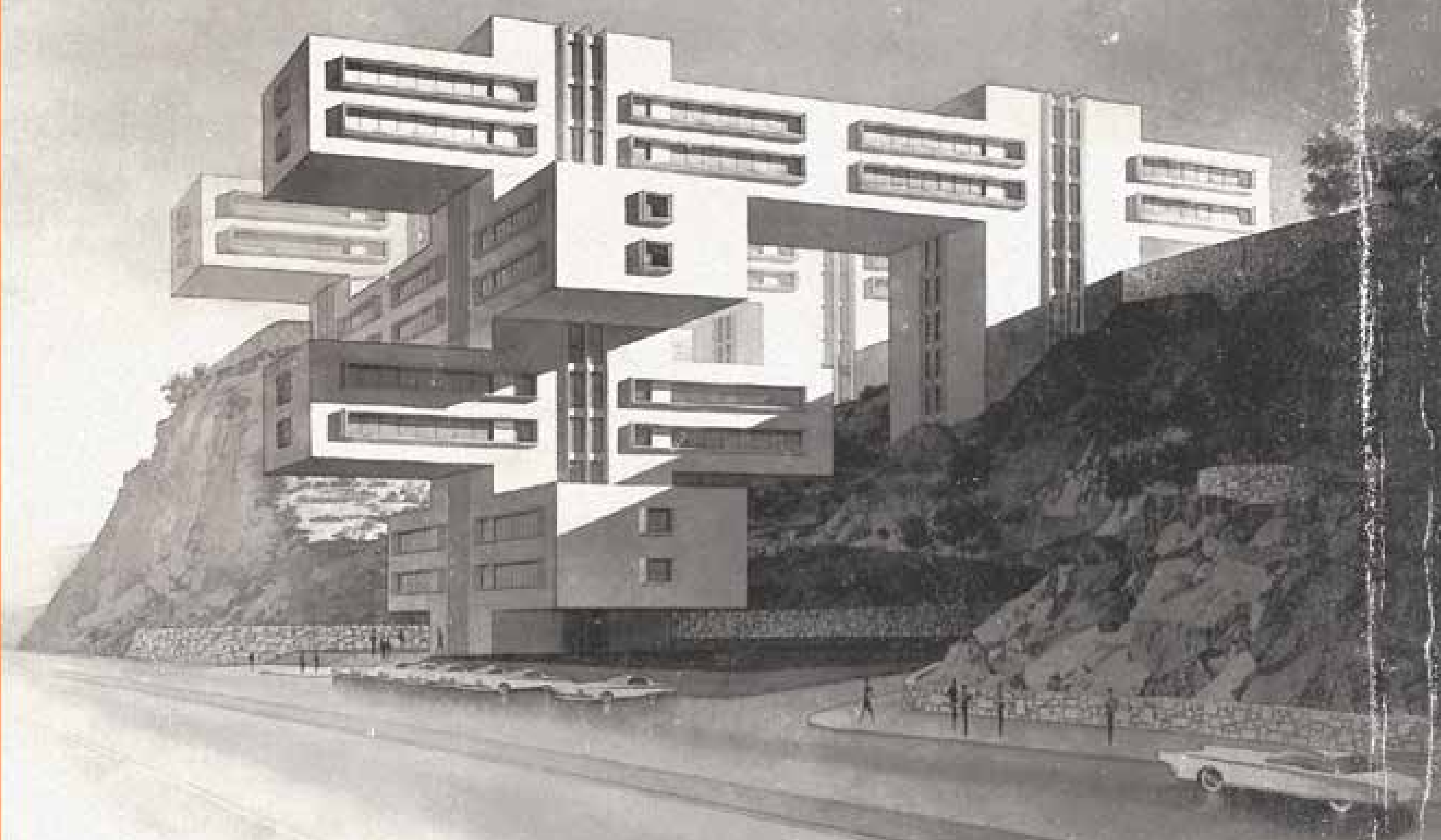
BANK OF GEORGIA
GROUP PLC

Helping **people achieve** more of their **potential**



Annual Report 2019

Circa 1975 sketch of the Bank of Georgia's headquarters, designed by Georgian architects George Chakhava and Zurab Jalaghania

ANNUAL REPORT 2019

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 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' 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 Banking Business results, which represents the continuous business of the Group since the demerger.

The Group comprises: a) retail banking and payment services; and b) corporate and investment banking and wealth management operations in Georgia; and c) banking operations in Belarus ("BNB"). JSC Bank of Georgia ("**Bank of Georgia**", "**BOG**", or the "**Bank**"), the leading universal bank in Georgia, is the core entity of the Group. The Group targets to benefit from superior growth of the Georgian economy through both its Retail Banking and Corporate and Investment Banking services, and aims to deliver on its strategy, which is based on at least 20% Return on Average Equity (ROAE) and c.15% growth of its loan book.

See page 24 for our business model and strategy.

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

Contents

Financial Highlights

Continued strong momentum reflected in 2019 financial results in the new base year, on the back of the significant changes in the regulatory environment

Operating income (GEL million) — Banking Business

1,110.3

2017	909.3
2018	1,030.0
2019	1,110.3

+7.8% y-o-y

Cost of credit risk ratio — Banking Business

0.9%

2017	2.2%
2018	1.6%
2019	0.9%

-70 bps y-o-y

Cost to income ratio (adjusted)* — Banking Business

37.8%

2017	37.7%
2018	36.7%
2019	37.8%

+110 bps y-o-y

Cost to income ratio (reported) — Banking Business

38.9%

2017	37.7%
2018	36.7%
2019	38.9%

+220 bps y-o-y

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

514.2

2017	369.5
2018	435.0
2019	514.2

+18.2% y-o-y

Profit (reported) — Banking Business

500.0

2017	369.5
2018	378.6
2019	500.0

+32.0% y-o-y

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

26.1%

2017	25.2%
2018	26.4%
2019	26.1%

-30 bps y-o-y

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

25.4%

2017	25.2%
2018	22.9%
2019	25.4%

+250 bps y-o-y

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

11,931.3

2017	7,741.4
2018	9,397.7
2019	11,931.3

+27.0% y-o-y

Client deposits (GEL million) — Banking Business

10,076.7

2017	7,078.1
2018	8,133.9
2019	10,076.7

+23.9% y-o-y

Basic earnings per share (GEL) — Banking Business

10.45

2017	9.63
2018	8.72
2019	10.45

+19.8% y-o-y

Tier 1 capital adequacy ratio (NBG, Basel III) — Bank of Georgia

13.6%

2017	12.4%
2018	12.2%
2019	13.6%

+140 bps y-o-y

* 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-off 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

2019 operating highlights reflect the expanding footprint of our Banking Business in Georgia

Number of Retail Banking clients

2.5 MLN

+4.1% (over 2018)

Banking branches

272

-4 (over 2018)

Number of cards

2.1 MLN

-1.5% (over 2018)

Express Pay terminals

3,217

+102 (over 2018)

POS terminals

21,869

+4,999 (over 2018)

ATMs

933

+57 (over 2018)

Number of mBank transactions

35.9 MLN

+129.2% (over 2018)

Transactions through digital channels (%)

93.2%

+1.1 ppts (over 2018)

At a Glance

Retail Banking

Client-centric and solutions-based multi-brand strategy for more than 2.5 million clients

We are the leading retail banking player in Georgia, serving more than 2.5 million customers through the widest network of 267 retail branches, 933 ATMs and 3,217 Express Pay (self-service) terminals, a sales force of more than 3,200 people, along with our diverse products and services. Our Retail Banking business (RB), the prominent component of our business, runs a client-centric and solutions-based increasingly digital multi-brand strategy, which reaches the entire spectrum of retail customers through three well-established and recognised brands:

Express
designed to service emerging retail customers with minimal incremental operational costs through cost-efficient distance channels, such as our Express Pay terminals, internet and mobile banking, and technology-intensive Express branches.

Bank of Georgia
providing long-established traditional banking services to our mass retail clients.

SOLO
targeting mass affluent customers and providing a unique blend of banking and lifestyle products and services.

MSME
Bank of Georgia serves micro, small and medium size enterprises (MSME) through two respectively dedicated segments under the Retail Banking business. By the end of 2019, our MSME client base grew to 220,603 customers.

Gross loan book (GEL billion)

7.5

+18.0% y-o-y

Market share*

38.8%

Client deposits (GEL billion)

5.7

+31.7% y-o-y

Market share*

40.3%

* Market shares by loans and by deposits to individuals, respectively, based on standalone accounts of the banks published by the National Bank of Georgia as at 31 December 2019.

Corporate and Investment Banking

Integrated solutions for our Corporate and Investment Banking (CIB) clients

The Bank is a leading corporate lender in the country with deep sector knowledge and local expertise. Our corporate banking business is characterised by outstanding flexibility in meeting our corporate clients' needs and offers one of the most comprehensive range of products and services in the country. We are proud to accommodate c.2,700 businesses in Georgia and play our part in developing various sectors of the economy such as trade, energy, industry and tourism, among others. Corporate banking additionally serves as a leading trade finance business in Georgia and provides leasing services through the Bank's wholly owned subsidiary, Georgian Leasing Company (GLC).

We are at the forefront of capital markets development in Georgia. We aim to leverage our superior knowledge and capital markets capabilities in the Georgian and neighbouring markets, both in terms of reach and the expertise that we have accumulated during the past several years through our corporate advisory, debt and equity capital market research and brokerage practices united under Galt & Taggart, a wholly owned subsidiary of the Group. Our brokerage business serves regional and international markets, including hard-to-reach frontier economies. Our macro and sectoral research currently covers various sectors of the Georgian economy and developments taking place in regional economies. Galt & Taggart also publishes an extensive quarterly report on macroeconomic developments in the Georgian economy (subscribe to the research at www.galtandtaggart.com).

CIB organises quarterly industry series for its clients, where Galt & Taggart presents the industry trends and the most recent research findings. Our aim here is to share our knowledge and most up-to-date data with our clients, so that they have a full-spectre view of the country's economic sectors and investment potential.

In 2019, Galt & Taggart participated in a competitive tender process and won a three-year exclusive mandate to manage the private pension fund of a large Georgian corporate client. In 2019, Galt & Taggart acted as a lead manager in a number of bond issuances by Development Financial Institutions (DFIs) such as the European Bank for Reconstruction and Development (EBRD), FMO – Dutch entrepreneurial development bank (FMO) and Black Sea Trade and Development Bank (BSTDB). Galt & Taggart was a co-manager of Bank of Georgia's inaugural US$ 100 million international Additional Tier 1 (AT1) bond issuance in 2019.

In corporate advisory services, Galt & Taggart is a leading advisor in Mergers and Acquisitions (M&A) in the country.

In February 2020, Global Finance Magazine named Galt & Taggart Best Investment Bank in Georgia for the sixth consecutive year.

We think of the Group's CIB as one of the most attractive employers for the best talent in the country. Ability to work on corporate finance and strategic topics with the diverse set of large corporates in the country excites our long-standing, as well as young talent, who choose to pursue careers at the Group companies.

This multifaceted financial and advisory services, coupled with relentless focus on providing the best-in-class services to our clients, makes us a universal bank of choice and top-of-mind adviser for Georgian corporates.

Gross loan book*
(GEL billion)

3.9

+40.5% y-o-y

Market share**

31.0%

Client deposits*
(GEL billion)

3.8

+10.1% y-o-y

Market share**

30.9%

* Includes Wealth Management gross loans and client deposits, respectively.
** Market shares by loans and by deposits to legal entities, respectively, based on standalone accounts of the banks published by the National Bank of Georgia as at 31 December 2019.

Wealth Management

We are an established leader of investment management services in Georgia

Group AUM
(GEL billion)

2.6

+13.0% y-o-y

Number of customers

1,557

Number of countries

77

Bank of Georgia has been active in asset and wealth management since 2005. Accommodating 1,557 local and international clients from 77 countries worldwide, our Wealth Management (WM) business provides private banking services to high-net worth individual clients and offers investment management products internationally through representative offices and subsidiaries in Eastern Europe, the Middle East and the UK. Our superior service, along with local economic stability, business-friendly environment, and favourable tax regime in Georgia, provides our clients with the unique opportunity to invest in Georgia. Many foreign customers find this proposition very attractive. The Bank believes that its Wealth Management franchise can benefit by focusing on the distribution of local debt.

Since 2017, we have hosted or sponsored regional conferences of Wealth Management in Tbilisi and abroad. The events are aimed at introducing Georgia as a regional hub for private banking services.

The prospects and challenges of making Georgia a regional banking centre are discussed within the framework of the conferences, including the investment climate in Georgia, as well as the country's economy and banking sector. We plan to continue to actively support regional events in the future.

In January 2019, Bank of Georgia opened a new office in the centre of Tbilisi, which is dedicated to serve our Wealth Management clients.

BNB

Well-capitalised SME bank in Belarus

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.

Chairman's Statement

Neil Janin
Chairman

Dear Shareholders,

As I look back on the last year, I am filled with a sense of pride and confidence about our Group. A year ago, we named a new CEO. Thanks to his leadership, it is remarkable how much we have accomplished to date in multiple dimensions. To you, our shareholders, we have delivered an outstanding financial performance in 2019, with both strong growth and higher profitability. Our client surveys reflect growing levels of satisfaction. Our employee surveys indicate that the Bank is a good place to work and getting better. Finally, we have taken measures to be good stewards within our communities in Georgia. I will let Archil Gachechiladze and his team relate, later in this Annual Report, all that has been accomplished, after all, the credit is theirs.

Bank priorities

It is common wisdom that banks must transform from bricks and mortar institutions to digital enterprises. Bank of Georgia's success, until now, has been built on a strong branch network, to which we added ATMs, self-service transaction terminals, call centre, internet banking and finally our mobile banking application. This multichannel strategy, built over time, is complex and costly to operate. Tomorrow, this model must consist of one digital platform, which provides the foundation for all contact points: mobile, telephone, internet banking, self-service terminal, ATM and branches. Creating this new architecture is the priority of management. It should lead us to cost efficiency improvements and better service provided to each of our client segments.

Our digital future requires a new leadership model, investment in skills-building, a change in mindset, and a capacity to work across silos. Our new management team is fully committed to driving this effort and its actions reflect this model shift. More than ever, talent development is key to our long-term success, and it will remain so.

The Bank has very robust risk management capabilities, and these are translated into a strong balance sheet, dominated by plain vanilla customer lending and deposit-taking, but also characterised by high levels of liquidity and capital resources. We will of course also continue to build on these strengths.

Georgia's economy

The economy has continued its decade-long strong performance with estimated real GDP growth of 5.2% in 2019. The Market and Industry Overview section of this Annual Report details the outlook for the Georgian economy. I will only emphasise two facts this year, which illustrate the strength of the economy. The first concerns fiscal discipline, which is essential to improve and sustain economic performance, maintain macroeconomic stability and reduce vulnerabilities of any country, but especially of a developing one, like Georgia. The Georgian Government has shown a steadfast commitment to that policy, even though it could have been tempted to stray from it in its policy decisions. The second fact that I would like to highlight is substantial improvement in the country's current account over the last 12 months. In 2019, the current account deficit is expected to have reduced to a record low of 4.4% of GDP, despite the challenging environment, from 6.8% in 2018.

A word on the potential impact of Coronavirus. As I write this letter, the virus has infected politics around the world, economies and our lives overall. It has blocked cities and businesses, has affected travel and work, has distorted family routines. The Georgian health authorities have very successfully adopted the necessary measures and will adjust them as needed. Undoubtedly, the virus will reduce tourism and slow economic activity in line with the rest of the world, but I expect Georgia to show its customary resilience in the face of these challenges.

The political outlook in Georgia

Last year was marked by continued mass demonstrations for different motives. The first one related to a perceived perversion of the justice system in the case of a murder of a young man. It was followed by mostly peaceful demonstrations against the permission given to a Russian parliamentarian to speak in the Parliament of Georgia. Finally, further rallies were held in support of proportional representation in the Parliament. It was, however, reassuring to see the Government and the main Opposition party come to a recent agreement on proportional representation. Polls seem to show that neither of the two main political parties are leading ahead of the end of year elections, although there has been no obvious upcoming challenger either. The elections will take place in October this year and no-one seems to be able to venture a prediction. What is reassuring is that both of the main parties have very similar aims: liberal economic policy, fiscal conservatism, anchoring to the European Union and seeking entry into NATO.

The European Union's outgoing High Representative for Foreign Affairs and Security Policy, Federica Mogherini, summarised one concern well by stating: "Today, we see the risk in the country (Georgia) of backsliding on some important reforms in the rule of law area".

Fortunately for Georgian citizens and investors in Georgia, both the EU and the United States have a significant stake in Georgia's success and have had a hand in correcting any derailments, and Georgia remains open to such guidance. On the positive side, one should not forget that electoral laws are fair, and are implemented impartially by the relevant election management bodies, people have the right to organise in different political parties, free and independent media exists, and individual freedoms are preserved and felt by the population. Democratic culture is taking root, albeit gradually.

External

The situation with Georgia's neighbours has not changed. Russia continues its occupation of two territories, the Abkhazia and Tskhinvali regions. The Ministry of Foreign Affairs of Georgia announced in February this year that on 28 October 2019, the Main Centre for Special Technologies, a department of the Russian General Staff Main Intelligence Directorate (GRU), carried out a widespread, disruptive cyber-attack against websites and servers of Georgian Governmental agencies, court and media organisations. This accusation was supported by both the United States and the UK, at the same time, – two countries which have the capacity to trace such attacks. It is the first time that the GRU has been accused by name. Russia has already been accused of using cyber warfare, even more powerfully, against the Ukraine and Latvia, but Western countries had not called it out. Most importantly, both the United States and the UK have promised assistance to Georgia to bolster its cyber defence.

Governance and the Board

As a UK-listed company, we follow the principles of the UK Corporate Governance Code, namely accountability, transparency, probity and focus on the sustainable success of an entity over the longer-term. We have requisite committees described in later pages of this report. They follow due process and are led by me in the case of the Nomination Committee and by independent Board members in the case of the other committees.

In a developing country, like Georgia, there has been a prevalence for blending ownership and management. This state of things hinders the implementation of an independent board. However, at the Bank of Georgia, management and the Board are independent and separate from each other. Towards the end of 2018, the Board and the predecessor CEO came to a common view that the time was right for a new CEO to take the business to its next phase, and we appointed the new CEO in January 2019 and oversaw this critical transition. We believe that active corporate governance is good for the Company and the Group. This attracts long-term investors and sets an example for other corporates in Georgia to follow.

As to Board membership, Andreas Wolf stepped down from the Board at the end of January 2020. We will be adding one Board member this year. We would prefer to proactively seek a woman candidate as we are supportive of improving our Board gender balance, which stands today at two women and six men. We will also strive to have a wide coverage of the many skills that we need on the Board. It might be worth recapping the talent that we have on the Board today: Véronique McCarroll brings her expertise in the mobile banking world from Orange, where she oversees European strategy, as well as her previous corporate banking and risk management experience; Tamaz Georgadze is who we look to for understanding the digital world, having founded one of the most successful Fintech organisations to date, Raisin; Cecil Quillen, senior partner at the law firm of Linklaters, guides us in legal matters and brings his knowledge of the region; Jonathan Muir, CEO of LetterOne and its previous CFO, is a steady hand in our audit and credit areas; Al Breach who founded Gemsstock, a fund management enterprise, brings his exceptional knowledge of treasury and macroeconomics; and Hanna Loikkanen brings her experience of working with financial institutions in Russia and Eastern Europe, as well as her knowledge of company governance and talent management. I see my own role to be coordinating the talent of this Board and that of management, to achieving a successful corporate governance model.

Neil Janin
Chairman
16 March 2020

Chief Executive Officer's Statement

Archil Gachechiladze
Chief Executive Officer

Having been the CEO of Bank of Georgia Group for just over a year, I would like my second letter to shareholders to focus on the Group's key developments during 2019. 2019 has been a year of significant progress for Bank of Georgia Group. The Group delivered excellent customer lending growth, strong profitability and a 32.0% increase in net profit to GEL 500 million, while substantially improving our customer positioning in many key areas. In all of the most recent surveys and data points, Bank of Georgia clearly comes out 'top-of-mind' and is regarded as the most trusted financial institution throughout all age groups of the Georgian population.

Operating income totalled GEL 1,110.3 million in 2019, an increase of 7.8%, and profit before income tax expense and one-off costs increased by 21.9% to GEL 572.8 million (profit before income tax expense increased by 27.8% to GEL 556.4 million). The Group's capability to deliver strong profitability continues, and Return on Average Equity adjusted for one-off costs exceeded 26% in 2019. The Group's book value per share increased by 20.7% to GEL 45.36 as at 31 December 2019.

The last 12 months have been important in a number of ways and I would like to highlight two key messages:

- the new management team has started to execute the Group's new strategy, which we outlined in June 2019, and this is being reflected throughout the business as we are delivering strong profitability, while investing in our future digital and IT capabilities, the renovation of our branch network, and our brand franchise. The results of these investments are already starting to deliver strong earnings growth, as well as improved client satisfaction and higher employee engagement scores;
- we have also demonstrated clear progress in adapting to the new banking regulatory environment. In 2019, we exceeded our lending growth expectations and delivered strong profitability, in a banking sector that now has lower systemic credit risk and improving capital efficiency.

