL 39,730 net one-off loss on modification of financial assets was recorded in relation to the three-month payment holidays on principal and interest offered to our Retail Banking clients, as an immediate response to COVID-19 pandemic outbreak, in order to reduce the requirement for customers to physically visit Bank branches and reduce the risk of the virus spread. The net loss incurred as a result of these modifications has been classified as a non-recurring item in the income statement.

21. Net fee and commission income

	2020	2019	2018
Settlements operations	213,865	218,112	185,118
Guarantees and letters of credit	28,373	25,793	18,852
Cash operations	11,883	17,077	13,032
Currency conversion operations	8,438	10,874	1,690
Brokerage service fees	6,501	3,398	2,639
Advisory	1,463	4,119	3,628
Other	3,935	4,820	3,810
Fee and commission income	**274,458**	**284,193**	**228,769**
Settlements operations	(90,357)	(85,476)	(62,923)
Guarantees and letters of credit	(505)	(1,670)	(1,630)
Cash operations	(8,903)	(8,852)	(5,145)
Currency conversion operations	(2,256)	(1,948)	(446)
Insurance brokerage service fees	(3,847)	(2,651)	(3,667)
Advisory	(63)	(24)	(55)
Other	(3,024)	(3,558)	(2,241)
Fee and commission expense	**(108,955)**	**(104,179)**	**(76,107)**
Net fee and commission income	**165,503**	**180,014**	**152,662**

Revenue from customers

In 2020, the Group recognised GEL 242,238 revenue from contracts with customers in the income statement, including fee and commission as well as net other income (2019: GEL 295,320, 2018: GEL 244,884).

Notes to Consolidated Financial Statements continued
(Thousands of Georgian Lari)

21. Net fee and commission income continued

Contract assets and liabilities

As at 31 December 2020, the Group has recognised GEL 36,653 revenue-related contract liabilities (2019: GEL 29,567, 2018: GEL 24,200). Accounts receivable are recognised when the right to consideration becomes unconditional. Deferred revenue is recognised as revenue as we perform under the contract.

The Group does not adjust the promised amount of consideration for the effects of a significant financing component if the Group expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

In 2020, the Group recognised GEL 11,802 revenue (2019: GEL 7,222, 2018: GEL 6,873) that relates to carried-forward contract liabilities and is included in the deferred income.

Transaction price allocated to the remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied at the reporting date:

	In 1 year	In 2 years	In 3 years	In 3 to 5 years	In 5 to 10 years	Total
As at 31 December 2020	12,905	1,544	1,303	2,198	18,703	36,653
As at 31 December 2019	21,677	9,427	5,533	2,169	152	38,958
As at 31 December 2018	16,534	7,336	3,204	3,618	495	31,187

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

22. Salaries and other employee benefits, and general and administrative expenses

Salaries and other employee benefits

	2020	2019	2018
Salaries and bonuses	(232,097)	(236,175)	(210,227)
Social security costs	(4,410)	(4,919)	(3,725)
Pension costs	(3,100)	(2,761)	(809)
Salaries and other employee benefits	**(239,607)**	**(243,855)**	**(214,761)**

In 2020, salaries and bonuses include GEL 53,741 of the Equity Compensation Plan costs (2019: GEL 58,117, 2018: GEL 46,619), associated with the existing share-based compensation scheme approved in the Group (Note 25).

The average number of staff employed by the Group for the years ended 31 December 2020, 31 December 2019 and 31 December 2018, comprised:

	2020	2019	2018
The Bank	5,758	5,806	5,651
BNB	545	621	699
Other	960	961	885
Average total number of staff employed	**7,263**	**7,388**	**7,235**

22. Salaries and other employee benefits, and general and administrative expenses continued

General and administrative expenses

	2020	2019	2018
Repairs and maintenance	(24,320)	(14,150)	(13,422)
Marketing and advertising	(17,394)	(17,310)	(15,198)
Legal and other professional services	(14,508)	(16,953)	(13,613)
Operating taxes	(14,183)	(11,330)	(8,360)
Office supplies	(6,275)	(6,376)	(6,275)
Occupancy and rent	(5,977)	(8,306)	(27,000)
Communication	(5,830)	(6,195)	(5,611)
Insurance	(3,420)	(3,166)	(2,716)
Travel expenses	(3,231)	(4,095)	(1,887)
Security	(2,782)	(1,684)	(2,872)
Personnel training and recruitment	(1,726)	(3,234)	(5,974)
Corporate hospitality and entertainment	(1,380)	(9,725)	(5,883)
Other	(4,505)	(3,633)	(3,843)
General and administrative expenses	**(105,531)**	**(106,157)**	**(112,654)**

Auditor remuneration

Auditor remuneration is included within legal and other professional services expenses above and comprises:

	2020	2019	2018
Fees payable for the audit of the Company's current year Annual Report	587	502	442
Fees payable for other services:			
Audit of the Company's subsidiaries	973	849	862
Total audit fees	**1,560**	**1,351**	**1,304**
Audit related assurance services			
Review of the Company's and subsidiaries' interim accounts	339	293	268
Other assurance services	307	315	25
Total audit related fees	**646**	**608**	**293**
Non-audit services			
Other assurance services	–	–	4,153
Total other services fees	**–**	**–**	**4,153**
Total fees	**2,206**	**1,959**	**5,750**

The figures shown in the above table relate to fees paid to Ernst & Young LLP ("EY") and its associates. In 2020, fees paid to other auditors not associated with EY in respect of the audit of the Parent and Group's subsidiaries were GEL 257 (2019: GEL 554, 2018: GEL 24), and in respect of other services of the Group were GEL 377 (2019: GEL 181, 2018: GEL 349).

(Thousands of Georgian Lari)

23. Expected credit loss

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

	Stage 1		Stage 2		Stage 3			
	Individual	Collective	Individual	Collective	Individual	Collective	POCI	Total
Cash and cash equivalents	–	63	–	–	–	–	–	63
Amounts due from credit institutions	–	(56)	–	–	–	–	–	(56)
Investment securities measured at FVOCI – debt instruments	–	(458)	–	–	–	–	–	(458)
Loans to customers at amortised cost	–	(61,219)	–	(49,502)	(62,612)	(62,439)	(1,211)	(236,983)
Finance lease receivables	–	310	–	(1,018)	(967)	(6,350)	–	(8,025)
Other financial assets	–	(13,948)	–	–	–	–	–	(13,948)
Financial guarantees	–	(4,091)	–	(33)	(3,091)	–	–	(7,215)
Letter of credit to customers	–	(1,317)	–	–	(380)	–	–	(1,697)
Other financial commitments	–	158	–	(69)	–	–	–	89
For the year ended 31 December 2020	**–**	**(80,558)**	**–**	**(50,622)**	**(67,050)**	**(68,789)**	**(1,211)**	**(268,230)**

	Stage 1		Stage 2		Stage 3			
	Individual	Collective	Individual	Collective	Individual	Collective	POCI	Total
Cash and cash equivalents	–	(7)	–	–	–	–	–	(7)
Amounts due from credit institutions	–	424	–	–	–	–	–	424
Investment securities measured at FVOCI – debt instruments	–	(337)	–	–	–	–	–	(337)
Loans to customers at amortised cost	–	(11,211)	–	5,159	72,903	(159,861)	(1,145)	(94,155)
Finance lease receivables	–	(249)	–	(32)	228	(832)	–	(885)
Financial guarantees	–	(378)	–	(15)	141	138	–	(114)
Letter of credit to customers	–	(207)	–	117	(13)	–	–	(103)
Other financial commitments	–	55	–	13	(50)	–	–	18
For the year ended 31 December 2019	**–**	**(11,910)**	**–**	**5,242**	**73,209**	**(160,555)**	**(1,145)**	**(95,159)**

	Stage 1		Stage 2		Stage 3			
	Individual	Collective	Individual	Collective	Individual	Collective	POCI	Total
Cash and cash equivalents	–	(62)	–	–	–	–	–	(62)
Amounts due from credit institutions	–	(141)	–	–	–	–	–	(141)
Investment securities measured at FVOCI – debt instruments	–	(1,619)	–	–	–	–	–	(1,619)
Loans to customers at amortised cost	–	17,770	–	4,089	5,165	(170,152)	3,629	(139,499)
Finance lease receivables	–	(71)	–	792	(254)	(631)	–	(164)
Accounts receivable and other loans	–	(6)	–	–	–	–	–	(6)
Financial guarantees	–	(1,854)	–	16	291	84	–	(1,463)
Letter of credit to customers	–	186	–	15	–	621	–	822
Other financial commitments	–	(252)	–	(78)	–	–	–	(330)
For the year ended 31 December 2018	**–**	**13,951**	**–**	**4,834**	**5,202**	**(170,078)**	**3,629**	**(142,462)**

24. Net non-recurring items

	2020	2019	2018
Modification loss of financial assets*	(39,730)	–	–
Corporate social responsibility expense**	(1,454)	–	(13,462)
Legal fees	–	(9,474)	(2,826)
Termination benefits	–	(3,985)	(4,401)
Loss from sale of subsidiary	–	(224)	(1,414)
Demerger-related expenses***	–	–	(30,284)
Other	(127)	(1,025)	(4,769)
Net non-recurring expense/loss	**(41,311)**	**(14,708)**	**(57,156)**

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

** In 2020, corporate social responsibly expense: in order to assist in the fight against the COVID-19 the Group purchased and donated laboratory tests, respiratory equipment, etc. to the Government of Georgia on a one-off basis. In 2018, corporate social responsibility comprises the one-off project to support the fibre-optic broadband infrastructure development in rural Georgia.

** Demerger-related expenses comprise: employee compensation expenses in amount of GEL 21,141 including acceleration of share-based compensation of Investment Business employees, Demerger costs recognised in the Consolidated Income Statement in amount of GEL 7,736 and other Demerger-related expenses in amount of GEL 1,407.

25. Share-based payments

Executives' Equity Compensation Plan ("EECP") and Employees' Equity Compensation Plan ("EECP")

In 2015, the Group set up Executive Equity Compensation Trustee – Sanne Fiduciary Services Limited (the "Trustee") which acts as the trustee of the Group's Executives' Equity Compensation Plan ("EECP"). In 2020, the Trustee has repurchased 0 shares (2019: 299,643 shares and 2018: 784,084 shares).

In 2019, the Group set up Employee Equity Compensation Trustee – Sanne Fiduciary Services Limited (the "Trustee") which acts as the trustee of the Group's Employees' Equity Compensation Plan ("EECP"). In 2020, the Trustee has repurchased 234,563 shares (2019: 439,320 shares).

Following the Demerger, BOGG's Remuneration Committee resolved to amend the contingent share-based compensation of Management Board members using estimated valuation of the relative share prices of BGEO before the Demerger and BOGG after the listing.

In January 2020, BOGG's Remuneration Committee resolved to award 271,460 ordinary shares of Bank of Georgia Group PLC to the members of the Management Board and 315,869 ordinary shares of Bank of Georgia Group PLC to the Group's 49 executives. Shares awarded to the Management Board are subject to two-year vesting and two-year holding periods, while those awarded to the other 49 executives are subject to three-year vesting with continuous employment being the only vesting condition for both awards. The Group considers 31 January 2020 as the grant date. The Group estimates that the fair value of the shares awarded on 31 January 2020 was Georgian Lari 56.98 per share.

In March 2019, BOGG's Remuneration Committee resolved to award 344,000 ordinary shares of Bank of Georgia Group PLC to the members of the Management Board and 185,670 ordinary shares of Bank of Georgia Group PLC to the Group's 33 executives. Shares awarded to the Management Board and the other 33 executives are subject to three-year vesting with continuous employment being the only vesting condition for both awards. The Group considers 10 and 20 March 2019 as the grant date. The Group estimates that the fair value of the shares awarded on 10 and 20 March 2019 was Georgian Lari 56.51 and 59.04 per share, respectively.

In February 2018, BGEO's Remuneration Committee resolved to award 277,548 ordinary shares of BGEO Group PLC to the members of the Management Board and 79,550 ordinary shares of BGEO to the Group's 19 executives. Shares awarded to the Management Board and the other 19 executives are subject to three-year vesting with continuous employment being the only vesting condition for both awards. The Group considers 14 February 2018 as the grant date. The Group estimates that the fair value of the shares awarded on 14 February 2018 was Georgian Lari 114.56 per share.

(Thousands of Georgian Lari)

25. Share-based payments continued

Executives' Equity Compensation Plan ("EECP") and Employees' Equity Compensation Plan ("EECP") continued

In 2020, new Management Board members and one key executive signed new three-year fixed contingent share-based compensation agreements with the total of 120,000 and 30,000 ordinary shares of BOGG, respectively. The total amount of shares fixed to each executive will be awarded in three equal instalments during the three consecutive years, of which each award will be subject to a three-year vesting period. The Group considers 3 June 2020 and 29 December 2020 as the grant dates for the awards. The Group estimates that the fair value of the shares on 3 June 2020 and 29 December 2020 were Georgian Lari 39.91 and 54.61, respectively.

In 2020, existing Management Board members' share-based compensation agreements were amended with the total effect of 33,333 ordinary shares of BOGG. The Group considers 23 December 2020 as the grant dates for the awards. The Group estimates that the fair value of the shares on 23 December 2020 was Georgian Lari 53.48.

In 2019, the Management Board members signed new three and five-year fixed contingent share-based compensation agreements with the total of 915,000 ordinary shares of BOGG. The total amount of shares fixed to each executive will be awarded in three and five equal instalments during the three and five consecutive years, of which each award will be subject to a four-year vesting period. The Group considers 9 January 2019, 1 May 2019 and 3 May 2019 as the grant dates for the awards. The Group estimates that the fair value of the shares on 9 January 2019, 1 May 2019 and 3 May 2019 were Georgian Lari 52.04, 60.57 and 60.14, respectively.

In 2018, the Management Board members signed new three-year fixed contingent share-based compensation agreements with the total of 82,000 ordinary shares of BGEO Group PLC and 115,000 ordinary shares of BOGG. The total amount of shares fixed to each executive will be awarded in three equal instalments during the three consecutive years starting January 2019, of which each award will be subject to a four-year vesting period. The Group considers 16 February 2018, 23 March 2018 and 10 July 2018 as the grant dates for the awards. The Group estimates that the fair value of the shares on 16 February 2018, 23 March 2018 and 10 July 2018 were Georgian Lari 115.03, 122.23 and 60.47, respectively.

The Bank grants share compensation to its non-executive employees. In January 2020, March 2019 and February 2018, the Supervisory Board of the Bank resolved to award 252,614, 273,536 and 158,960 ordinary shares, respectively, to its certain non-executive employees. All these awards are subject to three-year vesting, with continuous employment being the only vesting condition for all awards. The Group considers 31 January 2020, 10 March 2019 and 14 February 2018 as the grant dates of these awards, respectively. The Group estimates that the fair values of the shares awarded on 56.98, 56.51 and 114.56 were Georgian Lari 56.98, 56.51 and 114.56 per share, respectively.

Summary

Fair value of the shares granted at the measurement date is determined based on available market quotations.

The weighted average fair value of share-based awards at the grant date comprised Georgian Lari 55.91 per share in year ended 31 December 2020 (31 December 2019: Georgian Lari 56.36 per share, 31 December 2018: Georgian Lari 106.90).

The Group's total share-based payment expenses for the year ended 31 December 2020 comprised GEL 53,741 (31 December 2019: GEL 62,102, 31 December 2018: GEL 99,335) and are included in "salaries and other employee benefits", as "salaries and bonuses". Below is the summary of the share-based payments-related data:

	2020	2019	2018
Total number of equity instruments awarded	1,023,276	1,718,206	713,058
– Among them, to Management Board	424,793	1,259,000	474,548
Weighted average value at grant date, per share (GEL in full amount)	55.91	56.36	106.90
Value at grant date, total (GEL)	**57,211**	**96,832**	**76,225**
Total expense recognised during the year (GEL)*	**(53,741)**	**(62,102)**	**(99,335)**

* 2019 Expense recognised during the year includes GEL 3,985 recorded in non-recurring expenses. 2018 Expense recognised during the year includes GEL 29,066 recorded in Discontinued operations and GEL 23,650 recorded in non-recurring expenses.

During 2020 and 2019, BOGG Directors did not exercise any shares. During 2018, BOGG Directors exercised GEL 131,648 shares with fair value of GEL 15,339. Weighted average share price comprised GEL 116.52 per share.

26. Risk management

Introduction

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

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

Risk Management structure

In 2019, the Bank commenced the implementation of its new Risk Management Framework and Risk Appetite Framework policies, which are based on Enterprise Risk Management's three lines of defence model and mirror the requirement of the Corporate Governance Code adopted by the NBG. The new framework and policies were fully implemented by the end of 2020. The three lines of defence model enhances the understanding of risk management and control by clarifying roles and duties within the Bank of different risk management bodies and units in order to increase the effective management of risk and control.

Audit Committee

The Audit Committee assists the Board in relation to the oversight of the Group's financial and reporting processes. It monitors the integrity of the financial statements and is responsible for governance around both the Internal Audit function and external auditor, reporting back to the Board. It reviews the effectiveness of the policies, procedures and systems in place related to, among other operational risks, compliance, IT and Internal Security (including cyber-security), and works closely with the Risk Committee in connection with assessing the effectiveness of the risk management and internal control framework.

Risk Committee

The Risk Committee assists the Board in relation to the oversight of risk. It reviews the Group's risk appetite in line with strategy, identifies and monitors risk exposure and the risk management infrastructure, oversees the implementation of strategy to address risk, and in conjunction with the Audit Committee, assesses the strength and effectiveness of the risk management and internal control framework.

Management Board

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

Bank Asset and Liability Management Committee

The Bank's Asset and Liability Management Committee ("ALCO") is the core Risk Management body that establishes policies and guidelines with respect to capital adequacy, market risks and respective limits, funding liquidity risk and respective limits, interest rate and prepayment risks and respective limits, money market general terms and credit exposure limits, that designs and implements respective Risk Management and stress testing models in practice and regularly monitors compliance with the pre-set risk limits.

Internal Audit

The Internal Audit department is responsible for the annual audit of the Group's Risk Management, internal control and corporate governance processes, with the aim of reducing the levels of operational and other risks, auditing the Group's internal control systems and detecting any infringements or errors on the part of the Group's departments and divisions. It examines both the adequacy and the Group's compliance with those procedures. The Group's Internal Audit department discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects the expected loss likely to arise in both normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on different forecasting models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group runs three different basic scenarios, of which one is base case (forecast under normal business conditions) and the other two are troubled and distressed scenarios, which are worse and worst case scenarios, respectively, that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks are primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

26. Risk management continued

Introduction continued

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, and the head of each business division. The reports include aggregate credit exposures and their limits, exceptions to those limits, liquidity ratios and liquidity limits, market risk ratios and their limits, and changes to the risk profile. Senior management assesses the appropriateness of the expected credit loss on a monthly basis. The Management Board receives a comprehensive credit risk report and ALCO report. These reports are designed to provide all the necessary information to assess and conclude on the risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, relevant and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall Risk Management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. While these are intended for hedging, they do not qualify for hedge accounting.

The Group actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or these counterparties represent related parties to each other, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations also involve combined, aggregate exposures of large and significant credits compared with the total outstanding balance of the respective financial instrument. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on, maintaining a diversified portfolio of financial assets. Identified concentrations of credit risks or liquidity/repayment risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical, industry, product and currency concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision.

The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action. The maximum credit exposure is limited to the carrying value of respective instruments and notional amounts of guarantees and commitments provided.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of the financial position.

Credit-related commitment risks

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

26. Risk management continued

Credit risk continued

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group through internal and external credit ratings used in ECL calculations.

For corporate loan portfolios, the Group runs an internal rating model in which its customers are rated from 1 to 7 using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to each borrower, utilising supplemental external information that could affect the borrower's behaviour. It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. Attributable risk ratings are assessed and updated regularly.

For Retail, Micro and SME loans, the Group uses external ratings provided by Credit Bureau.

The Group's treasury, trading and inter-bank relationships and counterparties comprise financial services institutions, banks and broker-dealers. For these, where external ratings provided by rating agencies are available, the Group Credit Risk department uses such external ratings. For those where external ratings are not available internal ratings are assigned.

The table below shows internal and external grades used in ECL calculating.

Internal Rating Description*	Internal Rating Grades		External Rating Grades: Credit Bureau	External Rating Grades: Standard & Poor's
High grade				
	Aaa	1	A	AAA
	Aa1	2+	B	AA+
	Aa2	2	C1	AA
	Aa3	2-	C2	AA-
	A1	3+	C3	A+
	A2	3		A
	A3	3-		A-
	Baa1	4+		BBB+
	Baa2	4		BBB
	Baa3	4-		BBB-
Standard grade				
	Ba1	5+	D1	BB+
	Ba2	5	D2	BB
	Ba3	5-	D3	BB-
	B1	6+		B+
	B2	6		B
Low grade				
	B3	6-	E1	B-
	Caa1	7+	E2	CCC+
	Caa2	7	E3	CCC
	Caa3	7-		CCC-
	Ca			CC
				C

* Grades are not supposed to be linked to each other across the rating categories above.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

26. Risk management continued

Credit risk continued

The table below shows the credit quality by class of asset in the statement of financial position, presented in gross amounts, based on the Group's credit rating system.

A defaulted financial asset that is past due more than 90 days is assessed as a non-performing loan or as determined on individual basis based on other available information regarding financial difficulties of the borrower.