Given the significant changes in the regulatory environment over the last 12 months, 2019 was a year of transition which provides an excellent base for our future growth. The high-yield, higher-risk unsecured consumer loan portfolio has matured out of our balance sheet and has been replaced with a lower-risk, higher-volume portfolio, leading to lower overall sector systemic risk. This is a new environment with a lower net interest margin and lower cost of credit risk. As a consequence, we successfully reshuffled the Retail Banking portfolio composition towards more secured mortgage and MSME lending and yet delivered net interest income growth of 6.7% in 2019, while net fee and commission income generation showed 17.5% y-o-y growth in 2019. We are also starting to experience some stabilisation in the net interest margin. Net of credit risk costs, the net interest margin has remained very resilient.

Some of the benefits of the lower-risk portfolio are now being reflected in a lower cost of credit risk, which was down 70 basis points to 0.9% in 2019. We have also made significant progress in reducing our non-performing loans (NPL), and the ratio of NPLs to gross loans stands at 2.1% as at 31 December 2019, compared with 3.3% 12 months ago. The historical cost of credit risk on the rebalanced portfolio mix is c.1-1.2%, and going forward, we expect the cost of credit risk ratio to remain broadly stable within that range.

We also continued to deliver strong progress in the Corporate and Investment Banking (CIB) business. Customer lending in CIB, on a constant currency basis, grew by 37.4% as at 31 December 2019.

During the year, we clearly established our new mission: we are here to help people achieve more of their potential. In this context, a new brand platform has been adopted and our first new brand campaign was launched in the beginning of October 2019. Bank of Georgia is the brand that stands for taking action and doing something about it; we are here to empower and support our customers and employees. Bank of Georgia is the general sponsor of the Georgian Olympic Committee and has recently become general sponsor of the Paralympic Committee in Georgia. We are here to support and celebrate people who strive to succeed, regardless of their challenges. This is all of us. This is what Bank of Georgia stands for.

Our new Corporate Social Responsibility strategy has been aligned with our new mission – to help people achieve more of their potential. We do this through focusing on three main pillars: education, employment and MSME development.

The success of our new strategy depends on two main directions: customer satisfaction and employee engagement. We have revised the KPIs of the top management to include Net Promoter Score (NPS) and Employee Net Promoter Score (ENPS). There are very encouraging signs throughout the business lines showing improved customer satisfaction (CSAT) and higher employee engagement scores. Not to stop there, we have invested in the leading customer experience management platform, Medallia, which will help us capture and prioritise large amounts of customer feedback. It was first rolled out throughout the Bank's digital channels and we further expanded it to the call centre and branches in March 2020.

The new management team has come together and we are all benefiting from helping each other to take on challenges, or upsides, as we refer to them internally. The entire team is working towards the common goal, and we are seeing strong numbers across all business lines, especially in Corporate and Investment Banking, SME and mortgages, loan books growing at 33.1%[1], 43.9%[1] and 15.2%, respectively, on a constant currency basis at 31 December 2019. While other loan products have delivered slower growth due to the new regulations, the overall loan book grew by 22.0% at 31 December 2019 on a constant currency basis.

We continue to benefit from our ongoing investment in our IT, digital and data capabilities, with the planned doubling of our digital staff by the end of 2020. Whilst this has contributed to higher 10.9% growth in operating expenses in 2019 excluding one-off costs, I am delighted by how this investment is translating into results – in terms of both strong franchise growth and strong profitability. As an example, this has already been reflected in a significantly higher number of mobile banking transactions, which more than doubled during the year to 35.9 million transactions in 2019, as we continue to see a shift towards mobile banking from other channels. Overall, more than 93% of daily transactions of individual customers are now performed through digital channels. Going forward, we expect to continue investing in building these capabilities for the long-term, which are expected to deliver sustainable value creation, but also further improve our cost to income ratio towards our targeted 35% level. This clear investment focus has supported Banking Business profit growth at compound rate of 18.4% over the last five years.

Part of our focus on long term value creation is our management remuneration structure, explained in detail in the Remuneration Committee Report on pages 146 to 161. Our remuneration policy focuses on ensuring the clear alignment of management remuneration with shareholders interests, and a significant majority of management remuneration is therefore paid in shares with long-term vesting. There are no cash bonuses and no long-term incentive plan (LTIP) structures. In addition, all shares acquired for management compensation are acquired in the market, ensuring no ongoing share dilution from the issue of new shares.

The Group's capital and funding position remains strong. Our capital ratios are comfortably ahead of our regulatory minimum requirements, and 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. Over the medium term, we will continue to focus on managing our Common Equity Tier 1 and Tier 1 capital adequacy ratios c.200 basis points over our minimum regulatory requirements.

The Georgian economy continued to deliver strong real growth numbers, estimated at 5.2% for 2019. Overall tourist numbers continued to increase, despite a reduction in the number of tourists from Russia following the direct flight ban introduced in July 2019. The current account deficit reduced significantly to an estimated 4.4% of GDP in 2019, despite the challenging environment, down from the 2016 high of 12.4%, reflecting healthy growth in exports and lower imports; trends that we expect to see continued. While the impact of fewer Russian tourists on the economy has been small, the negative expectations have partly resulted in the 6.0% depreciation of the GEL vs US Dollar exchange rate since 20 June 2019, before strengthening in December and early 2020. This did, however, have an impact on headline inflation, which increased to 7.0% in December 2019. To curb this inflation, National Bank of Georgia increased the monetary policy rate from 6.5% to 9.0% in the second half of 2019.

We remain very positive on the Georgian economy, however. Business confidence remains strong and, in October 2019, S&P Global Ratings upgraded Georgia's sovereign credit rating by one notch to BB, a testament to the positive changes as a result of the Government's recent reforms. With a ranking of seventh, Georgia remains in the top ten of best places in the world to do business in 2020, according to the World Bank's ranking. Most notably, the recent corporate income tax reform has resulted in Georgian corporates having more equity, which is starting to be leveraged and invested.

In summary, the new management team has started to successfully execute the Group's new strategy, resulting in strong growth and profitability in the significantly lower risk regulatory environment. Most importantly, the pace of positive change is accelerating and very encouraging – and the Group is very well positioned to continue to deliver excellent momentum and strong returns.

Sincerely yours,

Archil Gachechiladze
Chief Executive Officer
16 March 2020

This Strategic Report, as set out on pages 01 to 113, was approved by the Board of Directors on 16 March 2020 and signed on its behalf by

Archil Gachechiladze
Chief Executive Officer
16 March 2020

1 The growth figures are presented excluding the reclassification of GEL 120 million loan portfolio from SME to CIB during the second quarter 2019.

Market and Industry Overview

Global top-reformer

Georgia is an open and resilient emerging market. Macroeconomic performance has been positive over the last decade, with growth higher than in most peers, improved external balance, increased foreign reserves, well-managed fiscal deficit, and a stable banking sector despite currency depreciation. The country maintains its global top-reformer status in pro-business measures from the World Bank, and the comprehensive reforms that the country undergoes support the economy to realise its potential by fully integrating into the global economy.

Ease of Doing Business Index ranks Georgia in 2020

2nd
In starting a business

7th
In protecting minority investors

5th
In registering property

7th
Overall ranking

Georgia is the highest ranked economy in Europe and Central Asia region

Source: World Bank Doing Business

Economic Freedom Index ranked Georgia in 2019

16th

Georgia is ranked 8th among 44 countries in the Europe region, and its overall score is above the regional and world averages

Source: Heritage Foundation

Corruption Perceptions Index in 2019

44th

Georgia leads the Eastern Europe and Central Asia region

Source: Transparency International 2019

Reforms-driven success

Georgia maintains a reputation of a top-reformer globally for its performance in governance and pro-business reforms. As a result, macroeconomic performance in Georgia has been positive over the last decade with growth higher than in most peers, improved external balance, well-managed fiscal deficit, and a stable banking sector, despite exchange rate depreciation.

After sluggish growth in 2015-2016 due to regional slowdown, growth picked up and external balance strengthened. Growth accelerated further at an estimated 5.2% in 2019, despite Russia's direct flight ban. Being an open economy, Georgia is not immune from external shocks, however, its diversified economic base and diversified economic linkages minimise potential negative impact from any particular partner country.

Georgia, with a ranking of seventh globally, is currently the highest ranked economy in Europe and Central Asia region according to the 2020 Ease of Doing Business Index by the World Bank. The 2019 Economic Freedom Index, measured by the Heritage Foundation, ranked Georgia in the top eight economies out of 44 in the Europe region.

Georgia is a positive exception to the trend of high bribery rates in the regional economies and is on a par with European Union (EU) member states, with only 7% of people admitting to having paid a bribe, according to the 2017 Global Corruption Barometer study by Transparency International. Georgia ranks 44th out of 180 countries in the 2019 Transparency International's Corruption Perceptions Index.

The Economic Liberty Act, effective since January 2014, ensures the continuation of a credible fiscal and monetary framework for Georgia, by capping fiscal deficit at 3% of gross domestic product (GDP) and public debt at 60% of GDP. The Economic Liberty Act also requires the approval of the electorates through a nationwide referendum for imposing new taxes and raising existing tax rates, subject to certain exceptions.

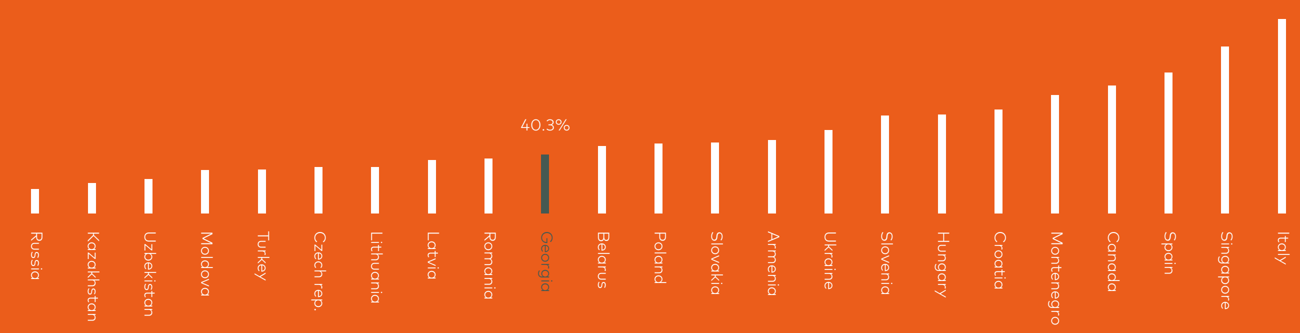
Georgia has one of the world's friendliest tax regimes, having removed a number of taxes, from 21 in 2004 to just six currently. The tax burden has been reduced and further tax incentives of recent years include the application of corporate income tax only on distributed profits since 2017, and a five-fold tax rate cut for small businesses starting from 2018.

Georgia is pro-Western oriented, keeps close ties with the International Financial Institutions (IFIs) and open trade policies. In June 2014, Georgia signed an Association Agreement and related Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU. Visa-free travel to the EU, granted to Georgian passport-holders in March 2017, is another major success for Georgian foreign policy. While remaining committed to EU integration, 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 increasing, and a free trade agreement signed in 2017 is expected to further expand the Chinese market for Georgia's exports. Georgia is participating in China's Belt and Road Initiative, which will also have positive spillovers on the Georgian economy and the region overall. The country's ongoing programme with the IMF is seen to support the country in reducing economic vulnerabilities and promoting economic growth. The largest credit rating agencies (Moody's, Fitch Ratings and S&P Global Ratings) acknowledge the country's economic and institutional strength, and resilience to global shocks. This is reflected in Georgia's latest one-notch rating upgrade to BB from BB- from Fitch Ratings in February 2019, and from S&P Global Ratings in October 2019. The Government's emphasis is on increasing capital expenditure as well as spending on education to enhance the potential growth, while keeping fiscal deficit low.

National Bank of Georgia (NBG) aims to reduce external vulnerabilities by reducing dollarisation in the economy and supporting capital market development.

Introduction of pension reform since 2019 encourages the mobilisation of savings for investment to support medium-term growth and provide a further safety net for the elderly.

Gross Government Debt (as a % of GDP), 2019E



Source: IMF, MoF, Galt & Taggart

Regional economic hub

Georgia is well-positioned to become a regional economic hub with its business-friendly environment, developed infrastructure, stable energy supply, flexible labour legislation, sound banking sector, strategic geography and a Government committed to making structural improvements in the economy.

Georgia is a natural transport and logistics hub, connecting important regions and a market of 2.8 billion customers without customs duties. Georgia is located between land-locked energy-rich countries in the East, and European markets in the West. The Government's ongoing infrastructure investments and increased spending on roads, energy, tourism and municipal infrastructure will also reinforce the potential.

Georgia is a regional energy corridor that accounts for approximately 1.6% of the world's oil and gas supply transit volumes. Georgia's existing free trade deals (with the EU, CIS, EFTA, Turkey, China, Hong Kong, and ongoing negotiations with India), enable it to access a market of 2.8 billion customers. These are expected to further strengthen Georgia's positioning as a platform to trade with, produce for, and service regional markets.

Georgia is already an established popular tourism destination. Travel inflows are a significant source of foreign currency for Georgia, with tourist numbers already exceeding the local population of 3.7 million. In 2019, tourist arrivals reached 5.1 million, generating US$ 3.3 billion, or 18.7% of GDP. The Government enhances Georgia's positioning as a four-season tourism location through improved connectivity of different regions, with an aim to tap into their potential.

Stable energy supply and electricity transit hub potential. Georgia has a developed, stable and competitively priced energy sector. The country has overcome the chronic energy shortages of electricity and gas supply interruptions of a decade ago by renovating and building new hydropower plants (HPPs), improving transmission infrastructure and diversifying its natural gas import partners. The energy needs of the country are being addressed by constructing HPPs, and renovating and rehabilitating internal and external electricity grid and natural gas pipelines.

Currently, only an estimated 25% of Georgia's hydro potential is utilised. Government policy over the last decade has encouraged the investment in the hydropower sector, resulting in 43 new HPPs, with a total capacity of 485MW, being added to the system over 2012-2019. The pipeline of investment projects in the energy sector is estimated at about US$ 5-6 billion in the next five to seven years, including conventional and run-off hydro, wind and solar projects at various stages of development.

Georgia's transmission capacity is poised to increase, and accommodate an additional installed capacity of 3.5GW by 2027 to meet the growth in export and domestic demand. Georgia is foreseen to be an electricity transit hub for neighbouring economies. In 2016-2019, 1,253GWH was already transited through Georgia to neighbouring countries.

Attractive place for foreign investors. Foreign Direct Investment (FDI) is an important source of financing growth in Georgia, as well as a reliable source of Georgia's current account deficit funding. Georgia's business-friendly environment coupled with its sustainable growth prospects attracted substantial FDI, averaging 8.8% of GDP over the last decade. Major beneficiaries are transport, tourism, construction, financial and energy sectors. The EU remains a top-investor.

Georgia has not yet tapped into international markets. Despite growing free trade deals, Georgia's exports are still dominated by used car re-exports and resource-based metals and minerals. Meanwhile, export is well-diversified by destination markets with top export markets (Azerbaijan and Russia) having only a 26% share in total. One of the biggest changes in destination markets has been a reorientation from the Russian market after the 2005 embargo, as it forced Georgian producers to redirect exports to other Commonwealth of Independent States (CIS), the EU and other markets. Access to new large markets (the EU and China) could increase market penetration. There is also scope for diversifying agricultural exports, once the quality and standards improve under EU DCFTA.

The Georgian economy in 2019 and beyond

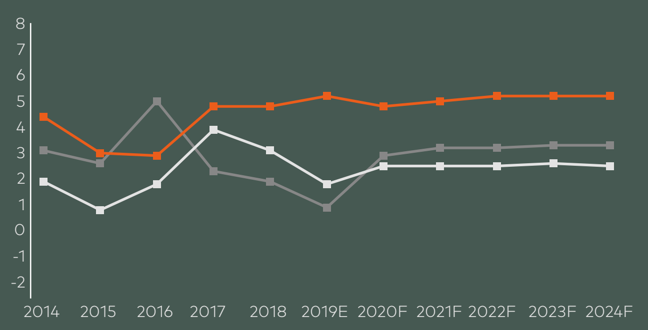
Georgia's economy has generated fastest growth since 2012 at an estimated 5.2% in 2019, despite Russia's direct flight ban. The current account deficit reached a historic low, with exports increasing 12.4% y-o-y, remittances up 9.7% y-o-y, and tourism revenues up 1.4% y-o-y. Strong corporate loan growth and acceleration of public infrastructure spending were also instrumental in driving growth. Inflation increased and came in at 7.0% in December 2019, reflecting higher tobacco excises and GEL depreciation. The NBG raised the monetary policy rate and sold foreign currency reserves to address rising inflationary pressures.

Despite the challenging environment, international reserves increased to US$ 3.5 billion. The largest credit rating agencies (Moody's, Fitch Ratings and S&P Global Ratings) acknowledge the country's resilience to global shocks, reflected in one-notch rating upgrade from Fitch Ratings and S&P Global Ratings in 2019 (while Moody's did the same in 2017).

The 2020 budget targets increased spending on education and social benefits, while deficit is maintained below 3% of GDP. Implementation of the education reform is expected to support medium-term growth with a more skilled labour force. NBG's policies aim to strengthen financial resilience and improve the business environment. Introduction of pension reform support to mobilise savings for investment, to support medium-term growth and provide a further safety net for the elderly.

IMF projects growth to slow marginally to 4.8% in 2020 and growth to average 5.1% annually in 2021-2024, making Georgia the fastest growing economy in the region. Ongoing reforms in various directions – pension reform, capital market development and business enhancing measures – are expected to further support investments, thus reinforcing the country's economic potential.

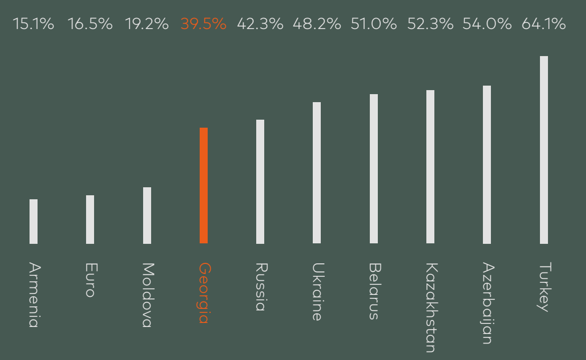
Real GDP growth: Georgia, Middle East and Central Asia, Emerging and Developing EU



Georgia
Middle East and Central Asia
Emerging and Developing EU

Source: IMF, GEOSTAT

Currency weakening versus US Dollar



Source: Bloomberg
Note: US$ per unit of national currency, period 1 August 2014 – 31 December 2019

Well capitalised banking sector with low non-performing loans (NPLs)

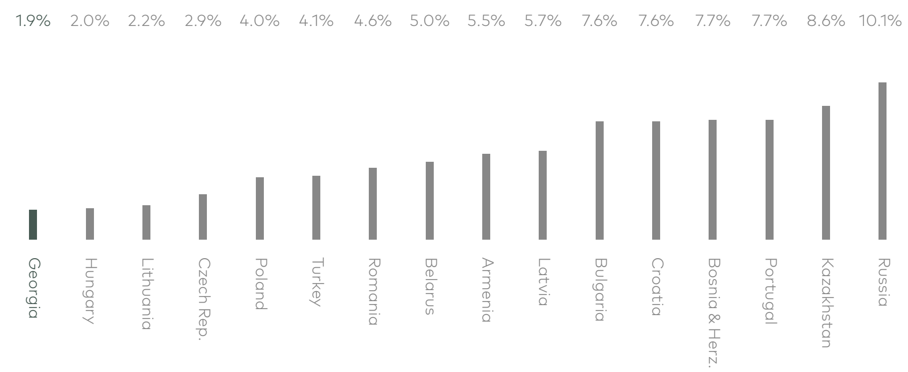
The Georgian banking sector has been one of the fastest growing sectors of the Georgian economy. The banking sector's assets growth rate of 18.1% (ten-year CAGR) has far outperformed the nominal GDP growth rate for the same period. The banking sector is entirely privately owned and quite concentrated, with the two largest banks accounting for 74.5% of the total assets at 31 December 2019.

Prudent regulation and conservative oversight by the central bank of Georgia resulted in stability and resilience of the financial sector during different shocks to the economy. The Georgian banking sector has remained profitable and maintained its credit ratings with a stable outlook, even during multiple downgrades of other banks in the region in 2015-2016. Due to NBG's conservative regulations, liquidity and capitalisation rates in the banking sector have been historically high. Nevertheless, the sector's profitability has remained robust, with return of equity at 21.8% over the past three years.

In 2019, the average total capital adequacy ratio remained close to 19%, the share of NPLs stood at 1.9% and the overall liquidity ratio remained high, at close to 40%. Corporate loan book drove the credit growth in 2019 with total portfolio growth at 20.1% y-o-y. As a result, loan to GDP ratio reached 64.5%, with corporate loans at 31.4% of GDP. The deposit dollarisation reached 64.1% and loan dollarisation stood at 55.1% in 2019, below the levels of 2017 when reform started.

As a result of regulations on consumer lending introduced by NBG since 2018, riskier retail loan portfolio decreased, while corporate, MSME and mortgage lending growth accelerated, having positive impact on the Georgian banking sector, the Georgia's economic potential and growth outlook.

Non-performing loans, latest – 2019



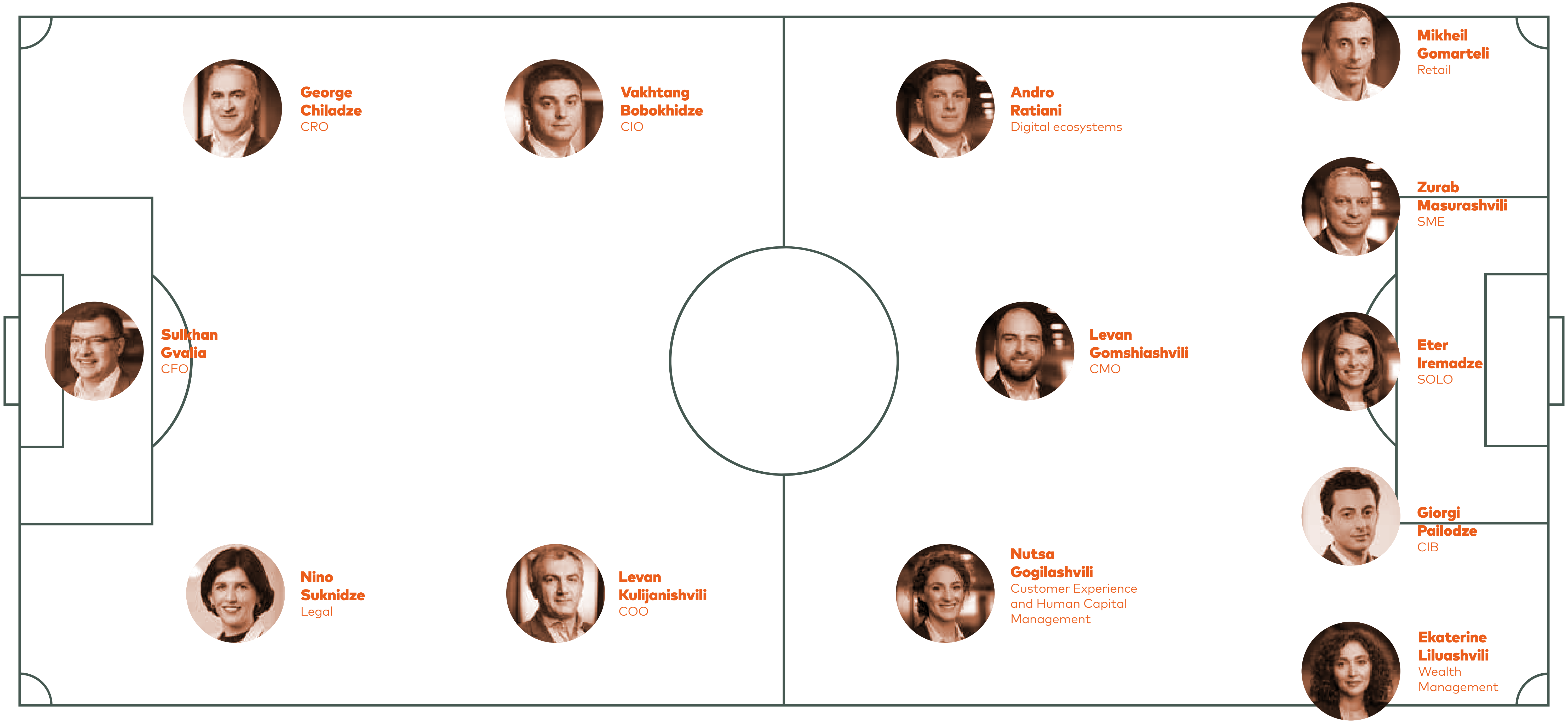
Source: IMF, NBG

Strengthening the management team

Bank of Georgia is the country's leading bank, both in terms of profitability and accessibility. In all of the most recent surveys and data points, the Bank clearly comes out 'top-of-mind' and is regarded as the most trusted financial institution throughout all age groups of the Georgian population. We are a innovations-oriented group and we strive to capitalise on various promising opportunities that arise in different areas of the organisation. For this purpose, Bank of Georgia has assembled a remarkable team of individuals who have embarked on the mission to increase engagement with customers, employees and the community in general. Archil Gachechiladze, our CEO, joined the Group in January 2019, while the management team in this composition has been in place in the Bank since the second quarter of 2019.

You can find management biographies on pages 128 to 131.


Archil Gachechiladze
CEO



Our Mission

We are here to help people achieve more of their potential

Following the strengthening of the management team, our new mission has been established; we are here to help people achieve more of their potential. In this context, a new brand platform has been adopted and our first new brand campaign was launched at the beginning of October 2019. Bank of Georgia is the brand that stands for taking action and doing something about it; we are here to empower and support our customers and employees. Bank of Georgia aims to support and celebrate people who strive to succeed, regardless of their challenges. We strive to unite our employees around our common values and stand by them. We encourage a feedback culture internally. In order to have effective internal communication systems to better connect the employees through sharing, we invested in Workplace – a Facebook platform for the office.

Our mission rests on three fundamental building blocks for success: our employees, corporate social responsibility and our customers. The following layout provides a snapshot of how we plan to develop each of these directions.

Employee engagement

Values-based organisation

Feedback culture

Effective internal communication

The success of our new strategy depends on two main directions: customer satisfaction and employee engagement. We have revised the key performance indicators (KPIs) of the senior management to include Net Promoter Score (NPS) and Employee Net Promoter Score (ENPS). There are very encouraging signs throughout the business lines showing improved customer satisfaction (CSAT) and higher employee engagement scores. Not to stop there, we have invested in the leading customer experience management platform, Medallia. It will help us capture and prioritise large amounts of customer feedback. It is being rolled out first throughout the Bank's digital channels, and we are planning to expand it to the call centre and branches in 2020.

Corporate social responsibility

Education

Employment

Business

Our new Corporate Social Responsibility (CSR) strategy has been aligned with our new mission – to help people achieve more of their potential. We do this through focusing on three main pillars: education, employment and MSME development.

Customer experience management

MEDALLIA

Bank of Georgia has invested in #1 Experience Management Platform

Engage every customer

- Capture input across journeys and channels
- Efficiently 'close the loop' for every customer

Engage every employee

- Encourage employees to act promptly on the feedback
- Provide employees with timely/granular data

Improve every experience

- Leverage insights to systematically improve experiences
- Fix the problem root causes or systematically create positive experiences

Business Model and Strategy

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 standards and transparency and very strong competitive advantage in the local market in terms of attracting financial and human capital.

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

JSC Bank of Georgia, the systemically important and leading universal Georgian bank, is the core entity of the Group. The Group offers Retail Banking and Corporate and Investment Banking (including Wealth Management) services in Georgia, and banking operations in Belarus through BNB.

BANK OF GEORGIA GROUP PLC

Retail Banking

Corporate and Investment Banking

Wealth Management

BNB (Bank in Belarus)

Key strategic targets

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

The leading banking group in Georgia

- 20%+ ROAE over the last three years
- c.35-36% market shares in loans and deposits
- 93%+ share of transactions via digital channels
- Strong retail and corporate banking franchise
- High standards of transparency and governance

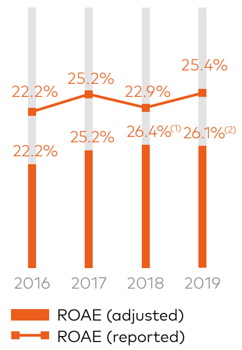
Delivering on Our Strategy

Successful track record of delivering promised strong results

Banking Business key targets

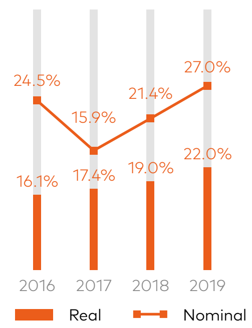
ROAE

20%+



Loan book growth

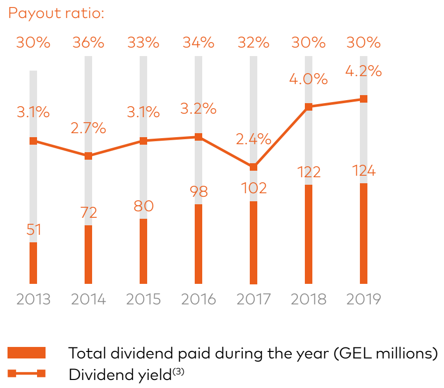
c.15%



Robust capital management track record

- **Capital position:** We aim to maintain **+200 basis points buffer** for CET1 and Tier 1 capital ratios over minimum regulatory requirements during the medium term
- **Maintain regular dividend payouts:** Aiming at **25-40%** dividend payout ratio
- **GEL 648mln+** cash dividend paid during 2013-2019, within the targeted **payout ratio range** over the past seven years

Regular dividends



2019 ROAE (adjusted) 26.1%

The Group consistently delivers compelling returns in excess of 20%.

In 2019, the Banking Business delivered operating income of GEL 1,110.3 million, up 7.8% y-o-y, and profit adjusted for one-off costs of GEL 514.2 million, up 18.2% y-o-y. Individual product loan yields have continued to remain broadly stable. Our increasing focus on lending in the mortgage segment and to finer margin corporate and MSME clients has, however, led to a negative mix effect on overall loan yields and on the net interest margin, which was reduced by 90 basis points y-o-y in 2019. Yet, successful reshuffle of the loan portfolio delivered net interest income growth of 6.7% y-o-y, while net fee and commission income generation showed 17.5% y-o-y growth during 2019.

The shift in product mix improved our asset quality metrics (cost of credit risk ratio down 70 basis points) and reduced the risk-asset and capital intensity of our lending growth. This has enabled us, and we expect will continue to enable us, to maintain the Group's return on equity and superior profitability profile.

In 2019, cost to income ratio increased from 36.7% in 2018 to 37.8% adjusted for one-off costs principally on the back of ongoing investments in IT, digital and data capabilities, marketing and branch network. These investments translate into strong franchise growth and strong profitability of the Group. Going forward, we expect to continue investing in building these capabilities, but also aim to further improve our cost to income ratio towards our targeted 35% level.

2019 loan book growth 27.0%

We have demonstrated clear progress in adapting to the new banking regulatory environment. As a result of the significant regulatory changes on unsecured consumer lending, the high-yield, higher-risk unsecured consumer loan portfolio has matured out of our balance sheet and has been replaced with a lower-risk, higher-volume portfolio. The growth has been strong across all business lines, especially in CIB, SME and mortgage portfolios, resulting in the total loan book growth of 27.0% in 2019. Customer lending growth in Retail and CIB segments was 18.5% and 45.3% y-o-y, respectively, while on a constant currency basis, Retail and CIB loan books grew by 15.1% and 37.4%, respectively.

In 2019, we exceeded our growth expectations and delivered strong profitability, in a banking sector that now has lower systemic credit risk and improving capital efficiency.

Going forward, we expect customer lending growth for the medium to long-term to be comfortably around our 15% growth target.

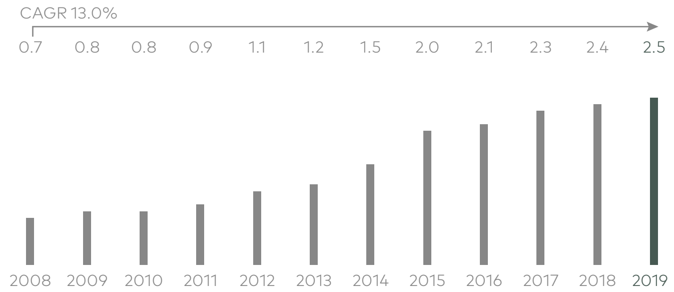
1 The 2018 ROAE adjusted for GEL 30.3mln demerger-related costs, GEL 8.0mln demerger-related corporate income tax gain, GEL 30.3mln one-off impact of re-measurement of deferred tax balances, and GEL 3.9mln (net of income tax) termination costs of the former CEO.
2 The 2019 ROAE adjusted for GEL 14.2mln (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 ex-dividend date.

Retail Banking

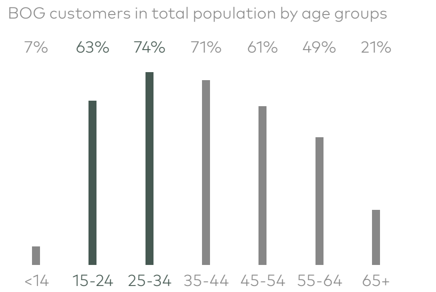
Client-centric and solutions-based multi-brand strategy

Over the past decade, Retail Banking has been a primary driver of Banking Business growth and demonstrated a stellar performance by reaching more than 2.5 million clients, delivering a retail loan book growth of 18.5% y-o-y, and Retail Banking ROAE of 28.6% in 2019. Meanwhile, we are substantially improving our customer positioning in many key areas. In all of the most recent surveys and data points, Bank of Georgia clearly comes out 'top-of-mind' and is regarded as the most trusted financial institution throughout all age groups of the Georgian population.

Over 2.5 million Retail Banking clients



Most attractive bank for youth



Source: Bank of Georgia and National Statistics Office of Georgia

Strategic objective

Our Retail Banking is made up of four segments: Express Bank for emerging retail clients; Bank of Georgia's flagship mass retail brand; SOLO for the affluent retail clients; and MSME banking. Each serves and focuses on the specific needs of their respective clients.

The past several years marked the Bank's successful transformation from a product-focused to a client-centric business model, which has resulted in more effective tailor-made services through the Bank of Georgia's multi-brand strategy. We have a deep and clear understanding of the needs of our clients, which helps us to provide personalised and relevant services to them.

Going forward, our objective is to be the bank that focuses on the success of our clients. This includes having comprehensive knowledge of their financial and non-financial needs, expectations and future plans. This knowledge is essential for us to be able to offer them broad-spectrum solutions packages, instead of providing only financial services.

Focus on products

Clear understanding of customer financial and non-financial needs and expectations

Focus on customer financial needs

Provide solutions that meet customer lifestyle needs and improves quality of life

Focus on customer success

Provide the most convenient and preferred channels

Key priorities

In order to reinforce our customer-centric approach, we introduced a solution-based offering by creating a digital ecosystem, where our clients can fulfil a variety of needs in a single integrated experience. We have made significant achievements in creating highly popular digital platforms, such as our mobile and internet banking applications (mBank and Business iBank) for our retail and business clients, respectively. Our payment ecosystem and convenient channels are a strong backbone for a smooth and enjoyable banking experience with Bank of Georgia. Loyalty programmes were designed to offer various relationship benefits to our clients. We harness advanced analytics to gauge their needs and keep our services relevant. Moreover, we launched Medallia – to be even more informed about the experiences our clients have with us. These initiatives are an integral part of our client-centric business model, now enhanced by a solutions-based banking approach, and our focus on developing ever-stronger customer relationships.

Convenient **channels** | **Payment** ecosystem | Digital **ecosystem** | Customer **experience** | Advanced **analytics**

Convenient channels

Bank of Georgia – unparalleled emerging and mass Retail Banking franchise	BANK OF GEORGIA EXPRESS	BANK OF GEORGIA
Service model	Product-centric cross-selling	360° financial planning
Number of branches	162	93
Number of customers	543K	1,727K
Number of products sold	805K	1,979K
Total number of transactions	46MLN	23MLN
Share of self-service transactions	89%	67%

Our Express Bank brand is aimed at the emerging bankable population. Express serves as a platform for bringing the currently under-banked population into banking. Its main focus is to enable its client base to carry out transactions in a fast and easy way.

We began implementing our Express Banking strategy in 2012 by rolling out small-format Express branches, offering predominantly transactional banking services to clients through ATMs and Express Pay terminals. By the end of 2019, we had 162 Express branches, comprising 61% of all retail branches, and 3,217 Express Pay terminals serving our clients.

We are leaders in Georgia in the payment systems market. We sell only a limited number of banking products to our Express Banking clients.

In 2019, the volume of transactions through our Express Pay terminals increased by 22.3% y-o-y to GEL 8.2 billion, while the number of transactions increased by 0.1% y-o-y to 108 million. The latter was primarily influenced by the successful migration of customers to mobile and internet banking platforms during 2019. Currently, 102 out of a total of 162 Express branches are located in Tbilisi.

Express is one of the major drivers in our fee and commission income from the Retail Banking franchise and a strong channel attracting the unbanked population to the Bank, eventually growing them into mass retail customers.

Under the **Bank of Georgia brand**, we serve mass retail clients – the largest segment of Retail Banking franchise – for whom we successfully optimised and redesigned the operating model of our mass retail branches around a client-centric approach.

We strive to have a clear understanding of the financial and non-financial needs of our clients. We proactively interact with them by advising and offering them the financial products and solutions that best serve their individual lifestyle needs. Our multichannel platform is designed to ensure convenience and serve the individual preferences of individuals.

Retail Banking – payment ecosystem

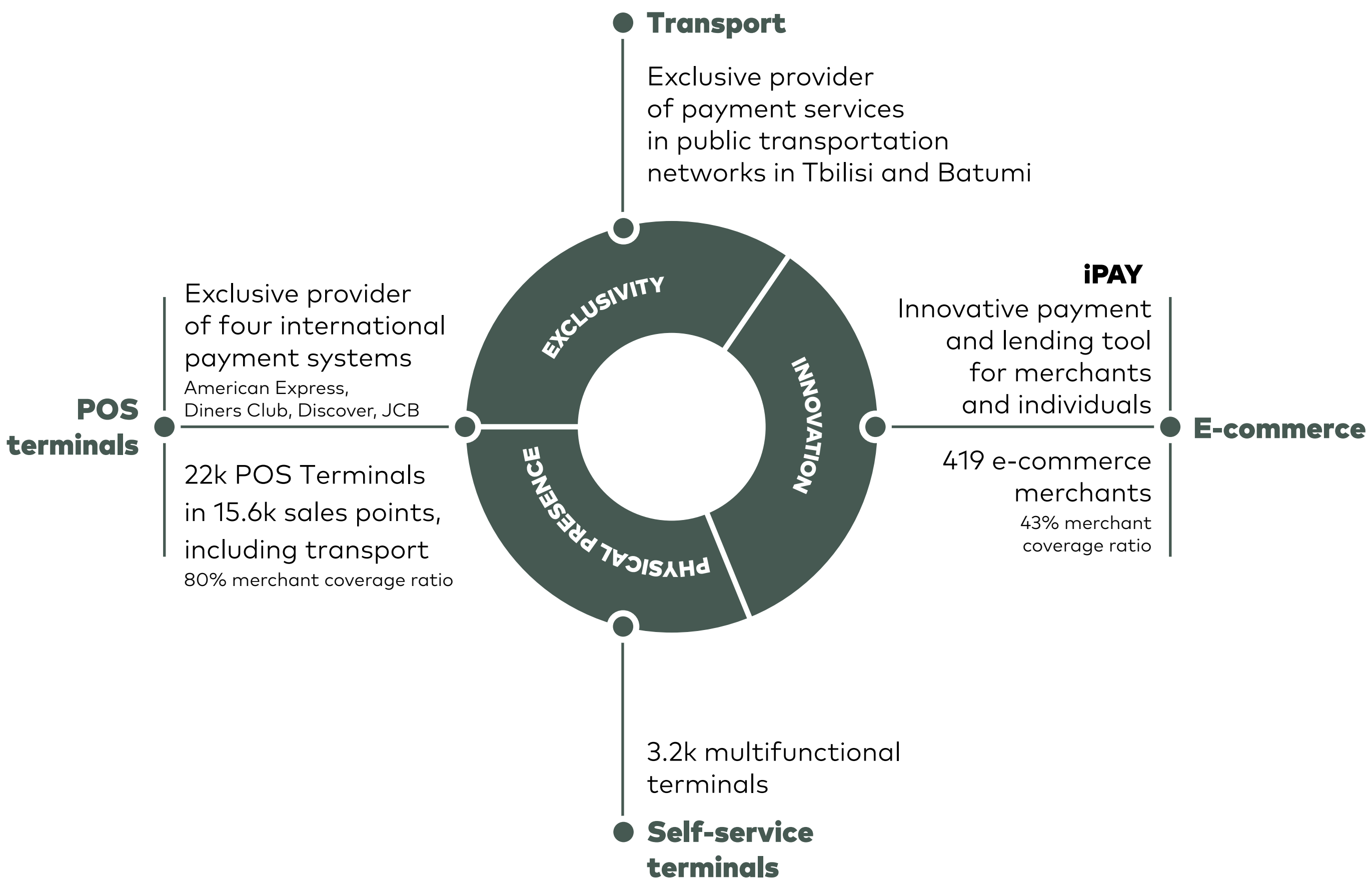
We have the largest distribution channel in Georgia. Our payment ecosystem is based on physical presence of POS and self-service terminals, exclusivity in providing four international payment systems (American Express, Diners Club, Discover and JCB), along with Visa and Mastercard, and in being an exclusive provider of payment services in public transportation. Innovation is crucial in the payment ecosystem and we showcase it in our digital channels: mBank, iBank and iPay. See pages 42 to 44 for information on digital experience.

Considering that over two million people have regular contact with the Bank's channels, one of the three fundamental pillars in payment business is customer satisfaction. Our second pillar, analytical data, helps us digest more than 700,000 different types of information on customer behaviour per day and make tailor-made offerings. In terms of profitability, the third pillar, our payment business generated around 25% of the net fee and commission income of the Group's business.