Cash and cash equivalents, excluding cash on hand	Stage 1	Total
High grade	1,077,536	1,077,536
Standard grade	98,062	98,062
Low grade	87,355	87,355
Not rated	4,614	4,614
Balance at 31 December 2020	**1,267,567**	**1,267,567**

Amounts due from credit institutions	Stage 1	Total
High grade	–	–
Standard grade	1,986,932	1,986,932
Low grade	–	–
Not rated	29,473	29,473
Balance at 31 December 2020	**2,016,405**	**2,016,405**

Investment securities measured at FVOCI – debt instruments	Stage 1	Total
High grade	1,010,177	1,010,177
Standard grade	1,414,785	1,414,785
Low grade	11,003	11,003
Not rated	107,929	107,929
Balance at 31 December 2020	**2,543,894**	**2,543,894**

Commercial loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	1,801,003	41,693	–	–	1,842,696
Standard grade	1,343,887	110,608	–	–	1,454,495
Low grade	361,573	194,295	–	7,402	563,270
Not rated	984,615	35,522	–	–	1,020,137
Defaulted					
Non-performing	–	–	236,992	974	237,966
Other	–	–	4,829	–	4,829
Balance at 31 December 2020	**4,491,078**	**382,118**	**241,821**	**8,376**	**5,123,393**

Residential mortgage loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	2,521,205	108,883	–	1,283	2,631,371
Standard grade	534,592	102,058	–	4,390	641,040
Low grade	111,250	101,843	–	4,968	218,061
Not rated	120,797	1,431	–	–	122,228
Defaulted					
Non-performing	–	–	110,378	6,056	116,434
Other	–	–	58,098	9,152	67,250
Balance at 31 December 2020	**3,287,844**	**314,215**	**168,476**	**25,849**	**3,796,384**

Micro and SME loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	1,278,947	151,938	–	409	1,431,294
Standard grade	834,885	135,345	–	309	970,539
Low grade	96,053	86,728	–	1,987	184,768
Not rated	439,222	65,394	–	11	504,627
Defaulted					
Non-performing	–	–	144,323	706	145,029
Other	–	–	33,148	49	33,197
Balance at 31 December 2020	**2,649,107**	**439,405**	**177,471**	**3,471**	**3,269,454**

26. Risk management continued

Credit risk continued

Consumer loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	1,041,103	31,976	–	412	1,073,491
Standard grade	514,395	51,890	–	965	567,250
Low grade	150,067	109,522	–	2,388	261,977
Not rated	198,617	978	–	–	199,595
Defaulted					
Non-performing	–	–	66,765	1,619	68,384
Other	–	–	34,185	3,131	37,316
Balance at 31 December 2020	**1,904,182**	**194,366**	**100,950**	**8,515**	**2,208,013**

Gold – pawn loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	31,764	262	–	–	32,026
Standard grade	42,352	703	–	–	43,055
Low grade	21,929	2,914	–	–	24,843
Not rated	1,730	–	–	–	1,730
Defaulted					
Non-performing	–	–	406	–	406
Other	–	–	1,324	–	1,324
Balance at 31 December 2020	**97,775**	**3,879**	**1,730**	**–**	**103,384**

Finance lease receivables	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	12,756	7,605	–	–	20,361
Standard grade	8,673	17,403	–	–	26,076
Low grade	201	12,767	–	–	12,968
Not rated	45,716	15,501	–	–	61,217
Defaulted					
Non-performing	–	–	3,595	–	3,595
Other	–	–	15,155	–	15,155
Balance at 31 December 2020	**67,346**	**53,276**	**18,750**	**–**	**139,372**

Accounts receivable	Stage 1	Total
Not rated	4,935	4,935
Balance at 31 December 2020	**4,935**	**4,935**

Other financial assets	Stage 1	Total
Not rated	40,219	40,219
Balance at 31 December 2020	**40,219**	**40,219**

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

26. Risk management continued

Credit risk continued

Guarantees issued	Stage 1	Stage 2	Stage 3	Total
High grade	160,612	7,628	–	168,240
Standard grade	40,554	7,414	–	47,968
Low grade	39,485	5,250	–	44,735
Not rated	1,198,042	6	–	1,198,048
Defaulted				
Other	–	–	31,037	31,037
Balance at 31 December 2020	**1,438,693**	**20,298**	**31,037**	**1,490,028**

Letters of credit	Stage 1	Stage 2	Stage 3	Total
High grade	49,162	–	–	49,162
Standard grade	10,970	–	–	10,970
Low grade	261	–	–	261
Not rated	58,698	–	–	58,698
Defaulted				
Other	–	–	5,940	5,940
Balance at 31 December 2020	**119,091**	**–**	**5,940**	**125,031**

Undrawn loan facilities	Stage 1	Stage 2	Stage 3	Total
High grade	450,119	2,683	–	452,802
Standard grade	62,708	878	–	63,586
Low grade	15,682	14,740	–	30,422
Not rated	136,726	799	–	137,525
Defaulted				
Other	–	–	1,198	1,198
Balance at 31 December 2020	**665,235**	**19,100**	**1,198**	**685,533**

26. Risk management continued

Credit risk continued

Cash and cash equivalents, excluding cash on hand	Stage 1	Total
High grade	936,629	936,629
Standard grade	373,932	373,932
Low grade	174,680	174,680
Not rated	4,937	4,937
Balance at 31 December 2019	**1,490,178**	**1,490,178**

Amounts due from credit institutions	Stage 1	Total
High grade	30,958	30,958
Standard grade	1,570,268	1,570,268
Low grade	–	–
Not rated	18,193	18,193
Balance at 31 December 2019	**1,619,419**	**1,619,419**

Investment securities measured at FVOCI – debt instruments	Stage 1	Total
High grade	884,565	884,565
Standard grade	797,644	797,644
Low grade	11,040	11,040
Not rated	95,457	95,457
Balance at 31 December 2019	**1,788,706**	**1,788,706**

Commercial loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	1,639,447	31,717	–	–	1,671,164
Standard grade	765,159	175,331	–	–	940,490
Low grade	334,032	116,850	–	6,583	457,465
Not rated	844,413	25,596	–	–	870,009
Defaulted					
Non-performing	–	–	134,963	–	134,963
Other	–	–	26,781	1,078	27,859
Balance at 31 December 2019	**3,583,051**	**349,494**	**161,744**	**7,661**	**4,101,950**

Residential mortgage loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	2,130,690	52,274	–	731	2,183,695
Standard grade	481,063	33,680	–	1,968	516,711
Low grade	101,978	73,922	–	3,050	178,950
Not rated	51,228	162	–	–	51,390
Defaulted					
Non-performing	–	–	21,005	3,399	24,404
Other	–	–	88,408	23,125	111,533
Balance at 31 December 2019	**2,764,959**	**160,038**	**109,413**	**32,273**	**3,066,683**

Micro and SME loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	1,361,741	13,919	–	–	1,375,660
Standard grade	645,784	31,867	–	9	677,660
Low grade	91,539	45,411	–	99	137,049
Not rated	327,802	21,933	–	–	349,735
Defaulted					
Non-performing	–	–	72,911	950	73,861
Other	–	–	45,564	691	46,255
Balance at 31 December 2019	**2,426,866**	**113,130**	**118,475**	**1,749**	**2,660,220**

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

26. Risk management continued

Credit risk continued

Consumer loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	963,492	11,884	–	471	975,847
Standard grade	569,722	15,113	–	206	585,041
Low grade	155,999	82,621	–	1,673	240,293
Not rated	167,582	540	–	–	168,122
Defaulted					
Non-performing	–	–	25,524	548	26,072
Other	–	–	82,890	6,843	89,733
Balance at 31 December 2019	**1,856,795**	**110,158**	**108,414**	**9,741**	**2,085,108**

Gold – pawn loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	–	–	–	–	–
Standard grade	–	–	–	–	–
Low grade	–	–	–	–	–
Not rated	80,794	1,114	–	–	81,908
Defaulted					
Non-performing	–	–	101	–	101
Other	–	–	3,531	–	3,531
Balance at 31 December 2019	**80,794**	**1,114**	**3,632**	**–**	**85,540**

Finance lease receivables	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	14,680	133	–	–	14,813
Standard grade	6,450	692	–	–	7,142
Low grade	7,664	233	–	–	7,897
Not rated	101,438	11,440	–	–	112,878
Defaulted					
Non-performing	–	–	6,457	–	6,457
Other	–	–	10,004	–	10,004
Balance at 31 December 2019	**130,232**	**12,498**	**16,461**	**–**	**159,191**

Accounts receivable	Stage 1	Total
Not rated	3,489	3,489
Balance at 31 December 2019	**3,489**	**3,489**

Other financial assets	Stage 1	Total
Not rated	45,066	45,066
Balance at 31 December 2019	**45,066**	**45,066**

26. Risk management continued

Credit risk continued

Guarantees issued	Stage 1	Stage 2	Stage 3	Total
High grade	178,025	–	–	178,025
Standard grade	36,410	6,220	–	42,630
Low grade	50,215	9,580	–	59,795
Not rated	1,065,866	499	–	1,066,365
Defaulted				
Other	–	–	1,026	1,026
Balance at 31 December 2019	**1,330,516**	**16,299**	**1,026**	**1,347,841**

Letters of credit	Stage 1	Stage 2	Stage 3	Total
High grade	24,503	–	–	24,503
Standard grade	21,388	–	–	21,388
Low grade	1,147	–	–	1,147
Not rated	7,165	–	–	7,165
Non-performing	–	–	–	–
Other	–	–	612	612
Balance at 31 December 2019	**54,203**	**–**	**612**	**54,815**

Undrawn loan facilities	Stage 1	Stage 2	Stage 3	Total
High grade	180,375	201	–	180,576
Standard grade	24,818	372	–	25,190
Low grade	6,496	3,438	–	9,934
Not rated	63,960	613	–	64,573
Defaulted				
Other	–	–	1,342	1,342
Balance at 31 December 2019	**275,649**	**4,624**	**1,342**	**281,615**

Cash and cash equivalents, excluding cash on hand	Stage 1	Total
High grade	318,747	318,747
Standard grade	323,620	323,620
Low grade	65,216	65,216
Not rated	6,298	6,298
Balance at 31 December 2018	**713,881**	**713,881**

Amounts due from credit institutions	Stage 1	Total
High grade	29,744	29,744
Standard grade	1,256,325	1,256,325
Low grade	–	–
Not rated	19,886	19,886
Balance at 31 December 2018	**1,305,955**	**1,305,955**

Investment securities measured at FVOCI – debt instruments	Stage 1	Total
High grade	835,357	835,357
Standard grade	1,109,784	1,109,784
Low grade	6,246	6,246
Not rated	71,531	71,531
Balance at 31 December 2018	**2,022,918**	**2,022,918**

(Thousands of Georgian Lari)

26. Risk management continued

Credit risk continued

Commercial loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	1,327,033	59,862	–	–	1,386,895
Standard grade	527,070	160,192	–	–	687,262
Low grade	102,328	73,296	–	6,050	181,674
Not rated	422,729	34,480	–	–	457,209
Defaulted					
Non-performing	–	–	187,641	–	187,641
Other	–	–	54,778	987	55,765
Balance at 31 December 2018	**2,379,160**	**327,830**	**242,419**	**7,037**	**2,956,446**

Residential mortgage loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	1,691,375	18,777	–	311	1,710,463
Standard grade	290,796	7,038	–	–	297,834
Low grade	319,076	60,994	–	533	380,603
Not rated	49,960	–	–	–	49,960
Defaulted					
Non-performing	–	–	23,239	3,455	26,694
Other	–	–	65,010	18,889	83,899
Balance at 31 December 2018	**2,351,207**	**86,809**	**88,249**	**23,188**	**2,549,453**

Micro and SME loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	1,024,192	7,449	–	–	1,031,641
Standard grade	347,357	10,016	–	–	357,373
Low grade	240,321	45,920	–	5	286,246
Not rated	302,094	21,926	–	5	324,025
Defaulted					
Non-performing	–	–	80,244	1,979	82,223
Other	–	–	47,461	246	47,707
Balance at 31 December 2018	**1,913,964**	**85,311**	**127,705**	**2,235**	**2,129,215**

Consumer loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	749,583	2,731	–	109	752,423
Standard grade	299,181	4,100	–	–	303,281
Low grade	483,340	93,786	–	194	577,320
Not rated	117,976	529	76	–	118,581
Defaulted					
Non-performing	–	–	38,831	214	39,045
Other	–	–	82,284	3,954	86,238
Balance at 31 December 2018	**1,650,080**	**101,146**	**121,191**	**4,471**	**1,876,888**

Gold – pawn loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	–	–	–	–	–
Standard grade	–	–	–	–	–
Low grade	–	–	–	–	–
Not rated	75,483	541	–	–	76,024
Defaulted					
Non-performing	–	–	369	–	369
Other	–	–	4,377	–	4,377
Balance at 31 December 2018	**75,483**	**541**	**4,746**	**–**	**80,770**

26. Risk management continued

Credit risk continued

Finance lease receivables	Stage 1	Stage 2	Stage 3	POCI	Total
High grade	19,375	1,375	–	–	20,750
Standard grade	7,659	213	–	–	7,872
Low grade	1,914	794	–	–	2,708
Not rated	72,002	3,424	683	–	76,109
Defaulted					
Non-performing	–	–	2,410	–	2,410
Other	–	–	238	–	238
Balance at 31 December 2018	**100,950**	**5,806**	**3,331**	**–**	**110,087**

Loans and advances to customers at FVTPL	Stage 1	Total
Not rated	8,379	8,379
Balance at 31 December 2018	**8,379**	**8,379**

Accounts receivable	Stage 1	Total
Not rated	2,849	2,849
Balance at 31 December 2018	**2,849**	**2,849**

Other financial assets	Stage 1	Total
Not rated	28,664	28,664
Balance at 31 December 2018	**28,664**	**28,664**

Guarantees issued	Stage 1	Stage 2	Stage 3	Total
High grade	165,401	5,697	–	171,098
Standard grade	37,795	5,708	–	43,503
Low grade	17,791	466	–	18,257
Not rated	760,203	7	–	760,210
Defaulted				
Other	–	–	22,498	22,498
Balance at 31 December 2018	**981,190**	**11,878**	**22,498**	**1,015,566**

Letters of credit	Stage 1	Stage 2	Stage 3	Total
High grade	31,381	2,553	–	33,934
Standard grade	4,844	–	–	4,844
Low grade	–	2,355	–	2,355
Not rated	876	–	–	876
Defaulted				
Other	–	–	–	–
Balance at 31 December 2018	**37,101**	**4,908**	**–**	**42,009**

Undrawn loan facilities	Stage 1	Stage 2	Stage 3	Total
High grade	185,926	165	–	186,091
Standard grade	22,951	150	–	23,101
Low grade	19,349	3,495	–	22,844
Not rated	44,351	466	61	44,878
Defaulted				
Other	–	–	1,340	1,340
Balance at 31 December 2018	**272,577**	**4,276**	**1,401**	**278,254**

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

26. Risk management continued

Credit risk continued

The following table shows the ratio of the loan portfolio to the market value of collateral held by the Group in respect of the portfolio. As at 31 December 2020, up to 76.2% of the collateral held has been re-valued within the last two years (31 December 2019: 72.9%). For residential mortgage loans, in cases where the collateral for a loan may not be officially registered until its construction is complete, respective loan is shown as unsecured, even though it is usually secured by the corporate guarantee of the construction company.

	As at 31 December 2020									
			Loan-to-value %							
	Total gross carrying amount	Unsecured	Less than 50%	50%–80%	80%–90%	90%–100%	100%–200%	200%–300%	300%–400%	More than 400%
Commercial loans	5,123,393	499,548	635,950	1,147,875	114,903	146,474	1,018,590	147,898	750,360	661,795
ECL Coverage	3.49%	3.10%	0.45%	1.14%	5.01%	8.62%	9.36%	6.17%	2.48%	0.87%
Residential mortgage loans	3,796,384	90,628	972,294	1,896,005	438,750	200,236	129,234	9,315	2,236	57,686
ECL Coverage	1.28%	3.19%	0.03%	0.77%	2.59%	3.55%	7.87%	4.64%	3.31%	2.86%
Micro and SME loans	3,269,454	353,143	919,622	938,206	264,999	217,848	494,492	38,622	7,581	34,941
ECL Coverage	3.13%	10.74%	0.10%	1.12%	2.08%	5.71%	5.30%	7.79%	13.78%	13.82%
Consumer loans	2,208,013	1,118,714	460,494	436,194	90,076	48,783	49,946	1,055	640	2,111
ECL Coverage	5.15%	9.38%	0.13%	1.01%	2.36%	0.71%	2.66%	4.83%	1.72%	1.94%
Gold – pawn loans	103,384	–	3,340	23,313	72,392	1,748	2,576	2	–	13
ECL Coverage	0.22%	N/A	0.09%	0.06%	0.20%	2.06%	0.78%	0.00%	N/A	76.92%
Loans to customers at amortised cost, gross	**14,500,628**	**2,062,033**	**2,991,700**	**4,441,593**	**981,120**	**615,089**	**1,694,838**	**196,892**	**760,817**	**756,546**

	As at 31 December 2019									
			Loan-to-value %							
	Total gross carrying amount	Unsecured	Less than 50%	50%–80%	80%–90%	90%–100%	100%–200%	200%–300%	300%–400%	More than 400%
Commercial loans	4,101,950	337,953	517,866	866,246	165,358	432,898	676,067	184,026	231,606	689,930
ECL Coverage	2.40%	2.03%	0.51%	0.04%	0.56%	2.81%	9.89%	0.47%	0.46%	1.01%
Residential mortgage loans	3,066,683	49,727	766,251	1,599,275	479,140	86,572	66,568	9,160	821	9,169
ECL Coverage	0.29%	2.89%	0.05%	0.04%	0.19%	1.68%	4.97%	6.97%	1.83%	1.91%
Micro and SME loans	2,660,220	327,718	750,020	797,114	181,543	156,002	378,363	36,562	12,762	20,136
ECL Coverage	1.67%	7.43%	0.20%	0.26%	0.62%	0.77%	2.78%	4.10%	7.35%	6.64%
Consumer loans	2,085,108	1,159,510	387,116	322,747	93,823	46,122	73,502	547	359	1,382
ECL Coverage	3.49%	6.11%	0.02%	0.15%	0.37%	0.63%	0.82%	14.44%	0.56%	1.52%
Gold – pawn loans	85,540	–	2,810	20,994	52,695	2,701	6,284	1	10	45
ECL Coverage	0.30%	N/A	0.00%	0.03%	0.29%	0.78%	0.51%	0.00%	80.00%	80.00%
Loans to customers at amortised cost, gross	**11,999,501**	**1,874,908**	**2,424,063**	**3,606,376**	**972,559**	**724,295**	**1,200,784**	**230,296**	**245,558**	**720,662**

Carrying amount per class of financial assets whose terms have been renegotiated

During the year, the Group modified the contractual cash flows on certain loans and advances to customers. All such loans had previously been transferred to at least Stage 2, with a loss allowance measured at an amount equal to lifetime expected credit losses.

26. Risk management continued

Credit risk continued

The following table provides information on financial assets that were modified while they had a loss allowance measured at an amount equal to lifetime ECL:

Financial assets modified during 2020:	Amortised cost before modification	Net gain (loss) arising from modification
Commercial loans	117,119	83
Residential mortgage loans	364,619	(34)
Micro and SME loans	347,449	(3,347)
Consumer loans	347,562	(4,625)
Gold – pawn loans	–	–
Loans to customers	**1,176,749**	**(7,923)**
Finance lease receivables	52,188	(1,172)
Total loans to customers and finance lease receivables	**1,228,937**	**(9,095)**

Financial assets modified during 2019:	Amortised cost before modification	Net gain (loss) arising from modification
Commercial loans	35,186	(229)
Residential mortgage loans	51,776	(1,761)
Micro and SME loans	77,075	(4,038)
Consumer loans	33,470	(3,332)
Gold – pawn loans	–	–
Loans to customers	**197,507**	**(9,360)**
Finance lease receivables	–	–
Total loans to customers and finance lease receivables	**197,507**	**(9,360)**

Financial assets modified during 2018:	Amortised cost before modification	Net gain (loss) arising from modification
Commercial loans	9,529	–
Residential mortgage loans	5,883	(690)
Micro and SME loans	21,852	(1,152)
Consumer loans	19,144	(2,065)
Gold – pawn loans	–	–
Loans to customers	**56,408**	**(3,907)**
Finance lease receivables	–	–
Total loans to customers and finance lease receivables	**56,408**	**(3,907)**

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

26. Risk management continued

Credit risk continued

The gross carrying value of loans that have previously been modified (when they were in Stage 2 or 3) which are now categorised as Stage 1, with loss allowance measured at an amount equal to 12 months expected losses, are shown in the table below (no such loans identified as at 31 December 2018):

Financial assets modified since initial recognition, as at 31 December 2020	Gross Carrying Amount	Corresponding ECL
Commercial loans	14,952	(1)
Residential mortgage loans	100,079	(444)
Micro and SME loans	68,748	(1,023)
Consumer loans	42,408	(1,962)
Gold – pawn loans	–	–
Loans to customers	**226,187**	**(3,430)**
Finance lease receivables	717	(3)
Total loans to customers and finance lease receivables	**226,904**	**(3,433)**

Financial assets modified since initial recognition, as at 31 December 2019	Gross Carrying Amount	Corresponding ECL
Commercial loans	–	–
Residential mortgage loans	8	–
Micro and SME loans	27	–
Consumer loans	–	–
Gold – pawn loans	–	–
Loans to customers	**35**	**–**
Finance lease receivables	–	–
Total loans to customers and finance lease receivables	**35**	**–**

The geographical concentration of the Group's assets and liabilities is set out below:

	2020			
	Georgia	OECD	CIS and other foreign countries	Total
Assets:				
Cash and cash equivalents	742,844	985,848	242,263	1,970,955
Amounts due from credit institutions	1,995,963	–	20,042	2,016,005
Investment securities	1,421,642	939,964	182,791	2,544,397
Loans to customers and finance lease receivables	13,504,237	–	687,841	14,192,078
All other assets	1,020,701	247,355	44,429	1,312,485
	18,685,387	2,173,167	1,177,366	22,035,920
Liabilities:				
Client deposits and notes	11,211,760	875,634	1,932,815	14,020,209
Amounts owed to credit institutions	872,239	2,393,872	69,855	3,335,966
Debt securities issued	102,104	1,449,374	34,067	1,585,545
Lease Liability	91,217	–	4,418	95,635
All other liabilities	178,246	246,109	24,295	448,650
	12,455,566	**4,964,989**	**2,065,450**	**19,486,005**
Net balance sheet position	**6,229,821**	**(2,791,822)**	**(888,084)**	**2,549,915**