Customer satisfaction	**Analytical data** source	**Revenue** contributor
Over two million people have a contact with the Bank	More than 700,000 different types of information on customer behaviour per day	25% of total net fee and commission income

In 2017, we won a tender, organised by Tbilisi City Hall, for the modernisation of the public transportation payment system in Tbilisi. As a result, the Bank continues to be the sole provider of payment support services to the public transport network, and operates Express branches in Tbilisi metro (i.e. subway) stations for the next ten years. As part of the tender mandate and the Bank's own digitalisation strategy, Bank of Georgia is implementing a modern digital payment system across the public transport network in Tbilisi, including payment processing using Visa and Mastercard cards, and creating a digital platform for ticket reservations and purchases through mobile applications.

Scale of our payment ecosystem



Campaign management

We continue to see strong growth in sales volumes and the number of products sold in client-centric branches, contributing to 18.5% y-o-y growth in the retail loan book. In order to unlock the full potential of current customers and boost a product to client ratio, we operate a loyalty programme called Plus+. The programme is part of the mass retail customer-centric approach and offers customers different status levels and reward points. They accumulate points based on their business with the Bank and can redeem points with partner companies' products and/or services. By 31 December 2019, the number of Plus+ cards more than doubled y-o-y and the Bank had 858,707 active Plus+ cards outstanding, while the total number of members grew to 1.9 million.

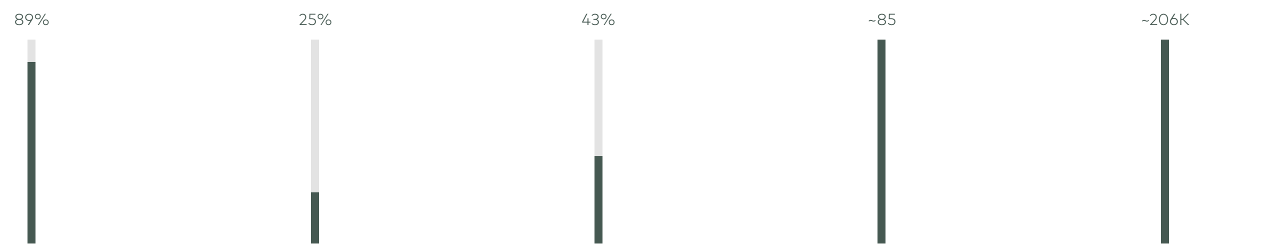
Programme members of total target customers

Upgrade rate versus estimated 10%

Sales growth during merchant campaigns

Special campaigns

Transactions with points per month +118% y-o-y growth



Digital ecosystems

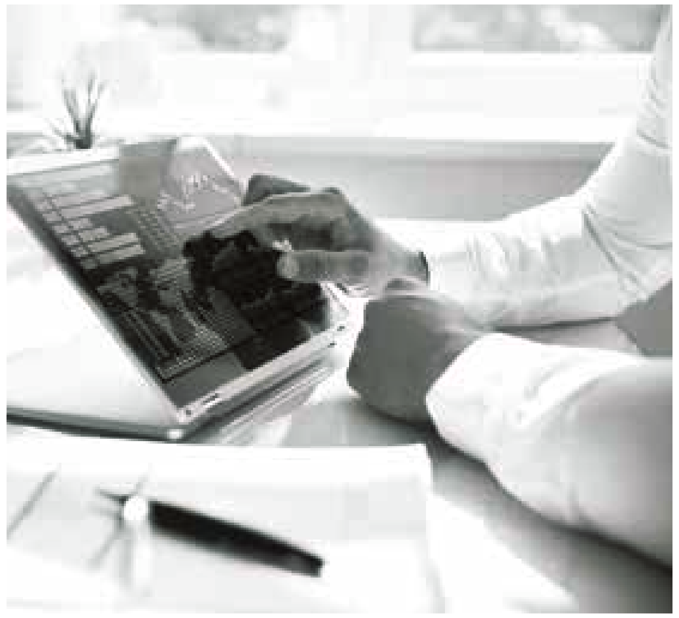
In addition to enhancing the banking experience through client-centric approach, we built a digital ecosystem which enables the Bank's clients to enjoy integrated solutions from our real estate ecosystem area.ge, and online marketplace extra.ge. Further details on the digital ecosystem can be found on pages 45 to 46 of this Annual Report.

Customer experience

In order to continuously improve on our achievements in creating a customer-based banking experience, we invested in a top customer experience management platform – Medallia. We intend to harness the insights gained from all involved parties and make customer interactions with our Bank even more fulfilling. Further details on this platform can be found on page 47.

Advanced analytics

Another significant aspect of our efforts to grasp client sentiment and act according to their specific and immediate needs, is the use of advanced analytics. In the times when client wallet-size estimation and building probability models using machine learnings algorithms are considered business as usual, we are going a few steps forward to implement a client churn management and move to a next-best-action and real-time marketing. In order to predict a churn, we use customer segmentation models according to a value, engagement level and product holding. With the help of additional trigger identification mechanisms and the models that assess probability of customer churn, we are able to design the products with retention power and use appropriate delivery channels for specific target groups. Monthly profit and loss balance trend for activated and deactivated clients reversed from negative to positive since March 2019. This indicator surpassed the break-even benchmark in June 2019, resulting in a cumulative net profit of GEL 6.7 million in the second half of 2019. In 2019, net loss would have amounted to c.GEL 16.7 million in the absence of the trend reversal. Actual annual net profit was GEL 2.3 million, thus realising a GEL 19 million opportunity gain.



SOLO – a fundamentally different approach to premium banking

The SOLO brand is used to serve the emerging mass affluent segment. Our new SOLO model was introduced in 2015. It is a fundamentally different approach to premium banking. As part of the new strategy, the Bank's SOLO clients are given access to exclusive products and the finest concierge-style environment at our specially designed SOLO lounges. They are also provided with new lifestyle opportunities, such as exclusive events and hand-picked lifestyle products. Measured by loan and deposit portfolios, our SOLO segment is technically the third largest bank in Georgia.

SOLO | leader in premium retail banking

Gross loans

GEL 2.2 BLN

+ 23.3% y-o-y

Deposits

GEL 2.2 BLN

+ 31.2% y-o-y

Market position

3rd bank in Georgia by portfolios

Number of clients

55K

ROAE*

22.2%

To qualify for SOLO services, a customer needs to have an income of GEL 3,000 per month. At SOLO lounges, clients are attended by personal bankers and, in addition to the banking products, are offered luxury goods and other lifestyle offers at cost, including a travel magazine and entertainment. SOLO organises concerts with world-famous artists. Such events are limited to SOLO clients and create additional interest in the SOLO franchise.

Profit per SOLO client reached GEL 1,640* in 2019, over c.21* times more than what we have in the mass retail segment under the Bank of Georgia brand. SOLO's gross loan book and deposit portfolio demonstrated impressive growth of 23.3% and 31.2% y-o-y, respectively, while profit increased by 42.5% y-o-y in 2019.

We successfully achieved our target of 40,000 SOLO clients by the end of 2018, up from 8,282 customers in 2015. As at 31 December 2019, SOLO serves 54,542 clients. The share of new customers acquired in 2019 accounted for c.27% of total SOLO clients at the end of the year, 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. This includes American Express Platinum card, which is available to SOLO Club members only. Since 2019, SOLO Club members can also enjoy a personal assistant service for lifestyle offerings. At 31 December 2019, SOLO Club had 5,482 members, up 43.3%.

* The 2019 profit and ROAE adjusted for one-off employee costs (net of income tax) related to former CEO and executive management termination benefits.

Thinking ahead of customer needs

Banking

Customer-centric approach maximisation

Lifestyle

Top affluent
Advisory services in banking and lifestyle solutions

Mass affluent
Personal banking and lifestyle offering

- **Education**
- **Travel**
- **Entertainment**
- **Health**

In order to further strengthen our client-centric model for SOLO clients, we created two internal sub-segments: top affluent and mass affluent clients. Each is offered tailor-made services in banking and lifestyle solutions that best correspond to their respective needs and lifestyles.

Given the exclusive character of SOLO, going forward we will mainly target growth through existing clients by increasing customer loyalty and engagement, and focus on maximising the profit per client and product per client measures.

We aim to **double our profits in three years' time to reach c.GEL 112 million** by harnessing our excellent customer service, increased digital offerings and tailor-made bundled solutions.

Mid-term key objective

Doubling profit in three years, reaching c.GEL 112 million, through

Excellence in customer service	Higher digitalisation	Tailor-made bundled offering

SOLO is actively diversifying the range of its lifestyle offerings in travel, entertainment, education and well-being to make the franchise even more distinguishable and enjoyable. In 2019, we introduced a range of new lifestyle offers in travel and healthcare. Our package tours in various countries were very well-received among SOLO clients.

In healthcare, we designed widely-popular insurance products against terminal diseases, whereby we offer direct reimbursement of expenses in predetermined amounts.

Micro, small and medium size enterprise lending

Bank of Georgia is dedicated to serving its MSME clients and offers them a wide range of financial services, combined with flagship onboarding, support and advisory programmes, and an increasing number of various digital channels that help MSMEs achieve more of their potential.

Our focus on creating new financial instruments for SMEs and offering them new solutions for their businesses has led us to develop the initiatives that aim to help our SME clients manage their business processes and needs more effectively. We acquired and developed a factoring software which will be the first and the only digital factoring solution in Georgia when we launch it in 2020. Moreover, we are in the process of testing a supply chain finance programme which aims to make business and financial processes less costly and more efficient to SMEs. In 2019, we introduced an innovative device Smart POS. It combines the functions of the traditional POS and cash terminals and enables our clients to save costs and get credit limits, based on both cash and card transactions.

In addition to being a go-to Bank for financial products, we strive to continuously offer the most effective and worthwhile banking experience to our SME clients. The onboarding process in Bank of Georgia requires only one visit and takes as little as an hour. During this time, SMEs can register their 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 plan to launch a digital End-2-End process for legal entities which will further simplify the onboarding process.

We successfully use the advanced analytics tools and technology necessary to have the fastest lending process for micro businesses. We centralised credit decision-making and introduced credit scoring, risk-based pricing and lending technology cards. This enables us to extend our services to rural clients as well.

The onboarding process for micro businesses, starting from the first meeting with the client and ending with the loan disbursement, lasts from 30 minutes to an hour.

Our goal is to continue our success in lending transformation and we actively work on further improvements in order to have a start-of-the-art lending process at the end of the journey. We support the onboarding process of our MSME clients with our flagship support initiatives, among which are: businesshub.ge, which contains advisory content for businesses; #icreate, where our clients can showcase their success; and Women in Business – a programme designed to offer businesswomen consulting services along the financial products.

We consider our multichannel coverage of MSME clients one of our biggest strengths. We have a strong presence in Georgia through our branch network, with 267 retail branches, 933 ATMs and 3,217 self-service terminals, and a superior call centre with sales competence. Moreover, we create digital products with the input and participation of our clients.

In 2019, the Bank offered its business clients a fully updated business internet bank (Business iBank). It enables them to use a single credential and navigate and manage multiple businesses and personal accounts. Moreover, in 2019, the Group launched Optimo – a digital solution for our MSME clients, designed to help them optimise their day-to-day operations and better manage their businesses in general.

Market share*

31.6% MSME

37.0% MICRO

26.8% SME

significant upside potential

Gross loans

GEL 2.7 BLN

+23.9% y-o-y

Deposits

GEL 808 MLN

+21.6% y-o-y

ROAE**

26.4%

* Source: internal estimation 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.

Going forward, our focus on client-centricity in the MSME sector will be even more profound. We plan to design a client segmentation scheme which will enable us to adjust our sales model accordingly and serve our clients based on their characteristics and needs.

In 2020, we opened a Bank of Georgia's Business branch, where well-trained relationship bankers will offer one-stop-shop banking and advisory services to our top SME clients. We are dedicated to helping them develop successful enterprises, which is why we plan to also include educational and advisory components in our services. The Business branch will be designed around a similar concept as the affluent segment in Retail Banking – SOLO – and will focus on creating outstanding banking experience for our clients, both in terms of innovative products and business-specific consulting services from a relationship banker. We aim to increase cross-selling opportunities between SOLO and SME segments, and already have a dedicated unit in place in order to tap into the existing potential in the SME market.

By the end of 2019, we had 220,603 MSME clients, up from 195,230 in 2018, and a loan book of GEL 2,697 million in 2019, up from 2,176 million in 2018.

Objectives

Bank of Georgia – a go-to bank for SMEs in need of a dedicated banking experience, high-class advisory services and expert knowledge of advanced financial products.

Strengths

One-stop onboarding	The most technologically advanced micro lending in Georgia	Support services	The largest multichannel coverage in the market

Case studies: supporting Georgian MSMEs

No12 Boutique Hotel opened in 2011 in the neighbourhood of Old Tbilisi. The hotel enjoys its central location and modern looks, mixed with a cosy atmosphere of a rural home. Over time, No12 Boutique Hotel gained popularity among tourists, while the owners acquired rich experience in hotel management. They further invested in another well-located hotel and a wine bar in one of the most popular tourist locations in Old Tbilisi. As their experience and expertise in the tourism industry grew, the owners made their next step in investing in a bigger-scale project. This is when they started working with Bank of Georgia. We financed the construction of their third hotel – g.Vino City Wine Hotel, which is in another central neighbourhood of Tbilisi.

Bank of Georgia is very supportive of the initiatives in the tourism sector and aims to make its contribution to it, as well as our clients, worthwhile.

We financed the enterprise from the funds raised from the European Bank for Reconstruction and Development within the DCFTA framework. The loan extended to our client benefited them with a special 15% of the loan cashback feature. This enabled them to reinvest the funds into the business. This is the type of cooperation we are always happy to enter into and see our clients become successful in what they do.

In Bank of Georgia we offer our MSME clients much more than funding. We support them in growing the expertise in their businesses, and connect with other knowledgeable people and potential partners. Bank of Georgia has been in partnership with EBRD for many years now. Together, we have offered technical assistance to a number of the Bank's clients, one of them being Women in Business. Within the framework of this programme, we support women entrepreneurs with funding and non-financial assistance. We have financed up to 3,000 projects since 2016, with a total volume of loans issued being around GEL 57 million.

In 2019, we organised a knowledge-sharing event for businesswomen where the Bank's Supervisory Board member Hanna Loikkanen shared her own 20 years of experience with the invited guests. She discussed women's role in business and economics, the difficulties and challenges they usually face, and how they overcome the hurdles.

In 2019, we financed our MSME clients' participation in Stockholm Food and Wine 2019. We also sponsored our clients in Vinexpo Bordeaux 2019. Our goal is to support Georgian wine businesses to expand to other markets, connect with important market players and potential clients. One of the important events in 2019 was in the agriculture sector.

The Bank financed its clients to participate in Sommet de L'Élevage in France. Such events are essential for Georgian farmers to meet the market leaders in the agriculture sector, get to know the best practices in production and efficiency, and establish crucial contacts. Exposing Georgian enterprises to the worldwide markets opens up the opportunities to learn, improve and expand. It benefits not only the businesses, but also the economy as a whole.

In 2019, we supported a number of award ceremonies, conferences and training. We will remain active supporters of MSMEs, both in financial and non-financial terms.

Corporate and Investment Banking

With c.2,700 clients by the end of 2019, Bank of Georgia's Corporate and Investment Banking (CIB) is a leading provider of corporate banking solutions in Georgia. Our CIB franchise leverages its best-in-class expertise in product design and 360° view of every client to execute profitable transactions for the Bank and offer excellent services to clients. Given our scale, a rich portfolio of banking products and services, and industry and the product expertise that we possess, we are a universal bank of choice and top-of-mind adviser for Georgian corporates. We also believe that our people are our most differentiating asset and we are proud to be the employer-of-choice for the best talent in the country.

CIB's net loan book reached GEL 3.8 billion at 31 December 2019, up 45.3% y-o-y, while the growth on a constant-currency basis was 37.4% y-o-y. The top ten CIB client concentration was 9.9% of total loan book at the end of 2019, compared with 9.8% at 31 December 2018. While aiming for a healthy growth of the Corporate and Investment Banking loan book, Bank of Georgia will continue to prudently manage the concentration risk so that the exposure to its top ten clients is maintained around 10% of the total loan book. We assembled a dedicated team to focus on smaller size corporates that we believe drive sustainable growth in our business. CIB works on an originate-to-distribute model, which enables us to improve portfolio risk-return by freeing up capital and supports growth in fee income through syndications. Moreover, major infrastructure spending from the Government of Georgia in 2019 contributed to our success in the fee business from trade finance operations. Continued focus on capital-light non-interest income supports our ROAE, given limited credit risk involved. CIB's loan portfolio is targeted to grow by c.15%, and we aim for profitability in terms of a ROAE to be at 20%+.

We are planning to boost our fee and commission income through corporate advisory and brokerage services from our subsidiary Galt & Taggart – a leading investment bank and a brokerage house in Georgia. Galt & Taggart is actively involved in developing local capital markets, and for years has provided services to a number of corporate clients and DFIs, and assisted them with placing their bonds on the local stock exchange.

Galt & Taggart plans to expand its advisory business. There is an untapped potential in currently nascent M&As, where Galt & Taggart is the leading adviser. The market players increasingly appreciate the need for involvement of a qualified advisor. In this regard, Galt & Taggart actively conducts various business sector analyses and holds constant dialogues with clients to identify opportunities for potential transactions. It is widening its international network of partners, which makes M&A transactions more likely to succeed. Galt & Taggart works very closely with the rest of CIB to deliver complete advisory solutions to the most complex corporate clients in the country.

In 2019, Galt & Taggart co-managed an international Additional Tier 1 bond issuance totalling US$ 100 million by Bank of Georgia. In 2019, Galt & Taggart facilitated c.GEL 320 million local public and private bond issuance of several IFIs and the placement of c.GEL 205 million local public bonds of several Georgian corporates and microfinance organisations.

Galt & Taggart aims to further encourage and facilitate more transactions in equity, as well as debt capital markets in Georgia, by raising awareness of capital market instruments as an alternative solution to investing and raising funds. Galt & Taggart is expanding its cooperation with JSC Bank of Georgia's SOLO premium segment and Wealth Management. At the same time, it is working on attracting new potential retail, as well as institutional investors.

Gross loans

GEL 3.9 BLN

+40.5% y-o-y

Deposits

GEL 3.8 BLN

+10.1% y-o-y

Market share* – loans

31.0%

Market share* – deposits

30.9%

ROAE**

25.6%

Strengths

Syndications and capital markets powerhouse	Top-of-mind adviser	Universal bank of choice	Attract best talent

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

In research, Galt & Taggart expanded the coverage area of Georgian economic sectors, so that its clients have a whole spectrum view of the country's investment potential. In 2019, Galt & Taggart published over 90 reports and had over 6,000 subscribers.

In order to provide clients with access to global capital markets and enable them to invest on a multi-asset basis, Galt & Taggart has partnered with Saxo Bank since 2015. The partnership with Saxo Bank enhances the trading experience of our clients by offering them the latest trading technology and an opportunity to directly access financial markets. In 2019, Galt & Taggart served over 3,000 clients and a trading volume reached US$ 930 million.

Corporate and Investment Banking business also provides leasing services through the Bank's wholly owned subsidiary, GLC. The company offers various types of financial products that are customised to different segments, such as small and medium size businesses and low, medium and high income individuals.

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

Case study: supporting Georgian corporate sector

Since Zodi was founded in 2007, the company has been one of the leading importers and producers of construction material in Georgia. The main business directions of the company include: import and retail sales of interior and exterior doors; natural stones (marble, granite, quartz, travertine); as well as repair materials. The company manages six showrooms in Tbilisi and throughout Georgia (Marneuli, Rustavi, Gori, Kutaisi and Zugdidi).

In 2017, with the funding received from Bank of Georgia, Zodi opened a new showroom in Tbilisi.

In the second half of 2018, Zodi started working on the idea of opening a Georgian natural stone (granite, tuff, dibasic basalt and limestone) factory that would offer high-quality and competitively priced Georgian stone materials to the market. With the help of Bank of Georgia, in cooperation with the Government agency Enterprise Georgia, the idea was successfully realised in 2019. The company now operates a factory equipped with modern Italian, Turkish and Chinese machinery, and has an annual capacity of 50,000 square metres.

Wealth Management

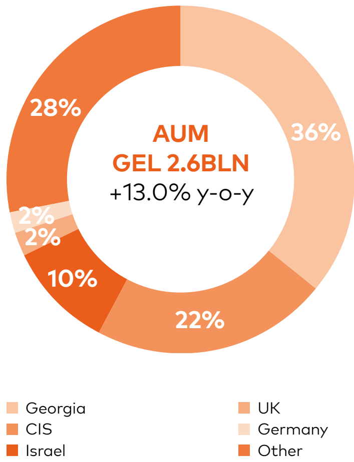
Bank of Georgia's Wealth Management is a private banking arm of our Corporate and Investment Banking, which serves high-net worth individuals and offers investment management products internationally through representative offices and subsidiaries in London, Budapest, Istanbul and Tel Aviv. Since its launch in 2005, our customer base in Wealth Management increased to 1,557 clients from 77 countries and the Group's assets under management (AUM) increased to GEL 2,567.2 million at 31 December 2019, up 13.0% y-o-y.

In January 2019, Bank of Georgia opened a new office in the centre of Tbilisi, which is dedicated to serve our Wealth Management clients. A brand identity for the Bank's Wealth Management is based on the virtues of both Georgia and the Bank itself. The country offers a number of advantages such as stability, a liberal tax system, innovative financial services, a growing economy and security to international investors.