26. Risk management continued

Credit risk continued

	2019				2018			
	Georgia	OECD	CIS and other foreign countries	Total	Georgia	OECD	CIS and other foreign countries	Total
Assets:								
Cash and cash equivalents	1,011,614	845,606	296,404	2,153,624	783,453	316,083	116,263	1,215,799
Amounts due from credit institutions	1,575,895	30,433	12,744	1,619,072	1,258,569	26,982	19,665	1,305,216
Investment securities	803,086	843,282	140,436	1,786,804	1,098,645	784,444	135,928	2,019,017
Loans to customers and finance lease receivables	11,350,386	–	580,876	11,931,262	8,965,090	–	432,657	9,397,747
All other assets	988,660	37,080	52,995	1,078,735	769,460	45,101	45,963	860,524
	15,729,641	**1,756,401**	**1,083,455**	**18,569,497**	**12,875,217**	**1,172,610**	**750,476**	**14,798,303**
Liabilities:								
Client deposits and notes	7,410,991	812,529	1,853,215	10,076,735	6,008,121	656,964	1,468,768	8,133,853
Amounts owed to credit institutions	1,889,624	1,969,269	75,230	3,934,123	1,452,229	1,454,219	88,431	2,994,879
Debt securities issued	87,692	1,962,934	69,438	2,120,064	56,322	1,635,929	38,163	1,730,414
Lease Liability	89,480	–	5,136	94,616	–	–	–	–
All other liabilities	176,098	11,034	5,919	193,051	125,513	9,921	5,450	140,884
	9,653,885	**4,755,766**	**2,008,938**	**16,418,589**	**7,642,185**	**3,757,033**	**1,600,812**	**13,000,030**
Net balance sheet position	**6,075,756**	**(2,999,365)**	**(925,483)**	**2,150,908**	**5,233,032**	**(2,584,423)**	**(850,336)**	**1,798,273**

Liquidity risk and funding management

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

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

The liquidity position is assessed and managed by the Group primarily on a standalone Bank basis, based on certain liquidity ratios established by the NBG. The banks are required to maintain a liquidity coverage ratio, which is defined as the ratio of high-quality liquid assets to net cash outflow over the next 30 days. The order requires that, absent a stress-period, the value of the ratio be no lower than 100%. The liquidity coverage ratio as at 31 December 2020 was 138.6% (2019: 136.7%, 2018: 120.1%).

The Bank holds a comfortable buffer on top of Net Stable Funding Ratio (NSFR) requirement of 100%, which came into effect on 1 September 2019. A solid buffer over NSFR provides stable funding sources over a longer time span. This approach is designed to ensure that the funding framework is sufficiently flexible to secure liquidity under a wide range of market conditions. NSFR as at 31 December 2020 was 137.5%, (2019: 132.5%, 2018: 133.6%), all comfortably above the NBG's minimum regulatory requirements.

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

(Thousands of Georgian Lari)

26. Risk management continued

Liquidity risk and funding management continued

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

Financial liabilities As at 31 December 2020	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Client deposits and notes	5,974,433	6,593,251	1,651,120	353,414	14,572,218
Amounts owed to credit institutions	982,039	811,129	1,553,898	558,866	3,905,932
Debt securities issued	72,994	143,409	1,408,547	345,886	1,970,836
Lease liability	6,342	19,057	69,248	21,751	116,398
Derivative financial liabilities	92,554	130,785	24,181	–	247,520
Other liabilities	75,519	2,525	6,656	102	84,802
Total undiscounted financial liabilities	**7,203,881**	**7,700,156**	**4,713,650**	**1,280,019**	**20,897,706**

Financial liabilities As at 31 December 2019	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Client deposits and notes	3,881,816	5,340,985	987,334	106,542	10,316,677
Amounts owed to credit institutions	2,150,034	586,685	1,317,431	787,759	4,841,909
Debt securities issued	72,914	777,124	1,417,659	334,625	2,602,322
Lease liability	5,957	16,856	65,707	27,503	116,023
Derivative financial liabilities	4,826	5,823	187	–	10,836
Other liabilities	86,162	2,496	2,845	323	91,826
Total undiscounted financial liabilities	**6,201,709**	**6,729,969**	**3,791,163**	**1,256,752**	**17,979,593**

Financial liabilities As at 31 December 2018	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Client deposits and notes	3,065,380	4,387,742	765,295	79,108	8,297,525
Amounts owed to credit institutions	1,387,394	279,572	1,393,853	302,379	3,363,198
Debt securities issued	61,921	368,823	1,651,868	–	2,082,612
Derivative financial liabilities	10,574	995	–	–	11,569
Other liabilities	34,887	18,510	–	–	53,397
Total undiscounted financial liabilities	**4,560,156**	**5,055,642**	**3,811,016**	**381,487**	**13,808,301**

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies.

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2020	857,416	492,293	933,097	27,436	2,310,242
31 December 2019	504,272	251,021	791,842	145,972	1,693,107
31 December 2018	423,888	337,540	616,532	96,977	1,474,937

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above. Perpetual Tier 1 capital notes are presented in "Over 5 years" bucket given the fact that the management does not consider them to be covered earlier than that.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. Trading and non-trading positions are managed and monitored using sensitivity analysis.

26. Risk management continued

Market risk continued

Interest rate risk

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

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for the year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2020. Changes in basis points are calculated as standard deviations of daily changes in floating rates over the last month multiplied by respective floating rates. During the years ended 31 December 2020, 2019 and 2018, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

Currency	Increase in basis points 2020	Sensitivity of net interest income 2020	Sensitivity of other comprehensive income 2020
GEL	15	1,427	1,452
EUR	2	242	–
USD	3	13	–

Currency	Decrease in basis points 2020	Sensitivity of net interest income 2020	Sensitivity of other comprehensive income 2020
GEL	15	(1,427)	(1,452)
EUR	2	(242)	–
USD	3	(13)	–

Currency	Increase in basis points 2019	Sensitivity of net interest income 2019	Sensitivity of other comprehensive income 2019
GEL	64	4,207	5,806
EUR	2	168	–
USD	7	94	–

Currency	Decrease in basis points 2019	Sensitivity of net interest income 2019	Sensitivity of other comprehensive income 2019
GEL	64	(4,207)	(5,806)
EUR	2	(168)	–
USD	7	(94)	–

Currency	Increase in basis points 2018	Sensitivity of net interest income 2018	Sensitivity of other comprehensive income 2018
GEL	6	251	1,019
EUR	1	50	(2)
USD	6	121	63

Currency	Decrease in basis points 2018	Sensitivity of net interest income 2018	Sensitivity of other comprehensive income 2018
GEL	6	(251)	(1,019)
EUR	1	(50)	2
USD	6	(121)	(63)

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

26. Risk management continued

Market risk continued

Currency risk

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

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2020 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the income statement. The reasonably possible movement of the currency rate against the Georgian Lari is calculated as a standard deviation of daily changes in exchange rates over the 12 months. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. During the year ended 31 December 2020, year ended 31 December 2019 and year ended 31 December 2018, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

	2020		2019		2018	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
EUR	15.1%	2,527	7.9%	(297)	9.9%	85
USD	13.0%	3,049	6.4%	(2,944)	7.1%	14,343

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rates fall, or other credit facilities, for similar reasons.

The Group calculates the effect of early repayments by calculating the weighted average rates of early repayments across each loan product individually, applying these historical rates to the outstanding carrying amount of respective products as at the reporting date and multiplying by the weighted average effective annual interest rates for each product. The model does not make a distinction between different reasons for repayment (e.g. relocation, refinancing and renegotiation) and takes into account the effect of any prepayment penalties on the Group's income.

The estimated effect of prepayment risk on net interest income of the Group for the years ended 31 December 2020, 31 December 2019 and 31 December 2018, is as follows:

	Effect on net interest income
2020	(40,748)
2019	(40,014)
2018	(73,870)

Operational risk

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

26. Risk management continued

Operating environment

Most of the Group's business is concentrated in Georgia. As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets (including the risk that the Georgian Lari is not freely convertible outside the country, and undeveloped debt and equity markets). However, over the last few years the Georgian Government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation (including new tax code and procedural laws). In the view of the Board, these steps contribute to mitigate the risks of doing business in Georgia.

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments, and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

Capital risk

The Bank faces the risk of not meeting the minimum capital adequacy requirements set by the NBG. The Bank, like all regulated financial institutions in Georgia, is required to comply with certain capital adequacy ratios set by the NBG. The failure to maintain the minimum capital adequacy requirements may have a material adverse effect on the Group and may compromise its strategic targets.

The Group maintains an actively managed capital base to cover risks inherent to its business. As part of its capital adequacy management framework, the Group continuously monitors market conditions and review market changes, and performs stress and scenario testing to test its position under adverse economic conditions, market and regulatory developments. Capital position is continuously monitored by the management, as well as the Board, to ensure prudent management and timely actions, when necessary. For further details, please refer to Note 30.

COVID-19 pandemic impact risk

The COVID-19 outbreak was declared as a global pandemic at the beginning of 2020 and spread throughout the world. The outlook remains subject to significant uncertainty. The path of the pandemic, the availability of effective treatments, and the associated impact on economic activity, are inherently difficult to predict. Consequently, economic activity in services will continue to suffer in the near term. On the upside, a faster than expected development and distribution of an effective vaccine could boost confidence, support a rebound in tourism and investment, and accelerate the recovery.

At the end of March 2020, the NBG introduced an updated supervisory plan for the Georgian banking sector, aimed at alleviating the negative financial and economic challenges created by the global COVID-19 pandemic in Georgia. The measures, which were introduced with immediate effect, were mainly focused on capital adequacy and liquidity initiatives that allow banks to use existing regulatory capital buffers to support customers in the current financially stressed circumstances, to continue normal business activities as far as possible, and to support the economy through ongoing lending operations.

The Group has introduced a number of resilience protocols and a comprehensive Business Continuity Plan (BCP) aimed at curbing the spread of COVID-19 in Georgia and mitigating the negative impact on its business and the community.

Furthermore, as mentioned above, through mobilisation of financing from international organisations and though its anti-crisis stimulus plan, the Government announced a series of support measures and packages for individuals and businesses to mitigate the negative economic impact of COVID-19.

The Group is monitoring the developing economic trends on the back of the COVID-19 pandemic and its impact on the business, customers and employees on an ongoing basis. There is still significant uncertainty over the magnitude of the global slowdown that will result from this pandemic, and the Group will continue to take appropriate actions to proactively manage evolving circumstances.