Bank of Georgia is a leading bank that delivers strong returns, constantly innovates and is known for reliability. Our strategic focus in Wealth Management is to turn it into a regional hub for private banking and extend its client base to nearby countries. A stable business environment in Georgia and Bank of Georgia's reputation and expertise make it a perfect bank for affluent individuals to do business with. Bank of Georgia is a digitally strong bank, but we always apply a tailor-made human approach where the needs of our clients are concerned.

Our goal is to become a regional hub for Wealth Management offering, and achieve a US$ 3 billion AUM as of 2024. We plan to achieve this target by reinforcing our Wealth Management product and lifestyle offerings through a wide range of sales and marketing initiatives. Among a number of products, our offering includes local high-yield bonds, global investments, special offers for Wealth Management clients, private equity deals in Georgia, tax and legal advisory, and investments through tax-efficient structure in Georgia. Our lifestyle offerings include concierge services, and offerings from local hotels and premium travel agencies. We aim to leverage our network of referral agents worldwide and partner with brand ambassadors and services companies in order to promote the country and Bank of Georgia.

Strong international presence



Increase AUM from US$ 0.9bln to US$ 3.0bln in five years' time

Strengths and objectives

- Business and tax-friendly environment
- Secure and attractive destination
- Stable banking sector and conservative regulations
- Market dominated by two LSE listed banks with high standards of transparency

Brand new office in the centre of Tbilisi, since January 2019, dedicated to serving our Wealth Management clients

Digital Banking Experience

Bank of Georgia regards the digital experience in modern banking as inherent to its own identity and strategy. We have actively invested in information technology solutions to offer our retail and corporate clients best-in-breed digital banking channels that help to make their everyday lives and businesses easier and more successful. In order to remain relevant and up-to-date with today's ever-increasing preferences in digital solutions, we observe the latest trends and practices, analyse potential novelties and quickly turn knowledge into the services our clients' need.

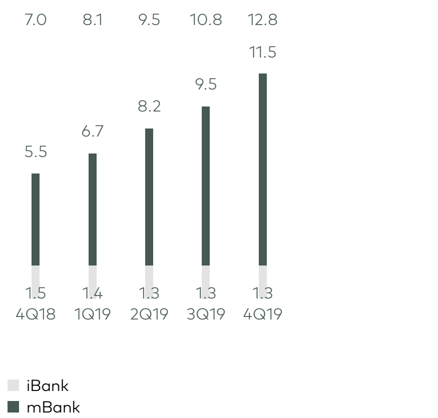
Internet banking

In 2019, we released a brand new business internet banking platform (iBank for Business) for our MSME and corporate clients. It comes with plenty of handy features designed to make its use an intuitive and smooth experience. Many of the existing features were redesigned, while a number of new ones were added. We focused our efforts on making the iBank for Business even more useful for business transactions, accounting, payments, money transfers and administration.

Mobile banking

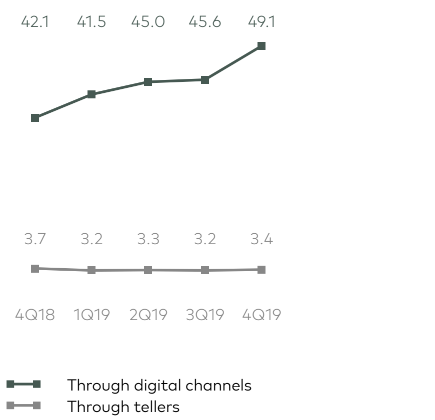
Since the Bank launched its mobile banking application (mBank) platform in 2017, we consistently boosted its capabilities and usefulness. In 2019, we added a personal finance manager (PFM) tool in partnership with Strands – one of the leading PFM service providers in the world. PFM is a useful instrument for analysing and categorising revenues and expenses. Using the underlying data, PFM studies the financial behaviour of the user and offers recommendations based on the findings. The partnership with Strands enabled us to harness the practical and technical experience underlying the instruments that we integrated into our mBank.

Number of mobile and internet bank transactions



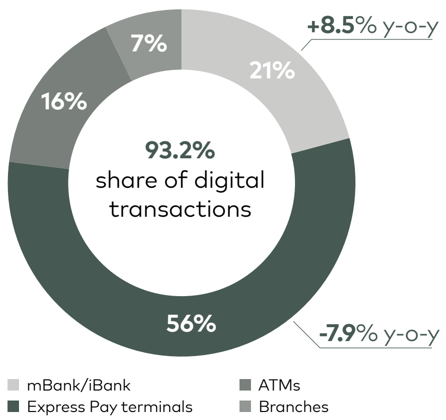
Numbers are in millions

Digital versus non-digital transactions



Numbers are in millions

Transactions breakdown by channel | 2019



Open Banking strategy

Since we introduced BOG Fintech – a strategic direction established in 2018 under the Bank's Open Banking strategy – we have been actively supporting fintech, open banking and other technology related events. The open banking concept creates new opportunities for innovators to create new technology-based financial services for customers. It opens up IT infrastructure and new resources for fintechs to create innovative services, in partnership with the Bank.

Bank of Georgia's BOG Fintech is the first step towards the implementation of open banking concept in Georgia. It consists of three main pillars: supporting the fintech community; application programming interface (API) services; and supporting startups.

In 2019, BOG Fintech served as a general sponsor of DevFest Tbilisi, which is part of Google's annual developer festival held worldwide. We also co-sponsored Startup Grind in Tbilisi – the largest international network of startup founders. In 2019, we partnered with organisations like Google Developers Group Tbilisi, Startup Grind Georgia, Dribbble Georgia, Data Science Tbilisi, Touch Digital Summit and Product Tank Tbilisi. Moreover, in 2019 we organised a Fintech Hackathon where up to 20 teams participated. We will remain committed to supporting technology events in the future.

In 2019, we started cooperating with the National Bank of Georgia and the Office of the Personal Data Protection Inspector of Georgia regarding the possible upcoming open banking regulations in Georgia.

Omni-channel experience

In 2019, as part of our omni-channel digital experience strategy, we completely redesigned and revamped Bank of Georgia's primary website – www.bankofgeorgia.ge – and made it more comprehensive and useful. The updated website is a one-stop-shop space for all products and services that Bank of Georgia offers. Importantly, the website comes with fully integrated digital platforms for both our retail and corporate clients. With a single login, a client can navigate to any of the digital platforms he or she desires. Once logged in, a client can easily apply for any product from the menu and, since the client's data automatically flows from other digital channels, filling in the application has never been easier. To make the experience even more worthwhile, the website offers product comparison pages, calculators, currency conversion widgets, GPS location, and more.

iPay is an innovative e-commerce solution, based on a so-called open ID principle. The single authorisation parameters mentioned above can also be applied for login into non-Bank digital channels and websites, provided they have this solution integrated into their systems. In this case, our clients can perform purchases by simply using their account or even accumulated Plus+ loyalty programme points.

We also expanded our efforts to improve user experiences to the ATMs and Pay Boxes. We completely replaced the interface design of our ATMs with a more modern look and made the user experience much simpler. As for Pay Boxes, we added a smart ordering function that analyses the most popular services on each machine at each location and automatically orders the most frequently used service providers so that they are just one click away. Plus+ loyalty programme platform has been entirely updated as well. We added experiences to the catalogue of items that our clients can choose to have in exchange for their plus points.

Solutions-based Banking – Digital Ecosystem

In order to enhance our client-centric offering, we have developed a digital ecosystem with a number of integrated platforms aimed at providing the valued-added solutions to our clients in addition to the financial services they receive from the Bank. Currently, our digital ecosystem rests on two pillars: retail and MSME.

Under the retail pillar, we launched two platforms in 2019 – real estate platform area.ge and online marketplace platform extra.ge.

area.ge offers a single space for the more convenient, timely and efficient interaction and information exchange for all stakeholders involved in buying, selling, renting and developing real estate in Georgia. The platform stands out, with the most up-to-date, comprehensive and reliable offerings in the Georgian real estate market. It is the first platform that is fully integrated with the Bank to provide its users a one-click live credit limit appraisal and mortgage application experience. area.ge is a technologically advanced real estate platform that offers its clients a new standard of online services, web search and navigation, and credibility of its offerings. Our main goal is to bring together all real estate stakeholders, namely, the agents, developers, landlords, renters, buyers and funding providers under a single umbrella and offer them a unique opportunity to communicate, stay informed and execute the best possible transactions. area.ge is equipped with customer propensity detecting systems that enable us to show our clients tailor-made offers within their financial capacity and deliver superior customer experience.

During 2019, more than 1,500,000 unique visitors and over 600 developers and real estate agencies were registered, and mortgage leads with the value of more than GEL 80 million have been generated through area.ge since its launch in March 2019.

In the second quarter of 2019, we acquired a leading Georgian e-commerce platform, **extra.ge**. Previously, the platform facilitated consumer-to-consumer (C2C) sales through its website and social media channels. Since the acquisition in May 2019, the extra.ge is being upgraded to support the marketplace with business-to-consumer (B2C) and business-to-business (B2B) sales, already having a network of the 100+ largest vendors onboard supporting its new strategy. As a result, the platform has grown to 109,000 registered users and up to two million unique visitors.

We are in the process of transforming the platform into a vibrant and dynamic full-scale digital marketplace and the full-scale re-launch is planned for the first quarter of 2020. The revamped extra.ge will facilitate C2C, B2C, and B2B sales through its website and social media channels. In 2020, we will target up to 600,000 unique visitors per month buying and selling c.100,000 unique products and services via the platform. The clients will be able to access their Bank of Georgia banking products in a fully integrated way – extra.ge will be integrated with the Bank's current flexible single sign-on and payment system, and will offer the Bank's pre-approved instant instalment loans to enable its customers to purchase selected products. The Bank's retail and MSME clients will enjoy the excellent opportunities of a new consumer experience and doing business in a dynamic and flexible digital marketplace.

Under the MSME pillar, we launched **Optimo** in 2019 – a digital solution for our MSME customers to run their business sales and solutions.

The platform is designed to address the needs of micro, small and medium size enterprises in optimising their day-to-day operations and better managing their businesses in general.

Optimo's cutting-edge digital inventory management and POS solution, with integrated software and a rich variety of functions and analytical tools, enables businesses to easily manage sales and inventory, as well as access their most recent data on sales transactions, inventory, revenues and profitability, anytime and anywhere, and make timely decisions with relevant information at hand.

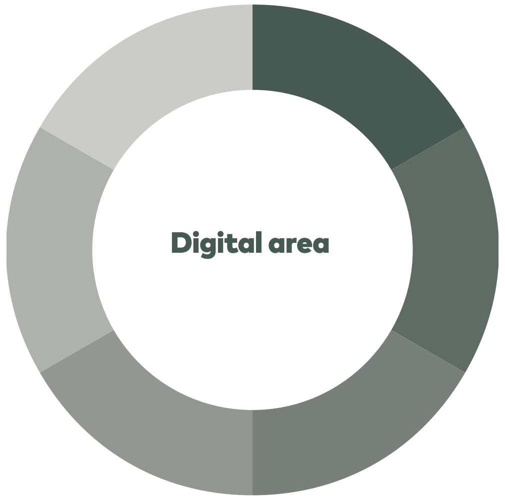
Digital area ecosystem at a glance

MSME

Merchant services
- Lite and modular solutions
- All-in-one solution (hardware + software)
- AI-driven offers
- Business loan pre-qualification

HR solutions
- Lite and modular solutions
- Open API model
- Streamlined HR operation
- AI-based performance management

Business intelligence/ accounting
- Lite and modular solutions
- Open API model
- Advanced visualisations
- Tailored to MSMEs



Retail

Real estate ecosystem
- AI-optimised content
- Advanced real estate estimation
- Mortgage loan pre-qualification
- Remodelling and interior design

Online marketplace
- Advanced search/comparison
- AI-optimised content
- Consumer loan pre-qualification
- Utilisation of BOG merchant networks

Auto ecosystem
- AI-optimised content
- Cross-selling (e-commerce, leasing, dealerships, etc.)
- Auto loan pre-qualification
- Advanced vehicle inspection

Current standing and next steps

Since 2019

- area.ge full-scale launch
- extra.ge acquisition and beta launch
- Merchant services full-scale launch
- Auto ecosystem active development in progress

Coming soon – 2020

- extra.ge full-scale re-launch
- Auto ecosystem full-scale launch
- HR solutions MVP launch
- BI/Accounting MVP launch

Customer Experience Management with Medallia

One of the important pillars of the success of our new strategy is customer satisfaction. Last year, we invested in the leading customer experience management platform, Medallia, which helps us to operationalise our customer experience efforts, capture and prioritise large amounts of customer feedback and understand it in real-time, deliver advanced insights and drive actions to improve customer experience.

The objective of customer experience management is to:
- engage every customer through capturing their input across the journeys and channels;
- efficiently 'close the loop' for every customer to resolve any open issues and generate actionable insight;
- engage every employee by providing them with timely data and tools to act promptly; and
- improve every experience through identifying root causes and improving experiences across every step of customer lifecycle.

As we are moving towards a more customer-centric culture, a 360º view of our customers' voice and ability to act timely on our customers' feedback becomes crucial in our employees' daily life.

We first launched Medallia in digital channels in October 2019 and expanded it to the call centre and branches in March 2020. In each channel and journey step, we capture customer feedback that provides us with the NPS and CSAT scores, as well as the main drivers of each score that we monitor on a daily basis on Medallia platform. Further insights are obtained through efficient 'close-the-loop' process that helps us to provide our customers with on-the-spot resolution, or identify the root causes of the issues.

Highly qualified team was selected to complete all interactions for digital surveys. As for the branches and call center, branch managers or team leads are the owners of the 'close-the-loop' process and ensure that our customers get the best experience, and that feedback reaches the relevant team as quickly as possible.

So far, we have seen the 17% response rate from our clients, which is significant, based on the worldwide practice, and 71% response rate on 'close-the-loop' process. The vast amount of the feedback coming from our customers helps us to be constantly aware of our progress and further development opportunities. Multiple improvement projects have been identified and implemented based on the customer feedback since October 2019. Customer voice also provides us with important insights on coaching and training needs for our employees, which is crucial for successful customer experience management with Medallia.

Efficiency in Processes

Efficiency gains – agile transformation

In order to successfully deliver on our business targets, we have invested in enhancing project delivery effectiveness by further integrating IT and business. Since we started the agile transformation in 2018, our goal has been to better meet client needs and business requirements, while improving service quality and increasing transparency around resource allocation. Instead of following a traditional (waterfall) model, where the organisation structure is divided into functional silos which are managed top-down, we decided to become an agile company, where cross-functional teams are formed around a unified purpose. These teams are collectively responsible end-to-end for their products and services, with one product owner – a person who is empowered to make decisions on the product backlog. In an agile model, product development is done incrementally and iteratively, releasing working products as soon as possible and continuously collecting and processing feedback from end users. These cross-functional teams have shared KPIs which incentivises striving together towards a common goal, rather than following potentially contradicting KPIs for each manager, team member or function.

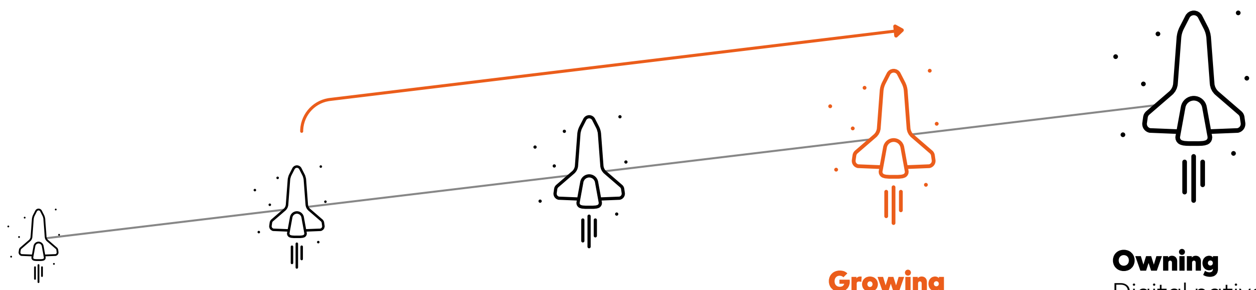
In May 2019, the agile transformation was fully rolled out. In 2019, we created 34 cross-functional teams with more than 300 employees working in the agile delivery model, and set up a corporate culture that empowers the teams. In order to reduce time-to-market, we frequently deploy and develop minimum viable products (MVPs) and incorporate regular customer feedback. Our purpose is to optimise the prioritisation process for product development alongside enhancing the quality and stability of software delivery.

Our ambition is to transform the Bank towards an integrated digital delivery model which uses next-generation technologies to integrate and automate work processes and connect the stakeholders for a project throughout its lifecycle to the development team. The goal is to minimise redundancy and maximise interoperability between the teams.

Processes | Agile transformation

Fully integrated enterprise agile delivery

Structure | **Process** | **People** | **Technology**



Improvising
Traditional, incumbent bank

Doing
Banks experimenting with agile

Being
Banks with first digital labs

Growing
Leading digital bank (e.g. ING)

Owning
Digital native player (e.g. Spotify, Google)

- Focus on customer experience
- Improve delivery efficiency
- Reduce time-to-market
- Empower self-organised teams around products and digital channels
- Leverage next-generation technologies and fully automate processes

Efficiency gains – optimisation project Lean

Since 2018, Bank of Georgia has captured efficiency opportunities from the project Lean, which focuses on the transformation and optimisation of the operations in three areas of the Bank: service centres, processes and functions.

Transformation of the service centres has been carried out with the purpose of increasing the number of customers served and products sold to them. Currently, all of the flagship branches of the Bank have been transformed to become more productive and efficient in their services. We set up a queue management system to improve customer experience, and increase client satisfaction and retention rates by offering speedier and higher quality services. As a result, 98% of the clients entering a transformed service centre are served, while the figure before the optimisation used to be 83%. We introduced frequently revised shorter-term key performance indicators for our bankers, which are aimed at boosting sales by increasing the number of clients served and products sold per banker ratios. As a result, the sales in transformed service centres increased by 20%. Client satisfaction also saw a positive trend having reached 90%, in line with our future target of 95%.

We have optimised the way we process mortgage applications in Retail Banking, and loan applications in Corporate and Investment Banking. In order to efficiently utilise the time and human resources needed to process mortgage applications and reduce the number of errors to a minimum, we introduced standard operating procedures and checklists. As a result, we decreased the number of errors by 50%.

In addition to applying new procedures, we also updated the flow of application processing, which now includes a Time to Yes concept and allows us to inform clients of the outcome of their application within an hour from its submission. Overall, our goal was to decrease the amount of time needed to process a mortgage application from 7.5 days to only three days. Currently, this number stands at four days.

In addition to transforming the processes in order to achieve a more efficient utilisation of resources, we have also optimised the functions in several departments and plan to work with others in the near future. We have improved the efficiency of task flows in the operations support unit and streamlined the processes in the cash and securities settlements unit.

We have also reshuffled the functions in corporate lending, so that the corporate bankers increasingly focus more on sales and relationships with clients. Moreover, we freed SOLO branches from back office functions, which we instead centralised in the headquarters of the Bank.

In 2019, we focused our efforts on SOLO and SME segments. In SOLO, we optimised the lending processes in mortgages and centralised SOLO business lending. These processes are now speedier and more effective which, in turn, increases client satisfaction levels. In order to achieve the efficiencies in functions in SOLO, we moved the remaining non-core workload, such as transaction services, from the SOLO bankers to back office so that the bankers have more time for quality interactions with the clients.

One of the most important milestones in 2019 was creating a Credit Administration Hub which incorporates all the competencies necessary for the contracting phase in SOLO and SME segments. By moving the contract administration to the back office under the single hub, the contracting process has become swift and streamlined, and the number of iterations between the bankers and the lawyers has been reduced to one.

Processes | Lean transformation

Customer satisfaction

- Branches

Streamlined processes – e2e

- Guarantees issuing process
- POS terminal process
- Credit info process
- SOLO business lending
- Branches
- Mortgage
- SOLO lending
- CB lending
- Chancellery
- Micro lending
- SME lending
- HR
- Logistics

Efficiency in functions

- Back office
- HR function
- SOLO
- WM & G&T
- RB support
- Procurement
- SME
- Cash centre
- BNB back office
- CB function
- Contact centre
- Onboarding
- Micro Banking
- Partner relationship

Cost savings: GEL 7.7 million

- Finalised projects
- Ongoing projects

Another significant source of efficiency gains created in 2019 is our Service Support, which enables our SME bankers to focus primarily on sales and client relationships. Prior to this, SME bankers were involved in solving the day-to-day incidents reported by our SME clients, which consumed much of their resources. Our Service Support team covers 98% of the reported incidents within a day and a half.

In 2020, we intend to add the SOLO segment to Service Support.

A new onboarding process established in 2019 for the legal entities is another success worth mentioning. In 2019, we set up a specially designated team in the back office, which oversees the current account requests submitted by the legal entities. By doing so, we reduced the time necessary for a legal entity to open an account by 60%.

In order to speed up the process, we started cooperating with the Public Registry. By the second quarter of 2020, we aim for 90% of the account requests to be satisfied within ten minutes. Our next step in this project will be to take the back-end of the onboarding process online.

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 c.US$ 1.2 billion from international finance institutions and investment funds.

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

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.

Over the last four 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 billion. At 31 December 2019, the Group's local currency deposits were 30.7% of the total deposits, down from 32.5% in 2018. The loan book larisation reached 41.5% of the total loan portfolio, compared with 38.3% in 2018.

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 3.0% in 2019, down from 7.5% in 2010;
- cost of funds 4.6% in 2019, down from 8.2% in 2010.