Emerging risks

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

The Group has identified Climate Risk as an emerging risk. As such, the Group intends to integrate climate change-related risks into the credit risk framework and the business resilience assessments. In 2021, the Group will be describing and managing climate-related risks in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

27. Fair value measurements

Fair value hierarchy

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

At 31 December 2020	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Total investment properties	–	–	231,241	231,241
Land	–	–	10,981	10,981
Residential properties	–	–	147,585	147,585
Non-residential properties	–	–	72,675	72,675
Investment securities	3,229	2,539,092	2,076	2,544,397
Other assets – derivative financial assets	–	9,154	–	9,154
Other assets – trading securities owned	5,731	–	–	5,731
Assets for which fair values are disclosed				
Amounts due from credit institutions	–	2,016,005	–	2,016,005
Loans to customers and finance lease receivables	–	–	13,896,221	13,896,221
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	–	247,520	–	247,520
Liabilities for which fair values are disclosed				
Client deposits and notes	–	14,007,521	–	14,007,521
Amounts owed to credit institutions	–	2,899,263	436,703	3,335,966
Debt securities issued	–	1,402,958	241,976	1,644,934
Lease liability	–	–	103,012	103,012

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

27. Fair value measurements continued

Fair value hierarchy continued

At 31 December 2018	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Total investment properties	–	–	151,446	151,446
Land	–	–	15,094	15,094
Residential properties	–	–	71,434	71,434
Non-residential properties	–	–	64,918	64,918
Investment securities	–	2,018,622	395	2,019,017
Other assets – derivative financial assets	–	35,557	–	35,557
Other assets – trading securities owned	4,652	–	–	4,652
Loans to customers and finance lease receivables	–	–	8,379	8,379
Assets for which fair values are disclosed				
Amounts due from credit institutions	–	1,305,216	–	1,305,216
Loans to customers and finance lease receivables	–	–	9,359,858	9,359,858
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	–	11,569	–	11,569
Liabilities for which fair values are disclosed				
Client deposits and notes	–	8,129,794	–	8,129,794
Amounts owed to credit institutions	–	2,560,563	434,316	2,994,879
Debt securities issued	–	1,373,161	380,775	1,753,936

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

Derivative financial instruments

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

Trading securities and investment securities

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

Movements in Level 3 financial instruments measured at fair value

The following tables show a reconciliation of the opening and closing amounts of Level 3 financial assets which are recorded at fair value:

	At 31 December 2017	Sale of investment securities	At 31 December 2018	Purchase of securities	At 31 December 2019	Purchase of securities	At 31 December 2020
Level 3 financial assets							
Equity investment securities	1,338	(943)	395	578	973	1,103	2,076

(Thousands of Georgian Lari)

27. Fair value measurements continued

Fair value hierarchy continued

Movements in Level 3 non-financial assets measured at fair value

All investment properties are Level 3. Reconciliations of their opening and closing amounts are provided in Note 11.

Impact on fair value of Level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the impact on the fair value of Level 3 instruments of using reasonably possible alternative assumptions:

	2020		2019		2018	
	Carrying amount	Effect of reasonably possible alternative assumptions	Carrying amount	Effect of reasonably possible alternative	Carrying amount	Effect of reasonably possible alternative assumptions
Level 3 financial assets						
Equity investment securities	2,076	+/- 309	973	+/- 145	395	+/- 59

In order to determine reasonably possible alternative assumptions, the Group's adjusted key unobservable model inputs are as follows:

For equities, the Group adjusted the price-over-book-value multiple by increasing and decreasing the ratio by 10%, which is considered by the Group to be within a range of reasonably possible alternatives based on the price-over-book-value multiples used across peers within the same geographic area of the same industry.

Description of significant unobservable inputs to valuations of non-financial assets

The following tables show descriptions of significant unobservable inputs to Level 3 valuations of investment properties:

	2020	Valuation technique	Significant unobservable inputs	MIN	MAX	Weighted average	Other key information	MIN	MAX	Weighted Average
Investment property	**231,241**									
Land	10,981	Market approach	Price per square metre	0.001	2.639	0.742	Square metres, land	32	360,001	8,162
Residential properties	147,585	Market approach	Price per square metre	0.062	3.252	0.983	Square metres, building	15	782	186
Non-residential properties	72,675									
	64,501	Market approach	Price	34.582	2,190.655	885.635	Square metres, land	70	40,000	3,306
							Square metres, building	30	7,059	1,543
	7,658	Income approach	Rent per square metre	0.004	0.051	0.018	Square metres, building	103	2,021	685
			Occupancy rate	50%	85%	77%				
	516	Cost approach	Land price per square metre	0.638	1.379	1.051	Square metres, land	209	357	274
			Depreciated Replacement cost per square metre	0.763	0.901	0.840	Square metres, building	298	320	310

* Price, rate and cost of unobservable inputs in this table are presented in Georgian Lari ("GEL"), unless otherwise indicated.

27. Fair value measurements continued

Financial instruments overview

Set out below is an overview of all financial instruments, other than cash and short-term deposits, held by the Group as at 31 December 2020, 31 December 2019 and 31 December 2018:

	At 31 December 2020		
	Amortised cost	Fair value through OCI	Fair value through profit or loss
Financial assets			
Amounts due from credit institutions	2,016,005	–	–
Loans to customers and finance lease receivables	14,192,078	–	–
Accounts receivable and other loans	2,420	–	–
Equity instruments	–	5,378	–
Debt instruments	–	2,539,019	–
Interest rate contracts	–	–	1,549
Foreign currency derivative financial instruments	–	–	7,605
Trading securities owned	–	–	5,731
Total	**16,210,503**	**2,544,397**	**14,885**
Financial liabilities			
Client deposits and notes	14,020,209	–	–
Amounts owed to credit institutions	3,335,966	–	–
Debt securities issued	1,585,545	–	–
Lease liability	95,635	–	–
Trade and other payables (in other liabilities)	53,952	–	–
Interest rate contracts	–	–	1,102
Foreign currency derivative financial instruments	–	–	246,418
Total	**19,091,307**	**–**	**247,520**

	At 31 December 2019			At 31 December 2018		
	Amortised cost	Fair value through OCI	Fair value through profit or loss	Loans and receivables	Available for sale	Fair value through profit or loss
Financial assets						
Amounts due from credit institutions	1,619,072	–	–	1,305,216	–	–
Loans to customers and finance lease receivables	11,931,262	–	–	9,389,368	–	8,379
Accounts receivable and other loans	3,489	–	–	2,849	–	–
Equity instruments	–	3,367	–	–	956	–
Debt instruments	–	1,783,437	–	–	2,018,061	–
Interest rate contracts	–	–	2,566	–	–	12,636
Foreign currency derivative financial instruments	–	–	31,993	–	–	22,921
Trading securities owned	–	–	7,493	–	–	4,652
Total	**13,553,823**	**1,786,804**	**42,052**	**10,697,433**	**2,019,017**	**48,588**
Financial liabilities						
Client deposits and notes	10,076,735	–	–	8,133,853	–	–
Amounts owed to credit institutions	3,934,123	–	–	2,994,879	–	–
Debt securities issued	2,120,064	–	–	1,730,414	–	–
Lease liability	94,616	–	–	–	–	–
Trade and other payables (in other liabilities)	41,416	–	–	19,140	–	–
Interest rate contracts	–	–	1,914	–	–	6,360
Foreign currency derivative financial instruments	–	–	8,922	–	–	5,209
Total	**16,266,954**	**–**	**10,836**	**12,878,286**	**–**	**11,569**

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

27. Fair value measurements continued

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

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

	Carrying value 2020	Fair value 2020	Unrecognised gain (loss) 2020
Financial assets			
Amounts due from credit institutions	2,016,005	2,016,005	–
Loans to customers and finance lease receivables	14,192,078	13,896,221	(295,857)
Financial liabilities			
Client deposits and notes	14,020,209	14,007,521	12,688
Amounts owed to credit institutions	3,335,966	3,335,966	–
Debt securities issued	1,585,545	1,644,934	(59,389)
Lease liability	95,635	103,012	(7,377)
Total unrecognised change in unrealised fair value			**(349,935)**

	Carrying value 2019	Fair value 2019	Unrecognised gain (loss) 2019	Carrying value 2018	Fair value 2018	Unrecognised gain (loss) 2018
Financial assets						
Amounts due from credit institutions	1,619,072	1,619,072	–	1,305,216	1,305,216	–
Loans to customers and finance lease receivables	11,931,262	12,082,385	151,123	9,397,747	9,368,237	(29,510)
Financial liabilities						
Client deposits and notes	10,076,735	10,077,542	(807)	8,133,853	8,129,794	4,059
Amounts owed to credit institutions	3,934,123	3,934,123	–	2,994,879	2,994,879	–
Debt securities issued	2,120,064	2,178,348	(58,284)	1,730,414	1,753,936	(23,522)
Lease liability	94,616	95,487	(871)	–	–	–
Total unrecognised change in unrealised fair value			**91,161**			**(48,973)**

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

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

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

28. Maturity analysis of financial assets and liabilities

The table below shows an analysis of financial assets and liabilities according to their contractual maturities, except for current accounts and credit card loans as described below. See Note 26 "Risk management" for the Group's contractual undiscounted repayment obligations.

	At 31 December 2020							
	On demand	Up to 3 months	Up to 6 months	Up to 1 year	Up to 3 years	Up to 5 years	Over 5 years	Total
Financial assets								
Cash and cash equivalents	1,452,379	518,576	–	–	–	–	–	1,970,955
Amounts due from credit institutions	1,987,538	12,054	539	1,931	4,161	1,203	8,579	2,016,005
Investment securities	309,234	2,101,428	23,996	11,165	12,013	31,404	55,157	2,544,397
Loans to customers and finance lease receivables	–	2,671,296	842,716	1,594,714	3,482,213	2,189,857	3,411,282	14,192,078
Total	**3,749,151**	**5,303,354**	**867,251**	**1,607,810**	**3,498,387**	**2,222,464**	**3,475,018**	**20,723,435**
Financial liabilities								
Client deposits and notes	2,167,103	3,761,867	1,164,650	5,349,181	971,894	345,709	259,805	14,020,209
Amounts owed to credit institutions	196,049	781,139	225,093	558,857	721,802	501,080	351,946	3,335,966
Debt securities issued	–	72,550	36,352	98,412	1,144,567	46,258	187,406	1,585,545
Lease liability	–	6,229	6,234	11,846	34,630	22,802	13,894	95,635
Total	**2,363,152**	**4,621,785**	**1,432,329**	**6,018,296**	**2,872,893**	**915,849**	**813,051**	**19,037,355**
Net	**1,385,999**	**681,569**	**(565,078)**	**(4,410,486)**	**625,494**	**1,306,615**	**2,661,967**	**1,686,080**
Accumulated gap	**1,385,999**	**2,067,568**	**1,502,490**	**(2,907,996)**	**(2,282,502)**	**(975,887)**	**1,686,080**	

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

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

28. Maturity analysis of financial assets and liabilities continued

	At 31 December 2018							
	On demand	Up to 3 months	Up to 6 months	Up to 1 year	Up to 3 years	Up to 5 years	Over 5 years	Total
Financial assets								
Cash and cash equivalents	1,047,670	168,129	–	–	–	–	–	1,215,799
Amounts due from credit institutions	1,234,277	50,292	976	7,880	–	–	11,791	1,305,216
Investment securities	751,662	943,600	42,499	37,052	141,608	69,601	32,995	2,019,017
Loans to customers and finance lease receivables	–	1,419,736	642,309	1,393,967	2,500,443	1,342,016	2,099,276	9,397,747
Total	**3,033,609**	**2,581,757**	**685,784**	**1,438,899**	**2,642,051**	**1,411,617**	**2,144,062**	**13,937,779**
Financial liabilities								
Client deposits and notes	1,528,349	1,524,125	732,660	3,602,837	654,676	52,372	38,834	8,133,853
Amounts owed to credit institutions	118,691	1,269,126	91,295	189,155	710,208	454,901	161,503	2,994,879
Debt securities issued	2	60,976	175,965	173,740	566,129	753,602	–	1,730,414
Total	**1,647,042**	**2,854,227**	**999,920**	**3,965,732**	**1,931,013**	**1,260,875**	**200,337**	**12,859,146**
Net	**1,386,567**	**(272,470)**	**(314,136)**	**(2,526,833)**	**711,038**	**150,742**	**1,943,725**	**1,078,633**
Accumulated gap	**1,386,567**	**1,114,097**	**799,961**	**(1,726,872)**	**(1,015,834)**	**(865,092)**	**1,078,633**	

The Group's capability to discharge its liabilities relies on its ability to realise equivalent assets within the same period of time. In the Georgian marketplace, where most of the Group's business is concentrated, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. To reflect the historical stability of current accounts, the Group calculates the minimal daily balance of current accounts over the past two years and includes the amount in the "Up to 1 year" category in the table above. The remaining current accounts are included in the "On demand" category. To match the coverage of short-term borrowings from the NBG with the investment securities pledged to secure it, those securities are included in the "On demand" category. Considering credit cards have no contractual maturities, the above allocation per category is done based on the statistical coverage rates observed.

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

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

As at 31 December 2020, client deposits and notes amounted to GEL 14,020,209 (2019: GEL 10,076,735, 2018: GEL 8,133,853) and represented 72% (2019: 61%, 2018: 63%) of the Group's total liabilities. These funds continue to provide a majority of the Group's funding and represent a diversified and stable source of funds. As at 31 December 2020, amounts owed to credit institutions amounted to GEL 3,335,966 (2019: GEL 3,934,123, 2018: GEL 2,994,879) and represented 17% (2019: 24%, 2018: 23%) of total liabilities. As at 31 December 2020, debt securities issued amounted to GEL 1,585,545 (2019: GEL 2,120,064, 2018: GEL 1,730,414) and represented 8% (2019: 13%, 2018: 13%) of total liabilities.

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

28. Maturity analysis of financial assets and liabilities continued

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

	At 31 December 2020		
	Less than 1 year	More than 1 year	Total
Cash and cash equivalents	1,970,955	–	1,970,955
Amounts due from credit institutions	2,002,062	13,943	2,016,005
Investment securities	2,445,823	98,574	2,544,397
Loans to customers and finance lease receivables	5,108,726	9,083,352	14,192,078
Accounts receivable and other loans	2,420	–	2,420
Prepayments	26,467	1,126	27,593
Inventories	10,340	–	10,340
Right-of-use assets	–	83,208	83,208
Investment properties	–	231,241	231,241
Property and equipment	–	387,851	387,851
Goodwill	–	33,351	33,351
Intangible assets	–	125,806	125,806
Income tax assets	21,841	192	22,033
Other assets	288,602	37,392	325,994
Assets held for sale	62,648	–	62,648
Total assets	**11,939,884**	**10,096,036**	**22,035,920**
Client deposits and notes	12,442,801	1,577,408	14,020,209
Amounts owed to credit institutions	1,761,138	1,574,828	3,335,966
Debt securities issued	207,314	1,378,231	1,585,545
Lease liability	24,309	71,326	95,635
Accruals and deferred income	30,536	23,358	53,894
Income tax liabilities	–	62,434	62,434
Other liabilities	306,299	26,023	332,322
Total liabilities	**14,772,397**	**4,713,608**	**19,486,005**
Net	**(2,832,513)**	**5,382,428**	**2,549,915**

(Thousands of Georgian Lari)

28. Maturity analysis of financial assets and liabilities continued

	At 31 December 2019			At 31 December 2018		
	Less than 1 year	More than 1 year	Total	Less than 1 year	More than 1 year	Total
Cash and cash equivalents	2,153,624	–	2,153,624	1,215,799	–	1,215,799
Amounts due from credit institutions	1,602,953	16,119	1,619,072	1,293,425	11,791	1,305,216
Investment securities	1,544,709	242,095	1,786,804	1,774,813	244,204	2,019,017
Loans to customers and finance lease receivables	4,054,528	7,876,734	11,931,262	3,456,012	5,941,735	9,397,747
Accounts receivable and other loans	3,489	–	3,489	2,849	–	2,849
Prepayments	40,906	1,726	42,632	27,170	17,124	44,294
Inventories	12,297	–	12,297	12,818	474	13,292
Right-of-use assets	–	96,095	96,095	–	–	–
Investment properties	–	225,073	225,073	–	151,446	151,446
Property and equipment	–	379,788	379,788	–	344,059	344,059
Goodwill	–	33,351	33,351	–	33,351	33,351
Intangible assets	–	106,290	106,290	–	83,366	83,366
Income tax assets	75	207	282	19,328	123	19,451
Other assets	128,267	14,887	143,154	107,562	18,446	126,008
Assets held for sale	36,284	–	36,284	42,408	–	42,408
Total assets	**9,577,132**	**8,992,365**	**18,569,497**	**7,952,184**	**6,846,119**	**14,798,303**
Client deposits and notes	9,111,323	965,412	10,076,735	7,387,971	745,882	8,133,853
Amounts owed to credit institutions	2,569,817	1,364,306	3,934,123	1,668,267	1,326,612	2,994,879
Debt securities issued	812,770	1,307,294	2,120,064	410,683	1,319,731	1,730,414
Lease liability	22,098	72,518	94,616	–	–	–
Accruals and deferred income	42,223	10,248	52,471	41,287	5,776	47,063
Income tax liabilities	1,563	36,355	37,918	1,009	27,846	28,855
Other liabilities	102,662	–	102,662	64,966	–	64,966
Total liabilities	**12,662,456**	**3,756,133**	**16,418,589**	**9,574,183**	**3,425,847**	**13,000,030**
Net	**(3,085,324)**	**5,236,232**	**2,150,908**	**(1,621,999)**	**3,420,272**	**1,798,273**

29. Related party disclosures

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

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

The volumes of related party transactions, outstanding balances at the year-end, and related expenses and income for the year are as follows:

	At 31 December 2020		At 31 December 2019		At 31 December 2018	
	Associates	Key management personnel*	Associates	Key management personnel*	Associates	Key management personnel*
Loans outstanding at 1 January, gross	**–**	**6,718**	**–**	**1,756**	**17,053**	**2,913**
Loans issued during the year	–	7,798	–	6,347	–	3,390
Loan repayments during the year	–	(5,322)	–	(3,500)	–	(3,118)
Other movements**	–	1,452	–	2,115	(17,053)	(1,429)
Loans outstanding at 31 December, gross	**–**	**10,646**	**–**	**6,718**	**–**	**1,756**
Less: allowance for impairment at 31 December	–	(9)	–	(12)	–	(1)
Loans outstanding at 31 December, net	**–**	**10,637**	**–**	**6,706**	**–**	**1,755**
Interest income on loans	–	424	–	304	–	78
Expected credit loss	–	(69)	–	(30)	–	–
Deposits at 1 January	**3**	**30,475**	**809**	**14,748**	**2,005**	**38,842**
Deposits received during the year	163	23,211	–	21,222	–	10,304
Deposits repaid during the year	–	(19,565)	(103)	(14,402)	(1,177)	(1,535)
Other movements**	–	(1,502)	(703)	8,907	(19)	(32,863)
Deposits at 31 December	**166**	**32,619**	**3**	**30,475**	**809**	**14,748**
Interest expense on deposits	–	(1,249)	–	(1,117)	–	(405)

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

** In 2019, other movements for the key management personnel accounts mainly relate to the net effect of the change of the key management members. In 2018, other movements mainly relate to the Demerger.

Details of Directors' emoluments are included in the Remuneration Report on pages 186 to 207. Compensation of key management personnel comprised the following:

	2020	2019	2018
Salaries and other benefits	11,932	15,896	7,486
Share-based payments compensation*	27,188	39,553	73,092
Social security costs	–	–	69
Total key management compensation	**39,120**	**55,449**	**80,647**

* In 2019 and 2018, share-based compensation included GEL 3,985 and 17,958, respectively, for key management personnel reflected in the non-recurring items. In 2018, share-based compensation also included an amount of GEL 29,065 for key management personnel reflected in discontinued operations.

Key management personnel do not receive cash-settled compensation, except for fixed salaries. The major part of the total compensation is share-based (Note 25). The number of key management personnel at 31 December 2020 was 20 (31 December 2019: 22, 31 December 2018: 16).

Notes to Consolidated Financial Statements continued

(Thousands of Georgian Lari)

30. Capital adequacy

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

During the year ended 31 December 2020, the Bank and the Group complied in full with all its externally imposed capital requirements.

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

NBG (Basel III) capital adequacy ratio

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

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

Following capital adequacy initiatives were introduced:

- Combined buffer – the conservation buffer requirement of 2.5% of risk-weighted assets has been reduced to 0%.
- Pillar 2 requirements:
  - Currency induced credit risk buffer (CICR) requirement reduced by two-thirds.
  - The phase-in of additional credit portfolio concentration risk buffer (HHI) and net GRAPE buffer requirements on Common Equity Tier 1 (CET1) and Tier 1 capital, planned at the end of March 2020, has been postponed indefinitely; however, the phase-in of additional HHI and GRAPE buffer requirements were postponed till end of March 2021 as subsequently instructed by the NBG.
  - The possibility of fully or partially releasing the remaining requirements of Pillar 2 buffers (HHI, CICR, net GRAPE), if necessary, remains open.
- During the period the banks are allowed to partially or fully use the Pillar 2 and conservation buffers, the banks are restricted to make capital distribution in any form.

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

30. Capital adequacy continued

NBG (Basel III) capital adequacy ratio continued

As at 31 December 2020, 31 December 2019 and 31 December 2018, the Bank's capital adequacy ratio on this basis was as follows:

	2020	2019	2018
Tier 1 capital	1,989,190	1,887,571	1,379,953
Tier 2 capital	830,145	616,113	502,355
Total capital	**2,819,335**	**2,503,684**	**1,882,308**
Risk-weighted assets	**16,040,094**	**13,868,169**	**11,338,660**
Tier 1 capital ratio	**12.4%**	**13.6%**	**12.2%**
Total capital ratio	**17.6%**	**18.1%**	**16.6%**
Min. requirement for Tier 1 capital ratio	**9.2%**	**12.2%**	**11.4%**
Min. requirement for Total capital ratio	**13.8%**	**17.1%**	**15.9%**

31. Events after the reporting period

In January 2021, the Bank drew down EUR 60 million under the loan agreements signed with the European Investment Bank ("EIB") with a maturity of seven years.

In March 2021, the Group drew down USD 10 million under the loan agreements signed with Cargill Financial Services International, Inc. maturing in September 2022.