Galt & Taggart brings corporate advisory, debt and equity capital markets research and brokerage services under one brand, and continues to develop local capital markets in Georgia. We are a leader in the local capital market industry through Galt & Taggart and Bank of Georgia custody:

- GEL 1.9 billion local bonds placed by Galt & Taggart since 2014;
- The only international sub-custodian in the region through State Street, Citi and Clearstream Bank Luxembourg.

In 2020, Global Finance Magazine named Galt & Taggart Best Investment Bank in Georgia for the sixth consecutive year.

In March 2019, Bank of Georgia issued its inaugural US$ 100 million 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 at an issue price of 100.00%. The notes are listed on the Irish Stock Exchange and rated B- (Fitch Ratings). The issuance was the first international offering of Additional Tier 1 Capital Notes from Georgia and the South Caucasus region. Basel III regulations recently introduced in Georgia now enable this type of capital optimisation and this US Dollar issue provided the Bank with an opportunity to diversify the capital structure from a foreign currency perspective and provided a natural hedge against the dollarisation in the economy. The regulatory approval on the classification of the notes as Additional Tier 1 instruments was received in April 2019.

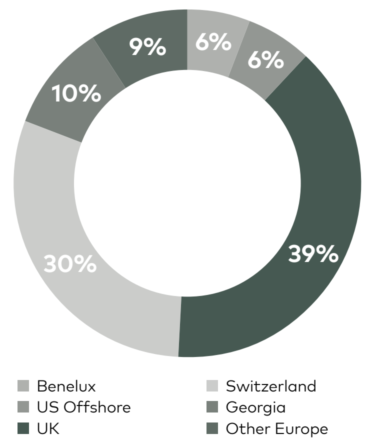
Strengthening capital position to enable the realisation of the potential upsides

Bank of Georgia issued inaugural Additional Tier 1 Capital Notes

Transaction highlights

Notes	US$ 100 million, 11.125% perpetual non-call 5.25 year AT1 notes
Listing	Irish Stock Exchange
Notes rating	Fitch BB-
Joint lead managers/ bookrunners	J.P. Morgan, UBS
Co-manager	JSC Galt & Taggart

Investor allocation by region



Transaction highlights

The transaction marks the first ever AT1 transaction from Georgia and the first AT1 issuance from CIS since January 2018

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

The transaction added approximately 230 basis points to the Bank's Tier 1 capital ratio at the time of issuance

Bank of Georgia signed subordinated Tier 2 loan facility

In December 2019, Bank of Georgia signed a ten-year US$107 million subordinated syndicated loan agreement arranged by FMO – Dutch entrepreneurial development bank (FMO) in collaboration with other participating lenders including DEG – Deutsche Investitions- und Entwicklungsgesellschaft, the Finnish Fund for Industrial Cooperation Ltd, Obviam, on behalf of the Swiss Investment Fund for Emerging Market (SIFEM), the Swedish Development Finance Institution – Swedfund International AB, BlueOrchard Microfinance Fund (BOMF) and Symbiotics Group. The already disbursed portion of US$ 52 million has been included in the Bank's Tier 2 capital by the approval of the NBG under the Basel III framework since December 2019. The remaining undrawn portions are similarly expected to be included into the Bank's Tier 2 Capital subject to disbursement and the relevant the NBG approvals. The facility further improves the overall capitalisation of the Bank under the Basel III regulations and will support further lending growth while maintaining strong capital ratios.

Overall, in 2019, we raised a total of US$ 227 million in support of our capital position and greater ability extend financing to our clients.

Key Performance Indicators

Strong results driven by solid performance across all segments

The Group's KPIs for 2019 reflect a continuing strong performance in the Group's Banking Business, demonstrating excellent customer franchise growth with solid margins, a strong balance sheet growth and outstanding profitability.

The KPIs are closely aligned with our 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 72 to 79, materialise.

For more information on our financial results, see pages 98 to 113, and full financial statements on pages 168 to 289.

Profitability KPIs

Diversified revenue sources, a growing loan book, improved asset quality, disciplined cost management, and fee and commission income growth were the main drivers of the exceptional results in terms of profitability.

The substantial growth of the loan book in both Retail and Corporate and Investment Banking businesses, broadly stable individual product loan yields, decreasing cost of funds, and higher asset quality translated into 18.2% y-o-y increase in profit adjusted for one-off costs in 2019. The resulting strong growth in interest and non-interest income translated into 7.8% y-o-y growth in operating income.

Our increasing focus on lending in the mortgage segment and to finer margin corporate and MSME clients, has, however, led to a negative mix effect on overall loan yields and on the net interest margin, which was down by 90 basis points y-o-y in 2019.

In 2020 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.

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

514.2

2017	369.5
2018	435.0
2019	514.2

+18.2% 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, and cost of risk, non-recurring items and income tax expense.

Profit (reported)
(GEL million) Banking Business

500.0

2017	369.5
2018	378.6
2019	500.0

+32.0% y-o-y

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

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

26.1%

2017	25.2%
2018	26.4%
2019	26.1%

-30 bps 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.

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

25.4%

2017	25.2%
2018	22.9%
2019	25.4%

+250 bps 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.

Basic earnings per share
(GEL) Banking Business

10.45

2017	9.63
2018	8.72
2019	10.45

+19.8% 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 excludes GEL 56.4mln (net of income tax) demerger-related expenses, one-off impact of re-measurement of deferred tax balances and one-off employees 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 our IT, digital and data capabilities, as well as in marketing and branch network, has contributed to higher operating expenses in 2019, up 10.9% y-o-y in 2019 excluding one-off costs. However, this investment is translating into both strong franchise growth and profitability. This has already been reflected in a significantly higher number of mobile banking transactions, which more than doubled during 2019 to 35.9 million transactions, as we continue to see a shift towards mobile banking from other channels. Overall, more than 93% of daily transactions of individual customers are now performed through digital channels.

Starting from 2018, we implemented agile delivery in our information technology arm, which aims to optimise the workflow and coordination processes, and increase end-product quality and usefulness. In 2018, the Bank also introduced a Lean project, which improved back office procedures, and introduced end-to-end process optimisation in the businesses. All these initiatives are directed towards utilising further upsides in potential efficiencies.

Going forward, we expect to improve our cost to income ratio towards our targeted 35% level.

Cost to income ratio (adjusted)* — Banking Business

37.8%

2017 37.7%
2018 36.7%
2019 37.8%

+110 bps y-o-y

Operating expenses divided by operating income.

Operating leverage (adjusted)* — Banking Business

-3.2%

2017 -0.1%
2018 2.9%
2019 -3.2%

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

38.9%

2017 37.7%
2018 36.7%
2019 38.9%

+220 bps y-o-y

Operating expenses divided by operating income.

Growth KPIs

Net loan book growth — Banking Business

27.0%

2017 15.9%
2018 21.4%
2019 27.0%

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

The 27.0% loan book growth in 2019 was driven by 18.5% growth in Retail Banking business loan book and 45.3% increase in the Corporate and Investment Banking loan book. We expect customer lending growth for the medium to long-term to be at around c.15%.

Asset quality KPIs

Our asset quality improved significantly in 2019, primarily reflecting the new regulatory environment, as well as our prudent application of the Group's risk management policies, good lending discipline, lower-risk portfolio and the ongoing strength of the Georgian economy. Cost of credit risk ratio decreased from 1.6% in 2018 to 0.9% in 2019. NPLs to gross loans improved from 3.3% at the end of 2018 to 2.1% at the end of 2019, while NPL coverage ratio decreased from 90.5% in 2018 to 80.9% at the end of 2019.

Cost of credit risk ratio — Banking Business

0.9%

2017 2.2%
2018 1.6%
2019 0.9%

-70 bps y-o-y

Cost of credit risk ratio equals expected credit 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.

NPL coverage ratio adjusted for discounted value of collateral — Banking Business

139.6%

2017 130.6%
2018 129.9%
2019 139.6%

+9.7 ppts y-o-y

NPL coverage ratio adjusted for discounted value of collateral equals allowance for expected credit loss/impairment loss of loans and finance lease receivables divided by NPLs (discounted value of collateral is added back to allowance for expected credit loss/impairment loss).

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

Capital KPIs

At 31 December 2019, our Basel III Common Equity Tier 1 (CET1), Tier I and Total Capital Adequacy ratios stood at 11.5%, 13.6% and 18.1%, respectively, all comfortably above the minimum required levels of 10.1%, 12.2% and 17.1%, respectively. The risk-weighted assets increased by 22.3% y-o-y at 31 December 2019, reflecting the increase in interest earning assets during the year. 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 environment.

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.

Tier 1 capital adequacy ratio, (NBG, Basel III) — Bank of Georgia

13.6%

2017 12.4%
2018 12.2%
2019 13.6%

NBG (Basel III) Tier I capital adequacy ratio equals Tier I 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

2017 7.3
2018 7.2
2019 7.6

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

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 the ENPS score in 2019 and will continue to monitor the measure once every six months.

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

Net Promoter Score (NPS) — Bank of Georgia

42.3%

2017 27.4%
2018 38.8%
2019 42.3%

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.

Customer satisfaction (CSAT) — Bank of Georgia

28.1%

2017 25.0%
2018 25.3%
2019 28.1%

CSAT asks: on a scale of 1-5, how satisfied are you with a particular channel or a parameter? The final result is the percentage of the respondents that reply with 5 from the total number of the respondents.

Employee Net Promoter Score (ENPS) — Bank of Georgia

46.0%

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.

Risk Management

Statement by the directors in performance of their statutory duties in accordance with Section 172(1) Companies Act 2006

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).

Steps the Board has taken to meet its Section 172 responsibilities:

- The Board agenda has been revised in 2019 to include further information for Directors on each of the provisions of Section 172 within the Act.
- Directors received refresher training on Section 172.
- The Board has focused in 2019 upon long-term value generation opportunities, taking into account likely macroeconomic changes and their impact on 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 has actively engaged, both as a whole and on an individual basis, with employees across the Group, with a view to further understanding their views. This will continue to be developed over the course of 2020.
- In 2018, we appointed Hanna Loikkanen as our dedicated Non-Executive Director responsible for workforce engagement.

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 the Bank of Georgia Group PLC.

The Board also encourages management to consider and bring to the Board's attention Section 172 matters, and has requested management bring to the Board's attention relevant Section 172 matters by clearly flagging them when presenting or submitting a paper to the Board, particularly when a decision is required which will significantly impact our stakeholders.

Further information on how we engage with our shareholders, and wider stakeholder engagement, including a number of case studies highlighting specific examples of engagement and relevant actions by the Group, can be found in the following sections of our Annual Report:

How we engage with our shareholders	page 121
How we engage with other stakeholders	page 122
Our customers	pages 87 to 89
Employees	pages 91 to 95 and pages 118 to 119
Government and regulators	page 122
Local communities, including volunteering and charitable giving	pages 89 to 91
Voting agencies	page 122

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 72 to 79 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.

Our Audit and Risk Committees monitor internal control over operating and compliance risk through discussions with the Bank's Deputy CEOs – Chief Risk Officer and Chief Operating 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 ad hoc 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 2019 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 2019, 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 137 to 142 and pages 143 to 145, 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 pages 80 to 81.

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.

The role of the Bank in the overall risk management structure

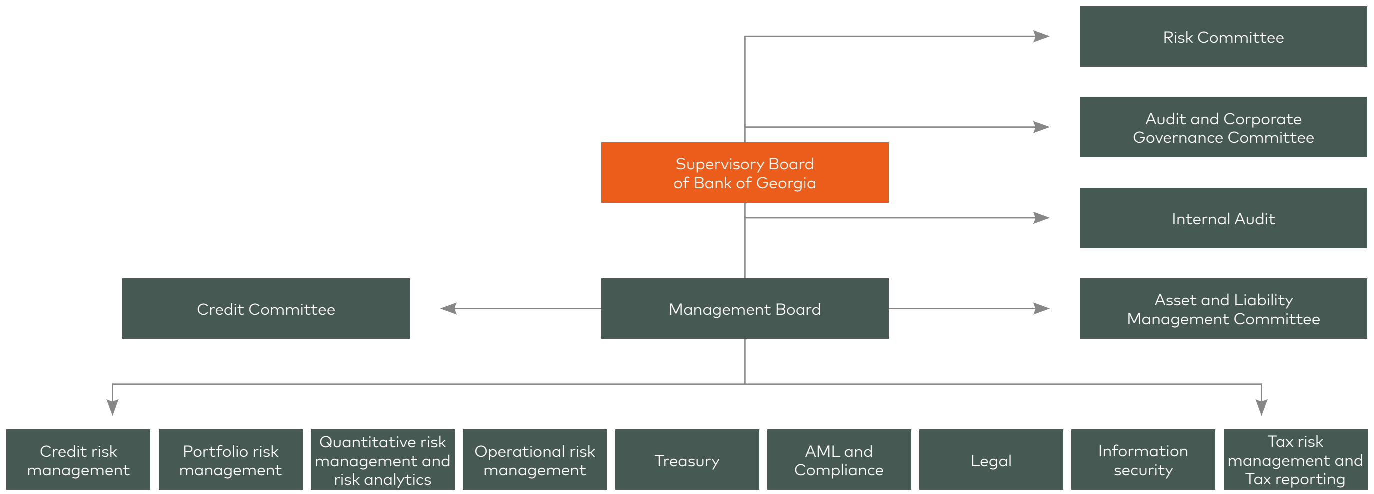
Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The main risks inherent in the Bank's operations are credit risk, liquidity risk, market risk (including currency and foreign exchange rate risks), operational risk and legal risk. The following 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.

Creating a culture of integrity and accountability continued

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 bodies of Bank of Georgia



Bank 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 (the "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 – both financial and non-financial (including strategic, credit, compliance, regulatory, Environmental, Social and Governance, market, liquidity, reputational and operational risks) – are appropriately identified, assessed and managed across the Group, including 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 Committee. 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.

Credit Committee tiers of subcommittees for Retail and Corporate and Investment Banking loans

	Subcommittee Chair	Approval limit for Corporate Banking loans (US$)
Tier I	Risk Manager of the relevant Credit Risk department	Less than US$ 2.0 million
Tier II	Head and Deputy head of the Credit Risk department	Between US$ 2.0 million and US$ 10 million
Tier III	CEO/CRO	Greater than US$ 10 million
	Subcommittee Chair	**Approval limit for Retail Banking loans (US$)**
Tier I	Risk Manager of the relevant Credit Risk Management unit	Less than US$ 200,000
Tier II	Head of the relevant Credit Risk Management Unit	Between US$ 200,000 and US$ 2.0 million
Tier III	CRO/Head of relevant Retail Banking direction	Greater than US$ 2.0 million

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 Trade Finance. A majority of votes is enough for approval. If the potential 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 that 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. It 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;

Creating a culture of integrity and accountability continued

- 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 department and FGCRMC.

The ALCO is chaired by the Bank's CEO and meets at any time deemed necessary, 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, and the Head of the Treasury department. The Head of the Finance department 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 department 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 department 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 department. The Bank's Legal department's principal purpose is to ensure that the Bank's activities conform to applicable legislation and minimise losses from the materialisation of legal risks. The Legal department is responsible for the application and development of mechanisms for identifying legal risks in the Bank's activities in a timely manner, the investigation of the Bank's activities in order to identify any legal risks, the planning and implementation of all necessary actions for the elimination of identified legal risks, participation in legal proceedings on behalf of the Bank, where necessary, and the investigation of possibilities for increasing the effectiveness of the Bank's legal documentation and its implementation 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 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, the European Parliament, 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, Treasury, Operational Risk Management, Legal, AML and Compliance and Security departments, Finance department, 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 and Operational Risk Management departments report to the Bank's Deputy CEO – Chief Risk Officer. The Legal department is under supervision of the Bank's General Counsel, which directly reports to the Bank's CEO. The Finance department, 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 Information Security department was under the supervision of the Deputy CEO – Chief Operations Officer, until the end of 2019 and currently reports to the Deputy CEO – Chief Risk Officer.

The Quantitative Risk Management and Risk Analytics department, in coordination with the 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 Treasury department is responsible for managing the Bank's assets and liabilities and its overall financial structure, and is also primarily responsible for managing funding and liquidity risks of the Bank. It 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 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 the Bank's relationship with the tax authorities, provides practical advice and monitors 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.

Creating a culture of integrity and accountability continued

The Bank maintains a management reporting system which requires the Credit Risk, Quantitative Risk Management and Risk Analytics, Portfolio Risk Management, Finance and Treasury departments 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. As a result of these reviews, new loan restructuring tools are introduced. The Bank also uses the NBG's provisioning methodology in order to comply with National Bank of Georgia's requirements.

The Bank manages its credit risk by placing limits on the amount of risk accepted with respect to individual corporate borrowers or groups of related borrowers, liability of insurance companies, types of banking operations and by complying with the exposure limits established by the NBG. The Bank also mitigates its credit risk by obtaining collateral and using other security arrangements. The Bank monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for expected credit loss (ECL)/impairment losses. 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 and set provisioning rates, in consultation with the Bank's CEO and Deputy CEO – Chief Financial Officer, 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 makes 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 2019, 86.9% of loan to customers and finance lease receivables portfolio 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.

Creating a culture of integrity and accountability continued

The Bank establishes the ECL of financial assets on a collective basis, and 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 department prepares and submits 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 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 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. In addition, the Bank maintains a cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted. As at 31 December 2019, 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 as follows:

- deposits;
- borrowings from international credit institutions;
- inter-bank deposit agreements;
- debt issuances;
- proceeds from sale of securities;
- principal repayments on loans.

As at 31 December 2019, Banking Business consolidated client deposits and notes were GEL 10,076.7 million (as compared with GEL 8,133.9 million and GEL 7,078.1 million as at 31 December 2018 and 2017, respectively) and represented 61.4% (as compared with 62.6% and 62.3% as at 31 December 2018 and 2017, respectively) of total liabilities. 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 2019, total amounts owed to credit institutions and debt securities issued were GEL 6,054.2 million (as compared with GEL 4,725.3 million and GEL 4,164.8 million as at 31 December 2018 and 2017, respectively) and represented 36.9% (as compared with 36.3% and 36.7% as at 31 December 2018 and 2017, respectively) of total liabilities. 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 of the Notes to the Consolidated Financial Statements of this Annual Report.

Borrowed funds repayment schedule

US$ million	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Eurobonds and notes	174	–	–	339	–	–	–	–	–	–
Senior loans	142	87	34	89	48	11	9	–	–	–
Subordinated loans	–	–	–	–	–	90	–	–	–	72
TOTAL	**316**	**87**	**34**	**428**	**48**	**101**	**9**	**–**	**–**	**72**
% OF TOTAL ASSETS	**4.9%**	**1.3%**	**0.5%**	**6.6%**	**0.7%**	**1.6%**	**0.1%**	**0.0%**	**0.0%**	**1.1%**

Creating a culture of integrity and accountability continued

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 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 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.

Similarly 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, Treasury and Quantitative Risk Management and Risk Analytics departments.

As at 31 December 2019, the Group's floating rate borrowings accounted for 12.7% 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, and AML and compliance risk, types of operational risk, are discussed in Principal Risks and Uncertainties on pages 72 and 79.

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 is 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.

The coronavirus (COVID-19) has been identified as an emerging risk, and we are monitoring its impact on our business, customers and employees. We have put in place a business continuity plan to mitigate the impact. There is 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 global shutdown a significant negative impact on tourism in Georgia is expected. This may also impact other areas of the Georgian economy, such as real estate. It is too early to fully understand the impact this may have on our business.

We recognise the challenges posed by climate change. In 2020, we will be expanding the Bank's consideration of climate change issues and risks, and will consider suitable next steps for the Group. We also intend to engage with policy makers on the risks presented by climate change and solutions that the Group can further implement to manage climate-related risks, and consider the appropriateness of disclosing in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

Principal Risks and Uncertainties

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

We outline the principal 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 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.

For emerging risks, see page 71.

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. The Georgian economy delivered a solid 5.2% estimated real GDP growth in 2019, after the real GDP growth of 4.8% in 2018 and in 2017, 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 2019, the Lari depreciated against the US Dollar by 7.1%, after depreciating by 3.3% in 2018. 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/impairment 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 2019, approximately 81.1% and 43.7% 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 39.8% of Corporate and Investment Banking gross loans issued in foreign currency had no or minimal exposure to foreign currency risk. Our cost of credit risk was 0.9% in 2019 compared with 1.6% in 2018. The coronavirus (COVID-19) has been identified as an emerging risk, and we are monitoring its impact on our business, customers and employees. There is 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 global shutdown a significant negative impact on tourism in Georgia is expected. This may also impact other areas of the Georgian economy, such as real estate. It is too early to fully understand the impact this may have on our business.

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.

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

In order to encourage responsible lending practice in the market, NBG introduced macroprudential policy instruments that modify lending conditions to individuals. The payment-to-income ratio (PTI) and the loan-to-value ratio (LTV), effective since 1 November 2018 for commercial banks and since 1 January 2019 for all loan issuers, require the financial institutions to issue loans based on the rigorous assessment of clients' debt paying ability and aim at reducing high-risk products in the market. This initiative ensures the sustainability of the financial sector in the event of real estate price reductions and further reduces the risk of the loan portfolio quality.

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

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

Moreover, NBG mandated changes in minimum reserve requirements on funds attracted in national and foreign currencies. NBG raised the minimum reserve requirement on foreign currency funds from 20% to 25% depending on maturity, effective from 1 September 2018, and then further to 30%, effective by the end of May 2019, although the requirement was subsequently reduced back to 25% in October 2019. In June 2018, in order to encourage the financial institutions to raise funding in the local currency, NBG decreased minimum reserve requirements on local currency funding from 7% to 5%.

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

Applicable from the beginning of 2017, the NBG expanded the list of assets that banks are permitted to use as collateral for REPO transactions, which provides an additional funding source for our Lari-denominated loan book.

The Government and NBG have appropriate tools to help mitigate the economic threat to a degree, and to try to maintain economic growth. We continue to monitor the coronavirus outbreak 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 the NATO, including the former Soviet republics such as Georgia. Therefore, Georgia's continued progression towards closeness to the EU and NATO may intensify tensions between Georgia and Russia. Developments, such as the introduction of a free trade regime between Georgia and the EU in September 2014 and the visa-free travel in the EU granted to Georgian citizens in March 2017, similarly contributes to tensions. The Government has taken certain steps towards improving relations with Russia but, as of the date of this 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 was expected to affect the Georgian tourism sector. However, it also provided more incentives to further diversify the country's tourist base.

There is an ongoing conflict between Azerbaijan and Armenia, which impacts the region.

Mitigation

The Group actively monitors regional and local market conditions and risks related to political instability, and performs stress and scenario tests in order to assess our financial position. Responsive strategies and action plans are also developed.

Economic growth remained strong in Georgia, despite Russia banning direct flights to Georgia from July 2019. Estimated real GDP growth reached 5.2% in 2019 and the current account deficit reached a historic low in the second half of 2019, with deficit halved in 2019, overall. Despite favourable current account dynamics, the ban on flights from Russia weighed on GEL due to increased political and geopolitical uncertainty. Inflation accelerated from September and came in at 7.0% in December 2019. The price growth reflected higher tobacco excises and GEL's nominal depreciation. The National Bank of Georgia intervened and sold foreign currency and increased monetary policy rate to address rising inflationary pressures. Notably, in October 2019, S&P Global Ratings upgraded Georgia's credit rating to BB, highlighting economic resilience towards the challenging external environment, relatively high growth prospects, prudent public finance management, higher reserves, and a stable and healthy financial sector. We believe that Georgia's efforts to further diversify its economic linkages, use potential of new large markets – the EU and China – and further enhance its institutions to enable the economy to deal with the external shocks relatively well.

In December 2019, the IMF's Executive Board approved the extension of the US$285 million economic programme with Georgia, approved in April 2017, by one year until 11 April 2021. The programme is aimed at preserving macroeconomic and financial stability, and addressing the structural weaknesses in the Georgian economy to support a higher and inclusive growth. On 17 December 2019, the Executive Board of the IMF completed the Fifth Review of Georgia's programme. The completion of the review released SDR 30 million (about US$41.4 million), bringing the total disbursements under the programme to SDR 180 million (about US$248.7 million).

During 2019, Georgia delivered an estimated real GDP growth of 5.2%, whilst inflation was above NBG's 3.0% target level, with annual average inflation at 4.9% and end-year inflation at 7.0%. High inflation is explained by increased excises on tobacco and GEL depreciation pass-through. Tourist arrivals and remittances, significant sources of Dollar inflows in the country, continued to increase. Overall tourist numbers continued to increase, despite a reduction in the number of tourists from Russia following the direct flight ban introduced in July 2019. The country's current account deficit reduced significantly to estimated 4.1% of GDP in 2019, down from the 2016 highs of 12.4%, reflecting healthy growth in exports and lower imports; trends that we expect to see continued.

Principal Risks and Uncertainties continued

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

During 2019, the Group's cost of credit risk ratio was 0.9%, as compared with 1.6% in 2018. Expected credit loss/ impairment charges 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. As at 31 December 2019, 2018 and 2017, the Group's non-performing loans accounted for 2.1%, 3.3%, and 3.8% of gross loans to customers and finance lease receivables, respectively.

The Corporate and Investment Banking loan portfolio is concentrated, with the Group's top ten Corporate and Investment Banking borrowers accounting for 9.9% of loans to customers and finance lease receivables (gross of allowances for impairment) as at 31 December 2019, as compared with 9.8% at 31 December 2018 and 10.7% at 31 December 2017.

As at 31 December 2019, the Group held collateral against gross loans covering 86.9% of the total gross loans to customers and finance lease receivables. The main forms of collateral taken in respect of Corporate and Investment Banking loans are liens over real estate, property plant and equipment, corporate guarantees, inventory, deposits and securities, and transportation equipment. The most common form of collateral accepted in Retail Banking loans is a lien over residential property.

Downturns in the residential and commercial real estate markets, or a general deterioration of economic conditions in the industries in which the Group's customers operate, may result in illiquidity and a decline in the value of the collateral securing loans, including a decline to levels below the outstanding principal balance of those loans. In addition, declining or unstable prices of collateral in Georgia may make it difficult for the Group to accurately value collateral it holds. If the fair value of the collateral that the Group holds declines significantly in the future, it could be required to record additional provisions and could experience lower than expected recovery levels on collateralised loans past due more than 90 days. Further changes to laws or regulations may impair the value of such collateral.

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, the Group discounts the market value of the assets to reflect the liquidation value of the collateral.

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 and uses collateral to minimise loss given default on its largest exposures, reduces guarantee exposures in the riskier sector and maintains a well-diversified loan book sector concentration.

In order to de-risk the Georgian Banking sector and encourage responsible lending practice in the market, NBG introduced macroprudential policy instruments that modifies 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.

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

Mitigation

Continued investment in our people and processes enables us to meet our current regulatory requirements and means that we are well-placed to respond to any future changes in regulation.

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

Our compliance framework, at all levels, is subject to regular review by the Bank's Internal Audit department and external assurance service providers.

Liquidity risk

Principal risk/ Uncertainty

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

Although the Group expects to have sufficient funding over the next 18 months and beyond to execute its strategy and to have sufficient liquidity over the next 18 months and beyond, liquidity risk is nevertheless inherent in banking operations and may be heightened by a number of factors, including an over-reliance on, or an inability to access, a particular source of funding, changes in credit ratings or market-wide phenomena, such as financial market instability.

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

Key drivers/ trends

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

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

Principal Risks and Uncertainties continued

Liquidity risk continued

Mitigation

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

The Bank has developed a model based on the Basel III liquidity guidelines. It maintains a solid buffer on top of Liquidity Coverage Ratio (LCR) requirement of 100%, mandated by NBG since September 2017. A strong LCR enhances the Group's short-term resilience. Moreover, the Bank holds a comfortable buffer on top of Net Stable Funding Ratio (NSFR) requirement of 100%, which came into effect on 1 September 2019. A solid buffer over NSFR provides stable funding sources over a longer time span. This approach is designed to ensure that the funding framework is sufficiently flexible to secure liquidity under a wide range of market conditions.

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, sales and purchases of securities, and long-term debt securities).

Client deposits and notes are one of the most important sources of funding for the Group. As at 31 December 2019, 2018 and 2017, 90.4%, 90.8%, and 91.4%, respectively, of client deposits and notes had contractual maturities of one year or less, of which 55.2%, 55.1%, and 56.5%, respectively, were payable on demand. However, as of the same dates, the ratio of net loans to client deposits and notes was 118.4%, 115.5%, and 109.4%, respectively, and the NBG liquidity coverage ratios were 136.7%, 120.1%, and 112.4%, respectively.

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

Principal risk/ Uncertainty

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

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

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

Key drivers/ trends

Cyber-security threats have continued to increase over past few years and we saw a number of major organisations subject to cyber-attacks, although, fortunately, our operations were not materially affected. 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, 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.

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

Mitigation

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

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

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

We have security controls in place including policies, procedures and security technologies. We also regularly carry out IT and information security checks internally, and with the assistance of external consultants. We have sophisticated anti-virus protection and firewalls to help protect against potentially malicious software. We have increased our internal and external penetration testing and have back-up disaster recovery and business continuity plans in place across the Bank. We improved access control and password protections through the implementation of "Privileged Access Monitoring" for employees with the highest privileged access to confidential and customer data. We have implemented a secure email gateway solution which decreased the number of malware attachments by 95%. We have also implemented a Security Information and Event Management (SIEM) solution which now gives us a complete view of the changes and events happening in our infrastructure. Oracle database firewall solution has been optimised. Oracle Audit Vault and Database Firewall includes an enterprise quality audit data warehouse, reporting and analysis tools, alert framework, audit dashboard, and sophisticated next-generation database firewall. We have created policies with the help of Cloud Data Loss Prevention and now we monitor and restrict any critical data upload on our internal communication platform including pictures, office files, account numbers, etc. We have established a cyber-security framework, information security risk management framework and information security-related policies. We have dedicated a highly qualified team to the security operations unit. We continue to invest in technology to enhance our ability to prevent, detect and respond to increasing and evolving threats.

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 joint Audit and Risk Committees' regular agenda and are also frequently discussed at the Board level.

Going Concern and Viability Statements

Going concern statement

The Group's business activities, objectives and strategy, principal risks and uncertainties in achieving its objectives and performance are set out on pages 24 to 113. After making enquiries, 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 financial statements.

Viability statement

In accordance with the Corporate Governance Code, the Directors are required to assess the prospects of the Group to meet its liabilities by taking into account its current position and principal risks. The Board performed this review over a three-year period beginning 1 January 2020, 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 Board's risk appetite;
- the Group's business model and strategy, as set out on pages 24 to 53;
- the Group's principal risks and uncertainties, including emerging risks, as set out on pages 72 to 79;
- the effectiveness of our 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 our current 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), excluding risks not sufficiently severe over the period of assessment.

The principal risks and uncertainties, including emerging risks, are set out on pages 72 to 79. 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 adverse scenarios. 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 following scenarios 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 recently issued AT1 capital notes, use of mandatory reserves placed in NBG, and the release of 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 the analysis described above, 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 2020 to 31 December 2022.

Resources and Responsibilities

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	▪ Environmental matters	▪ 84 to 87	▪ Environmental and Social Policy
Employees	▪ Employee matters ▪ Directors' Governance Statement – shareholder and stakeholder engagement ▪ Nomination Committee Report	▪ 91 to 95 ▪ 121 ▪ 132	▪ Code of Conduct and Ethics ▪ Diversity Policy ▪ Whistleblowing Policy ▪ Human Rights Policy ▪ Anti-Nepotism Policy ▪ Employee Corporate Handbook
Social matters	▪ Social impact through business operations ▪ Sponsorship and charity	▪ 87 to 89 ▪ 89	▪ Environmental and Social Policy ▪ Sponsorship and Charity Policy
Human rights	▪ Employee matters	▪ 91 to 95	▪ Human Rights Policy ▪ 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	▪ 95 to 96	▪ Code of Conduct and Ethics ▪ Anti-Bribery and Anti-Corruption Policy ▪ Whistleblowing Policy
Business model	▪ Business model and strategy ▪ Delivering on our strategy	▪ 24 to 25 ▪ 26 to 53	
Non-financial KPIs	▪ Key performance indicators	▪ 54 to 57	
Principal risks	▪ Risk management ▪ Principal risks and uncertainties	▪ 58 to 71 ▪ 72 to 79	

The concept of sustainability lies at the heart of our business and reflects our contribution to sustainable development

As a Group, we recognise that we owe a duty not only to our shareholders but to the wider society in which we operate. As a large employer in Georgia, it is incumbent upon us to play a leading role in minimising our impact upon the environment, to be an employer of choice and to drive positive change in society.

We consider sustainability to be integral to the growth of our business. Our sustainability agenda allows us to be profitable as well as environmentally and socially responsible. By implementing a sustainability approach in our activities, we foster long-term relationships with our main stakeholders, providing high return on investment for shareholders, satisfying the financial needs of customers, developing employees and contributing to the economic and social welfare of the local communities, while taking into account our environmental footprint. The Group's Environmental and Social (E&S) Policy is designed to effectively manage the Group's direct and indirect impact on society and the environment. This policy describes the Group's strategy to develop solid management controls to conserve natural resources, minimise health and safety risks, and provide employees with equal development opportunities, fair compensation and benefits. We are pioneering sustainability practices in our operations and are constantly seeking new ways to improve our performance.

The Group continues to be included in the global responsible investment index FTSE4Good. The index is designed to demonstrate strong Environmental, Social and Governance (ESG) practices, measured against international standards.

Our Board has overall ownership of environmental and social matters, and our corporate governance framework process enables Directors to have full oversight on matters relating to ESG. Our Risk Committee reviews risks relating to ESG, and updates the Board on such matters. The Board is also updated on corporate social responsibility matters by management, for example the work the Bank has done within the community, such as helping children in Georgia better understand banking products. In 2020, we will be expanding the Bank's consideration of climate change issues and risks, and will consider suitable next steps for the Company.

Resources and Responsibilities continued

This report sets out the policies we have in place to meet these responsibilities and the ways in which these policies have been implemented, and our achievements against these over the course of 2019.

Environmental matters

The Group recognises that its operations have both an indirect and direct impact on the environment, and therefore seeks to establish management approaches that will help it become a more environmentally friendly institution. As a leading financial institution in Georgia, the Bank, through the projects it finances, produces significant indirect impacts on the environment. As for the direct environmental impact, we believe that the impact of the Banking Business is not significant.

Indirect environmental impact through business operations

The Group considers the interests of its main stakeholders (customers, shareholders, employees, lenders and wider society) when developing the strategy and the processes to improve its operations. We continually strive to positively contribute to society through the entire scope of our business activities by developing socially oriented products and services, implementing responsible approaches to our business operations, and carrying out sponsorship and charitable activities.

In order to efficiently manage its indirect environmental and social impact, the Bank has prioritised the integration of sustainable finance principles into its credit risk management procedures since 2012. The Bank ensures it has a consistent approach to evaluating and managing the environmental, human health and safety risks of its financed projects. In all that the Bank does, it strives to find sustainable solutions that make business sense to clients, and minimise negative impacts on the social and natural environments.

The main objective of the E&S Policy is to increase environmental and social benefits for our clients. Through Environmental and Social Risk Management (ESRM) procedures, the Bank enhances clients' opportunities to be in compliance with national environmental and social regulations, and adopt international best practices in this area. ESRM procedures are periodically updated and approved by the Board of Directors to ensure that the E&S Policy remains fit for purpose and reflects experience and changes in the relevant legislation. ESRM procedures, along with other tools necessary for their implementation, comprise the core components of the Bank's Environmental and Social Risk Management System (ESMS). Under this mechanism, the Bank endeavours to become an environmentally friendly financial institution.

Furthermore, to ensure a more effective operation and maintenance of the ESRM Policy, the Bank has a dedicated E&S team that is involved in the credit review process and is responsible for the:

- collection of the information and identification of environmental and social risks and impacts from borrowers' operation;
- review and assessment of the borrowers' environmental and social performance;
- development of an Environmental and Social Action Plan (ESAP) in case of non-compliance; and
- monitoring the implementation of ESAP and environmental and social performance at every project phase.

We implement the following procedures to ensure the operation and maintenance of the ESMS:

- 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.
- 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 we set in order to minimise environmental and social 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. Frequency and type of monitoring is determined according to the type of transaction being financed and the level of E&S risk.

Through ensuring comprehensive environmental and social assessment and action plans, as a part of stable due diligence, the Bank encourages its customers to fulfil their environmental and social obligations, and establishes a framework for them to achieve good environmental and social standards.

We receive a commitment from our clients to adhere to good environmental and social standards and agree that they:

- provide all requested E&S information to the Bank;
- ensure the participation of competent individuals during the environmental and social due diligence and monitoring process;
- demonstrate their responsiveness with regard to the applicable environmental and social requirements; and
- undertake the obligations of compliance with all applicable environmental and social requirements.

In order to maintain international best practice in E&S risk management, the Bank is committed to ensure that its customers are also fulfilling their environmental and social responsibilities in alignment with the national regulations, and the E&S standards of international financial institutions. In this regard, the Bank reviews (with exposure of more than US$1 million) the E&S performance of those clients in accordance with the requirements of the International Finance Corporation (IFC) Performance Standards.

Environmental and social issues are tracked at project sites in cooperation with the facility staff, providing ongoing advice and guidance on good practice and standards, and monitoring compliance with the requirements. In relevant cases, the Bank may use independent external professionals to monitor implementation and progress. As part of monitoring, the Bank requires each high-risk client to provide the Bank with an annual report on their environmental and social performance, and the implementation of applicable Environmental and Social Action Plans. In some cases, the Bank's staff visit high-risk clients on a regular basis. The E&S team conducts portfolio-wide reviews of specific sectors, where E&S risks are considered high.

Throughout 2019, the Bank held extensive Environmental and Social Due Diligence (ESDD), where the Bank monitored clients and developed action plans for non-compliant clients. Non-compliant clients started to identify, avoid, mitigate and manage environmental and social risks, and their impact on the natural and social environment. Some clients implemented environmental and social management systems in accordance with international standards.

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 enquiries responded to by the Bank in a timely manner. In the Association Agreement between the European Union and Georgia, Georgia has committed to progressively approximate its legislation in the relevant sectors with that of the EU and to implement it effectively.

Through this approximation process, Georgia is actively developing and amending its national legislation in the relevant sectors. As a result, the Bank regularly checks legal developments and updates with regard to environmental, health and safety, and labour issues, and places great emphasis on the improvement of ESDD opportunities. The Bank's staff are very focused on introducing clients to information about relevant (existing and new) regulations and laws during ESDD, with the aim of strengthening public knowledge and capacity in the area of environmental and social protection.

Training activities play an important role in enhancing the implementation of the policy. In 2019, the Bank provided training opportunities for the E&S team and the staff involved in environmental and social risk management processes. The Head of E&S Risks Unit participated in the 13th Annual Performance Standards Community of Learning organised by the IFC. The Community of Learning is a knowledge-sharing forum aimed at strengthening the implementation of environmental and social standards by financial institutions in emerging markets.

The event provided a chance to exchange experiences, learn from investment case studies, and engage in dialogue among environmental and social risk management specialists from all over the globe. The Head of E&S unit also participated in Green Bonds and Sustainable Finance Executive Programme, which was designed and delivered in partnership with the IFC, the Stockholm School of Economics Executive Education and International Capital Market Association (ICMA), as part of the Green Bond Technical Assistance Programme, a multi-donor-funded programme entirely managed and administered by the IFC and supported by Swedish International Development Cooperation Agency (SECO), Swiss State Secretariat for Economic Affairs (SIDA) and the Luxembourg Ministry of Finance.

The programme delivered deep insight in green bond issuance and the underlying drivers in sustainable finance, including closely related products such as green bonds. The E&S team also participated in the training programme "Reducing GHG emissions through improved energy efficiency of industrial sector in Georgia" organised by United Nations Industrial Development Organisation (UNIDO). Social and Environmental Risk Manager additionally attended Environmental and Social Masterclass for Financial Institutions organised by the FMO – Dutch entrepreneurial development bank.

More generally, the Bank has delivered several training sessions in this area and consequently more than 100 employees were trained in social and environmental risk management during the last five years. Leading experts and state inspectors were invited as trainers. We intend to continue the training in the future.

In 2018, the Bank launched an Enhancement of Environmental and Social System, supported by the Green for Growth Fund within the framework of the Green for Growth Fund Technical Assistance Facility (GGF TAF). The project focuses on strengthening the Bank's environmental and social framework for it to become a best-practice environmental and social management system in the Georgian market. The project aims: (i) to assess current environmental and social processes of the Bank versus relevant recommendations of international financial institutions and best international practice, in particular ISO 14001:2015 international standard; (ii) to address gaps identified during the assessment through revision and amendment of documentation and processes, providing consultancy, recommendations and implementation support for the necessary improvements; and (iii) to conduct a final assessment of upgraded environmental and social procedures and systems to confirm our compliance with requirements and best practice as defined in the initial phase of the project.

Resources and Responsibilities continued

Staff training is one of the deliverables of the project. In 2019, 18 employees of the Bank participated in awareness and internal audit of environmental management system training course. The purpose of the training was to equip the relevant staff with the knowledge and skills needed to contribute to the required system improvement and upgrade. The project was completed in 2019.

In 2019, a new project, Development of a Company Waste Management Plan, was launched by the Bank with 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 is to assist Bank of Georgia in developing a Company Waste Management Plan in accordance with the relevant Georgian legislation. Having a detailed waste management plan will be beneficial for the Bank not only in terms of ensuring full compliance with the local legislation (which, of course, is one of the main priorities of the Bank), but will also provide:

(a) a much more precise picture of the types and quantities of waste generated by the Bank through its business processes; (b) a solid base for proper waste management practices (waste collection, temporary storage, pre-treatment, transportation, recovery, re-use, recycling, disposal, etc.) which will be implemented throughout the Bank; (c) more control of all waste management activities carried out in the Bank so that they are compliant with legislative requirements, are effective and sufficient considering specific properties of various types of hazardous and non-hazardous waste; (d) opportunity to identify, plan and implement concrete waste prevention/reduction and recovery (including recycling) activities, (especially for hazardous waste).

The project also aims to design a generic guideline document regarding legislative requirements on a waste management plan that the Bank will share with other interested parties (micro, SME and corporate clients of the Bank). In addition, a one-day training will be provided for the Bank's employees concerning safe and proper waste management practices in the Bank.