In March 2021, the Bank drew down USD 20 million under subordinated syndicated loan agreement arranged by FMO – Dutch entrepreneurial development bank in collaboration with other participating lenders signed in December 2019 and amended in December 2020.

Additional Information

Abbreviations

ADB	Asian Development Bank
AGM	Annual General Meeting
ALCO	Asset and Liability Committee
AML	Anti-money laundering
AT1	Additional Tier 1
ATMs	Automated teller machines
AUM	Assets under management
BCP	Business Continuity Plan
BNB	Belarusky Narodny Bank
BOMF	BlueOrchard Microfinance Fund
BSTDB	Black Sea Trade and Development Bank
B2B	Business-to-business
B2C	Business-to-consumer
CAGR	Compounded annual growth rate
CET1	Common Equity Tier 1
CIB	Corporate and Investment Banking
CIG	JSC Credit Information Bureau Credit Info Georgia
CIS	Commonwealth of Independent States
CRM	Customer relationship management
CSAT	Customer satisfaction
CSR	Corporate social responsibility
C2C	Consumer-to-consumer
DAU	Daily active users
DCFTA	Deep and Comprehensive Free Trade Agreement
DEG	Deutsche Investitions- und Entwicklungsgesellschaft – German Investment and Development Corporation
DFI	Development finance institution
DoD	Day on day
DTR	Disclosure, Guidance and Transparency Rules
E&S	Environmental and Social
EBRD	European Bank for Reconstruction and Development
EBT	Employee Benefit Trust
ECL	Expected credit loss
EECP	Executives' Equity Compensation Plan
eNPS	Employee Net Promoter Score
EFTA	European Free Trade Association
EIB	European Investment Bank
ERP	Enterprise resource planning
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
ESG	Environmental, Social and Governance
ESMS	Environmental and Social Risk Management Procedures
ESOP	Equity-Settled Option Plan
ESRM	Environmental and Social Risk Management
EU	European Union
EUR	Euro
EY	Ernst & Young
FATF	Financial Action Task Force
FDI	Foreign direct investment

Abbreviations continued

FGCRMC	Financial and Governmental Counterparty Risk Management Committee
FMO	Financierings-Maatschappij voor Ontwikkelingslanden: The Netherlands Development Bank
FRC	Financial Reporting Council
GBP	Great British Pound, national currency of the UK
GDP	Gross domestic product
GEL	Georgian Lari or Lari, national currency of Georgia
Geostat	National Statistics Office of Georgia
GGF	Green for Growth Fund
GLC	Georgian Leasing Company
HCM	Human Capital Management
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICMA	International Capital Market Association
iBank	Internet banking application
IFC	International Finance Corporation
IFI	International financial institution
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
JSC	Joint stock company
KPIs	Key performance indicators
KYC	Know Your Customer
LCR	Liquidity coverage ratio
LSE	London Stock Exchange
LTIP	Long-term incentive plan
LTV	Loan-to-value ratio
MAU	Monthly active users
mBank	Mobile banking application
ML/FT	Money laundering or financing of terrorism
MOF	Ministry of Finance of Georgia
MoM	Month on month
MSME	Micro, small and medium-sized enterprises
NBG	National Bank of Georgia
NBRB	National Bank of the Republic of Belarus
NGO	Non-governmental organisation
NIM	Net interest margin
NMF	Not meaningful to present
NPL	Non-performing loan
NPS	Net Promoter Score
OECD	Organisation for Economic Co-operation and Development
OFAC	Office of Foreign Assets Control
PLC	Public limited company
POS	Point of sale
PTI	Payment-to-income ratio

Abbreviations continued

ROAA	Return on average assets
ROAE	Return on average equity
RB	Retail Banking
SaaS	Software as a service
SME	Small and medium-sized enterprises
SSTs	Self-Service Terminals
UK	United Kingdom
UN	United Nations
US$	US Dollar – national currency of the United States of America
VAR	Value at risk
WM	Wealth Management

References

The Bank	JSC Bank of Georgia
BOGG or the Company	Bank of Georgia Group PLC
The Board	The Board of Directors of Bank of Georgia Group PLC
The Code	The UK Corporate Governance Code published in 2018
The Directors	Members of the BOGG Board of Directors
The Group	Bank of Georgia Group PLC and its subsidiaries
Supervisory Board	Supervisory Board of the Bank
NBG Code	The Code of Corporate Governance for the Commercial Banks, adopted by the Decree of President of the National Bank of Georgia, #215/04 of 27 September 2018, as amended.
Management Board/Executive Management	Management Board of the Bank (CEO and Deputy CEOs)
CFO or Chief Finance Officer	Chief Finance Officer of the Bank
CRO or Chief Risk Officer	Chief Risk Officer of the Bank
We/Our/Us	References to "we", "our" or "us" are primarily references to the Group throughout this Report. However, the Group comprises and operates through its subsidiaries which are legal entities with their own relevant management and governance structure (as set out in relevant parts of this Report). In that regard, when using "we", "our" or 'us" in the context of banking business in Georgia, we refer to JSC Bank of Georgia. Likewise, "we", "our" or "us" in the context of the banking business in Belarus refer to BNB, "we", "our" or "us" in the context of Georgian capital markets and investment banking activities refer to JSC Galt & Taggart, and "we", "our" or "us" in the context of Georgian digital ecosystems refer to JSC Digital Area, unless otherwise specifically indicated in this Annual Report.

Glossary

Alternative performance measures (APMs) In this Annual Report, the management uses various APMs, which they believe provide additional useful information for understanding the financial performance of the Group. These APMs are not defined by International Financial Reporting Standards, and also may not be directly comparable with other companies who use similar measures. Management believe that these APMs provide the best representation of our financial performance as these measures are used by management to evaluate our operating performance and make day-to-day operating decisions.

Basic earnings per share Profit for the year attributable to shareholders of the Group divided by the weighted average number of outstanding ordinary shares over the same year.

Book value per share Total equity attributable to shareholders of the Group divided by ordinary shares outstanding at year-end; net ordinary shares outstanding equals total number of ordinary shares outstanding at year-end less number of treasury shares at year-end.

Constant currency basis Changes assuming constant exchange rate.

Cost of credit risk Expected loss/impairment charge for loans to customers and finance lease receivables for the year divided by monthly average gross loans to customers and finance lease receivables over the same year.

Cost of funds Interest expense of the year divided by monthly average interest-bearing liabilities.

Cost to income ratio Operating expenses divided by operating income.

Demerger The Group combined a Banking Business and an Investment Business prior to the Group Demerger on 29 May 2018, which resulted in the Investment Business's separation from the Group effective from 29 May 2018 (the "Demerger").

Gross loans to customers throughout this Annual Report are presented net of ECL on contractually accrued interest income.

Interest-bearing liabilities Amounts owed to credit institutions, client deposits and notes, and debt securities issued.

Interest-earning assets (excluding cash) Amounts due from credit institutions, investment securities (but excluding corporate shares) and net loans to customers and finance lease receivables.

Leverage (times) Total liabilities divided by total equity.

Liquid assets Cash and cash equivalents, amounts due from credit institutions and investment securities.

Liquidity coverage ratio (LCR) High-quality liquid assets (as defined by NBG) divided by net cash outflow over the next 30 days (as defined by NBG).

Loan yield Interest income from loans to customers and finance lease receivables divided by monthly average gross loans to customers and finance lease receivables.

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

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

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

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

Net loans In all sections of the Annual Report, except for the consolidated audited financial statements, net loans are defined as gross loans to customers and finance lease receivables less allowance for expected credit loss.

Net stable funding ratio (NSFR) Available amount of stable funding (as defined by NBG) divided by the required amount of stable funding (as defined by NBG).

Non-performing loans (NPLs) The principal and interest on loans overdue for more than 90 days and any additional potential losses estimated by management.

NPL coverage ratio Allowance for expected credit loss of loans to customers and finance lease receivables divided by NPLs.

NPL coverage ratio adjusted for discounted value of collateral Allowance for expected credit loss of loans to customers and finance lease receivables plus discounted value of collateral, divided by NPLs.

Operating leverage Percentage change in operating income less percentage change in operating expenses.

Return on average total assets (ROAA) Profit for the year divided by monthly average total assets for the same year.

Return on average total equity (ROAE) Profit for the year attributable to shareholders of BOGG divided by monthly average equity attributable to shareholders of BOGG for the same year.

Weighted average diluted number of ordinary shares weighted average number of ordinary shares plus weighted average dilutive number of shares known to management during the same year.

Weighted average number of ordinary shares Average of daily outstanding number of shares less daily outstanding number of treasury shares.

Shareholder Information

Our website
All shareholders and potential shareholders can gain access to the Annual Report, presentations to investors, key financial information, regulatory news, share and dividend data, AGM documentation and other significant information about Bank of Georgia Group PLC at http://www.bankofgeorgiagroup.com.

Our registered address
Bank of Georgia Group PLC
84 Brook Street
London W1K 5EH
United Kingdom

Annual General Meeting
The Annual General Meeting of Bank of Georgia Group PLC (the "AGM") will be held at Baker & McKenzie LLP, 100 New Bridge Street, London EC4V 6JA. Details of the date, time and business to be conducted at the AGM is contained in the Notice of AGM, which is available on BOGG's website: https://www.bankofgeorgiagroup.com/information/meetings.

Shareholder enquiries
Bank of Georgia Group's share register is maintained by Computershare Investor Services PLC. Any queries about the administration of holdings of ordinary shares, such as change of address or change of ownership, should be directed to the address or telephone number immediately below. Holders of ordinary shares may also check details of their shareholding, subject to passing an identity check, by visiting the Registrar's website: www.investorcentre.co.uk or by calling the Shareholder Helpline on +44 (0)370 873 5866.

Computershare Investor Services PLC
The Pavilions, Bridgwater Road
Bristol BS99 6ZY
United Kingdom

Contact information
Bank of Georgia Group PLC Investor Relations
Email: ir@bog.ge

Forward-looking statements
Certain statements in this Annual Report and Accounts contain forward-looking statements, including, but not limited to, statements concerning expectations, projections, objectives, targets, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, competitive strengths and weaknesses, plans or goals relating to financial position and future operations and development. Although Bank of Georgia Group PLC believes that the expectations and opinions reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations and opinions will prove to have been correct. By their nature, these forward-looking statements are subject to a number of known and unknown risks, uncertainties and contingencies, and actual results and events could differ materially from those currently being anticipated as reflected in such statements. Important factors that could cause actual results to differ materially from those expressed or implied in forward-looking statements, certain of which are beyond our control, and certain of which include, among other things, those described in "Principal risks and uncertainties" included in this Annual Report and Accounts, see pages 86 to 99. No part of these results or report constitutes, or shall be taken to constitute, an invitation or inducement to invest in Bank of Georgia Group PLC or any other entity and must not be relied upon in any way in connection with any investment decision. Bank of Georgia Group PLC undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required. Nothing in this document should be construed as a profit forecast.

Notes

Notes

Notes

CERTIFIED CARBON NEUTRAL® paper
CarbonNeutral.com

MIX
Paper from responsible sources
FSC® C023105
FSC www.fsc.org

Designed and produced by emperor
Visit us at emperor.works