In 2019, the Bank launched Assessing and Improving Bank of Georgia's Environmental and Social Management System, supported by DEG – Deutsche Investitions- und Entwicklungsgesellschaft. The project mainly aims: (a) to evaluate the current ESMS; (b) to refine and revise the ESMS, focusing on the identification and management of high-risk clients; (c) to support client in ESDD and assessment against Georgian legislation and IFC performance standards for high-risk clients; (d) to conduct refresher training on refined ESMS for relevant staff; and (e) to develop an electronic training module for the relevant staff involved in E&S Risk Management.

Several awards have been received during the lifetime of ESMS. In 2014, Bank of Georgia won the Green Service award at the Georgian Green Business Awards ceremony organised by the Ministry of Environment and Natural Resources Protection of Georgia. In May 2017, EBRD awarded the Bank with The Deal of the Year 2016 for having financed a project aimed at boosting the renewable energy capacity of one of the hydropower plants in Georgia. In 2019, within the framework of Caucasus Energy Efficiency Programme, our employees, Zura Kokosadze and Tamar Begeluri, received EBRD awards for the Best Corporate Banker and the Best Residential Banker, respectively, for delivering high-energy saving results.

The Bank is committed to respecting the principles of sustainable development, protecting the environment, and is willing to improve the level of public health safety as an essential element for sustainable development and economic growth. The Bank will continue to conduct business with due consideration to environmental and social protection, and contribute to the creation of a sustainable society. The Bank will further help its clients benefit from a proper and diligent implementation of the E&S Policy.

Direct environmental impact

We believe that the direct impact of our business on the environment is not significant. Nevertheless, we undertake a number of measures to reduce paper, electricity, and fuel consumption. "Green Boxes" are placed on every floor of the Bank's headquarters and are designated to collect paper for recycling purposes. Some of the Bank's paper-intensive departments switched to the principle of two monitors, which considerably reduces paper waste. The lighting system in all of the Bank's service centres was replaced with energy-efficient LED lamps, which consume far less electricity than traditional economical ones.

In 2019, about half of the Bank's car fleet was outsourced in order to reduce its fuel consumption. Regarding the waste management initiatives, please refer to the Environmental matters in the beginning of this section.

Greenhouse gas emissions and calculating methodology

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 (Scopes 1 and 2), and additionally have reported on those emissions under Scope 3 that are applicable to our business. All reported sources fall within our Consolidated Financial Statements, which can be found on pages 168 to 289. We do not have responsibility for any 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), and emissions factors from the UK Government's Greenhouse Gas Conversion Factors for Company Reporting 2016.

Our reported data is collected and reported on in respect of the Bank as the main operating unit and the core entity of the Group, which includes all of its offices and retail branches, where the Bank has operational control. The data is provided by on-site delegates, invoices and metre readings.

The data for 2017 comparative greenhouse gas emissions in the table on page 87 is presented only in respect of the Bank. The full greenhouse gas emissions data for BGEO Group PLC for 2017 can be found in BGEO Group PLC 2017 Annual Report on the Group's website at www.bankofgeorgiagroup.com.

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; and
- 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. To calculate the emissions, we used the conversion factor for Non-OECD Europe and Eurasia (average) conversion from the UK Government's Greenhouse Gas Conversion Factors for Company Reporting 2016.

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 taxis, coaches and car hire; and
- data on emissions resulting from travel is reported for business-related travel only and excludes commuting travel.

Total greenhouse gas emissions data (Tonnes of CO_2E)

	2019	2018	2017
Scope 1	1,507	2,034	2,504
Scope 2	7,488	7,370	7,141
Scope 3	3,029	3,029	2,819
Total emissions	**14,043**	**12,433**	**12,464**
Full-time Employees (FTE)	5,879	5,828	5,501
Total emissions per FTE	**2.05**	**2.13**	**2.27**

Social impact through business operations

Bank of Georgia also continues to support Georgia's emerging economy by financing industries that are of strategic importance to the development of the country.

Corporate Banking

Education

Bank of Georgia financed construction of Georgian National University's (SEU) new c.33,000 square metre building in Tbilisi. Established in 2001, SEU is one of the largest private universities in Georgia, offering a wide range of courses to its c.6,500 bachelor-degree students.

The new building increased the capacity of SEU to 12,000 students and offers various educational and sports facilities, including the largest private library, indoor swimming pool and a multifunctional sports hall.

Tourism

Bank of Georgia financed development of the five-star 161-room Wyndham Grand Hotel located in the centre of Tbilisi. The hotel hosts a growing upscale tourist segment. It offers a wide range of amenities such as spa, health club, pool, gym, rooftop bar and a restaurant.

Construction

HeidelbergCement is one of the world's largest producers of building materials. It has been active in Georgia since 2006 and is a leader in the local cement market. After 14 years of continuous development of the business, the Georgian subsidiary HeidelbergCement Georgia, currently operates two integrated modern cement plants (Kaspi and Rustavi), a cement grinding facility in Poti, a cement terminal at the Black Sea coast and 13 ready-mix concrete plants in different parts of Georgia. HeidelbergCement has made more than Euro 300 million investments in Georgia that were mainly directed at modernisation of existing cement plants and expansion in the concrete and aggregates business lines. In 2019, modernisation of the Kaspi plant with the new dry kiln was finalised. The project was partially financed by Bank of Georgia.

Zodi is one of the leading construction material importers and producers in Georgia. In the second half of 2018, Zodi started developing an idea to open a Georgian natural stone (granite, tuff, dibasic basalt and limestone) factory and offer high-quality and competitively priced Georgian stone materials to the market. With the help of the Bank and in cooperation with "Enterprise Georgia", the idea was successfully realised in 2019 and the company now operates the factory equipped with modern Italian, Turkish and Chinese machinery, and has an annual capacity of 50,000 square metres.

Infrastructure

Infrastructure development remains one of the most important objectives in Georgia. In 2019, Bank of Georgia issued the guarantees totalling GEL 146 million for the construction works on the upgrade of Chumateleti-Khevi section of E-60 highway and construction of Kvesheti – Kobi road (road section) under north-south corridor (Kvesheti – Kobi) road project.

Resources and Responsibilities continued

Export
In 2019, Israel-based international defence electronics company Elbit Systems, in cooperation with Georgian state-owned investment vehicle Partnership Fund, opened a high-tech modern aviation plant in Tbilisi. The plant will produce civil aircraft parts, and has long-term supply contracts with the largest aircraft producers in the world. 100% of the production will be exported. Bank of Georgia financed the construction of the facility and the purpose-built equipment intended for the production of the aircraft materials.

Services
In 2018, Greenway Georgia won a state tender to launch and operate 51 periodic vehicle technical inspection lines across Georgia, with a ten-year license. At present, Greenway is operating ten inspection centres in most convenient places in the capital city, 16 inspection centres in the regions, and three mobile inspection stations, covering 17 regions. All inspection centres were constructed and put into operation within six months, at the end of February 2019. Currently, Greenway Georgia is an undisputed market leader in terms of market share. The project was partially financed by Bank of Georgia.

GT Group holds leading positions in the field of truck and special equipment trade in Georgia. Company activities also include import and services of agricultural machinery. In 2019, electronic tender was announced by the state procurement agency to purchase 220 public-service buses for Tbilisi Municipality. GT won the tender and Bank of Georgia financed the project.

Retail Banking

Bank of Georgia continues to innovate and generate a wide range of socially oriented financial products and services that provide additional value to individuals and micro, small and medium size enterprises (MSMEs) and meet their respective needs.

Express Banking
The Georgian banking sector still experiences difficulties in overcoming economic and geographical barriers in expanding its financial services in remote regions and among low-income segments of the population.

Our Express Banking service plays an important role in addressing this issue:

- As at 31 December 2019, a network of 162 Express branches and 3,217 Express Pay terminals are located all over the country, including in remote mountain regions.
- Express financial products, such as Express Card, Express Deposit and Express Loan are uncomplicated, easily accessible and affordable, to a segment of the population that would not have access to banking products and services otherwise. By 31 December 2019, the Bank had attracted 542,566 clients, of which 24,842 became clients of the Bank in 2019.

As a part of the Express Banking service, we prioritise the development of self-service skills. We constantly expand the services offered by Express Pay terminals to provide a more accessible banking service to our clients. In 2017, the Bank developed web-based application processing tools that enable the completion of a full lending cycle remotely.

Express Student Card offers special discounts on public transport and free distance banking services, among other benefits. Moreover, students can get special #StudentBreak discounts in various stores, cafés and entertainment centres. Students are automatically involved in the Plus+ loyalty scheme – the Bank's initiative that offers different status levels to customers and reward points that accumulate based on the client's business with the Bank and can be redeemed into partner companies' products and/or services, at the client's request. Plus+ points can also be converted into mobile phone top-ups and used to pay for public transport, utility bills and other products. The programme encourages the student population to use financial services, and supports them financially during their studies.

Youth support
We developed a wide range of financial products to support young people in Georgia. For example, via special conditions of the Child Deposit we provide parents with the opportunity to secure their children's future. Starting from a minimal amount of GEL 10, a deposit can be opened for at least two years at any time from a child's birth until the age of 18. The annual interest rate (12.25% for Georgian Lari and 1.0%-3.5% for foreign currency) is added to the initial deposit. In 2019, we opened approximately 8,000 Child Deposit accounts.

Another example of the Bank's products aimed at supporting young people is a social-educational project "sCool Card" – a multifunctional card for schoolchildren. The main objective of the project is to teach children about financial culture and build their knowledge around financial services at an early stage. sCool Card is available at no cost and all of the transactions and services are also free of charge. sCool Card provides special benefits for children in Georgian public and private schools. The benefits include free public transport in Tbilisi (metro, buses) and Batumi (buses), discounts for entertainment centres popular among children, bookstores, toyshops, children's cafés, as well as the accumulation of points (sCoola) with each transaction.

In a further effort to help children better understand banking products, the Bank opened a sCool Card Business School, where experienced staff provide free training about topics such as: "The importance of money", "Bank and me", "Family budget", and "I am a manager". The Bank and the sCool Card were the finalists of the Child Friendly Banking Award 2017, The Global Inclusion Awards 2017 (Berlin, Germany).

Micro, small and medium size enterprises (MSME)

We continue to provide financing to MSMEs, a backbone of the Georgian economy that helps to ensure the sustainable development of Georgia. In addition to our own microfinance and SME loan programmes, we also participate in various projects that support entrepreneurs. Since 2015, the Bank has partnered with the non-profit Agriculture Projects Management Agency (APMA), which supports MSMEs in the agriculture sector. Together, we have co-financed agriculture loans at fixed annual interest rates that are partially subsidised by APMA. As at 31 December 2019, the total amount of gross loans that the Bank issued to MSMEs amounted to GEL 2.7 billion, of which c.GEL 173 million was issued through the Preferential Agriculture Lending Programme.

In 2018, the Bank continued to reinforce the financing of MSMEs and considers this segment as one of the main areas of its portfolio growth.

The Bank has dedicated staff and established processes for its Micro-Express loans that target micro businesses and offer them loans under GEL 40,000. Increasing the automation and digitalisation is one of the cornerstones of the Bank's micro lending strategy to make their banking experience fast, smooth and enjoyable.

Bank of Georgia is committed to further extending financing to MSMEs. Furthermore, the Bank is keen to develop financial products and lending practices to specifically provide services to MSMEs led by women, which will ultimately increase their involvement in developing Georgia's private sector.

In addition to assisting the MSMEs financially, the Bank runs an MSME portal – www.businesshub.ge. The portal provides financial and business-related advice to entrepreneurs in order to upgrade their financial literacy and management skills, and ensure the sustainable development of their businesses. The portal provides entrepreneurs with information on training and equips them with knowledge and skills in accounting, legal documents, business development, sales and marketing.

The Bank assists its clients in marketing products through videos we create about them and publish on our pages in social media. #Icreate corners, located in Bank of Georgia's branches, are also a great opportunity for clients to exhibit and promote their products free of charge. Environmental and social risk management processes of MSME clients are embedded throughout the Bank's activities. By ensuring that comprehensive environmental and social risk assessments and the necessary action plans are undertaken, we encourage our MSME clients to be in compliance with national environmental and social legislation.

During site visits, we provide our clients with advice and guidance on good practice and standards in these areas. We update them on environmental, health and safety, as well as labour issues. We also monitor their compliance with environmental and social legislation. In many cases of non-compliance, our proper and timely management of the environmental and social risks of our MSME clients has helped them to address issues that would otherwise have resulted in financial and legal sanctions from the state enforcement agency.

For more information on how we support MSMEs, see pages 35 to 37.

Sponsorship and charity

As part of our sponsorship and charitable activities, the Group continues to focus on promoting and enhancing access to education, conserving nature, supporting people with disabilities and special needs, developing social enterprises, and facilitating innovative projects that focus on social goods. The Group's Sponsorship and Charity Policy encourages partnerships with various foundations and Non-Governmental Organisations (NGOs) to deliver sustainable results and bring positive change. Sponsorship and charity funds are channelled through the Bank's Tree of Life Foundation that, in its turn, distributes funding by means of grant competitions in order to ensure transparent and fair methods of financing. The Group also implements its own social projects.

In 2019, Tree of Life allocated around GEL 1.9 million to support education, nature conservation, people with disabilities and special needs, social platforms, and the development of social entrepreneurship. Bank of Georgia, together with the Tree of Life Foundation, established a charity platform www.donate.ge, which connects the people in need with those who are willing to donate items, clothes, books, etc. The platform offers collection, sorting and delivery of items. In 2017-2019, 84,769 items were collected with help from 963 donors, and www.donate.ge has already supported 2,181 beneficiaries.

Bank of Georgia recognises the impact it can have on the country's social-economic development. Therefore, the Bank launched a grant programme to support socially driven enterprises in Georgia. In 2016-2019, Bank of Georgia supported 15 social enterprises with up to GEL 650,000 and GEL 50,000 per project. The Bank partners with various NGOs to maximise its role in the social cause.

Resources and Responsibilities continued

Promoting and enhancing access to education

Bank of Georgia University has offered a top-quality master's degree programme since its foundation in 2014. The university welcomed its sixth intake of MBA students in 2019 and simultaneously launched a bachelor's degree programme in 2017. The cost of studies in 2017-2019 were again largely subsidised by the Bank, with GEL 1,256,866. Up to 20 students study at no cost, while 40 students benefit from a 0% loan with grace period until graduation.

In 2013, the Bank became the first Georgian company to cooperate with one of the most prestigious scholarship programmes in the world – the Chevening scholarship. This cooperation provides Georgian students with an opportunity to pursue education in the UK. In 2019, the Group provided up to GBP 100,000 to finance a master's degree programme for three students. The partnership with Chevening will continue next year and the Group is looking forward to selecting students who will continue their studies in the UK.

CHEVENING

In 2014, the Bank signed a partnership agreement with the prestigious US Fulbright scholarship scheme. Thanks to the Bank of Georgia's contribution, a selected number of students from Georgia are able to enrol in a two-year master's degree programme at a US university. In 2019, the funding provided to the students for their two-year degrees amounted to US$100,000. Since 2014, the Bank has granted US$ 400,000 to the US Fulbright scholarship programme.

FULBRIGHT

Starting from 2018, Bank of Georgia supports San Diego State University (SDSU) Georgia. For 2018-2019 academic years, the Bank financed the scholarships for ten students in the amount of up to US$ 80,000.

In order to honour a Miami Ad School Berlin alumni and Bank of Georgia former employee, Nika Gujejiani, who sadly passed away in 2019, Bank of Georgia and Miami Ad School Europe decided to establish a scholarship in Nika's name. Co-Founder, Niklas Frings-Rupp, Managing Director, Sabine Georg, and Bank of Georgia support this initiative wholeheartedly. Starting from 2020, we will grant one Nika Gujejiani scholar with a 100% scholarship in the Miami Ad School Europe.

Over the last five years, the Bank has been supporting a public speaking competition organised by the English-Speaking Union of Georgia. The competition allows high school senior year or first-year university students to prepare a speech on a pre-selected topic and present it in front of a competent jury. The winner is granted a fully paid trip to London to attend a global public speaking competition. We aim to support this competition in 2020 as well.

The Bank has been supporting every TEDx Tbilisi conference since it was first organised in 2012. A TEDx conference is a locally organised TED format event, where communities, organisations and individuals join to initiate a conversation and connect with each other on different topics, which are important to society.

Case study

In 2018, the Bank of Georgia's Corporate and Investment Banking team organised a charity auction and exhibition of modern Georgian paintings, and invited its top clients to participate in the cause. In 2019, the Bank rounded US$ 75,000 collected from the auction to US$ 100,000 to finance extremely talented children from Georgia's highlands. Five children have studied English in summer school in the UK. These children gained huge popularity on social media for popularising Georgian regions.

Part of the funds raised was used to organise multifunctional libraries in two conflict zone territory villages of Ditsi and Hurvaleti for more than 260 students.

In our effort to spread internet access to financially disadvantaged families in Georgia, we support a fundraising charity platform www.charte.ge. We believe that this project is crucial for access to education. The partnership will continue in 2020.

Supporting people with disabilities

Since 2014, Bank of Georgia has focused its efforts on supporting people with disabilities – one of the most vulnerable social groups in Georgia. In 2019, the Bank donated up to GEL 93,000 to the Tree of Life Foundation for this cause. The Tree of Life Foundation distributed the funds through grant competitions – one intended for the relevant NGOs that work with people with disabilities and another with the specific aim of promoting social entrepreneurship. In order to qualify for the competition, the proposals had to focus on the creation of a small enterprise with a social component aimed at improving the livelihood of people with disabilities.

Case study
A social enterprise Plasticwatcher.ge

Plasticwatcher is a social enterprise, with a mission to reduce plastic waste and pollution, and to inspire people to follow a zero-waste lifestyle. Plasticwatcher.ge believes that nearly all rubbish can be recycled and upcycled. By collecting household plastic waste, expired advertisement banners and roll-up materials from the partner organisations, the enterprise creates sustainable fashion items. The enterprise makes handmade recycled plastic bags, raincoats and other sustainable fashion accessories which offer an important solution to reduce plastic pollution by upcycling the plastic for its further use. Bank of Georgia allocated GEL 50,000 for the project. A core principle of Plasticwatcher.ge is to work with people to change their approach towards waste management.

Employee matters

A key factor to our success is a cohesive and professional team, capable of accomplishing the Group's objectives. We are committed to attracting and identifying the best professionals, caring and planning for their needs, investing in their development and fostering their commitment.

The Human Capital Management (HCM) department, and the management system it implements, play a vital role in managing our most valuable asset – our employees. The HCM department develops Human Resources (HR) policies and procedures which determine key principles, areas, approaches and methods that are crucial for building HCM systems for all our businesses.

This section sets out the policies we have in place to meet the responsibilities towards our employees, each subsection reflects the ways in which these policies have been implemented, and the aims of the policies achieved over the course of 2019. Bank of Georgia's HCM department oversees these policies in coordination with the Board of Directors and ensures relevant updates according to organisational, strategic or legislative changes. For example, our Remuneration Policy, the Code of Conduct, as well as the Human Rights Policy were reviewed and updated, based on regulatory requirements introduced in 2019.

Examples of some of our HR policies and procedures include, but are not limited to:
- employee planning and recruiting;
- HR administration;
- workforce remuneration – compensation and benefits;
- HR operations – budgeting and reporting;
- a code of conduct for employees;
- employee learning and development;
- human rights;
- grievances;
- retrenchment; and
- anti-nepotism.

The Bank's HCM department works closely with HR managers and executives from our subsidiaries in order to fulfil our mission – enable opportunities for each employee to achieve more of their potential, ensure proper implementation of the main principles and the provision of necessary support in all HR-related matters.

We recognise the importance of observing human rights and are committed to implementing socially responsible business practices.

Our Human Rights Policy establishes priorities and puts control procedures in place to provide equal opportunities and prevent discrimination or harassment on any grounds, including disability. Our Human Rights Policy applies to all employees and includes procedures in relation to employment processes (including recruitment procedures and procedures governing the continuity of employment of employees who become disabled during the course of their employment), hiring, training and development.

Employee engagement

We are committed to employee engagement. It is very important for us to ensure that our employees at all levels of the business are aware of our Group and we strive to provide them with a continuous flow of information, which includes, but is not limited to, the information about our corporate culture, the Group's strategy and performance, risks related to its performance, such as financial and economic factors, and our policies and procedures. We provide information in a number of ways, including via managers, presentations, new employees onboarding process, intranet, corporate social network – Workplace, which enables live online communication, email and regular town hall and off-site meetings. The corporate social network, Workplace, was added to our internal communication tools in 2019. It enhances employee engagement through a new level of team collaboration, open, direct and personalised communication.

In 2019, the Bank transformed its Employee Relations into Employee Experience Management. This transformation aims at elevating employee experience and building employees' commitment to the organisation and its objectives through interactive consulting and communication with our employees and managers, and maintaining their satisfaction and engagement during their employment at Bank of Georgia.

Employee Experience Management ensures our values are lived throughout the company's daily life and resonate with each single employee, empowering the employee voice and strengthening the culture of feedback and respect.

We value the views of our employees. We consult with them regularly and have implemented feedback systems, such as regular employee satisfaction surveys, which ensure that opinions of our employees are taken into account when making decisions that are likely to affect

Resources and Responsibilities continued

their interests. Employee feedback also helps us improve our customer-focused approach. In 2018, after the Supervisory Board's initiative, the Bank introduced Employee Voice on Board event, nurturing a culture of sharing, feedback, transparency, equal opportunities, appreciation, trust and respect. In 2019, regular meetings were facilitated under this initiative by the Vice-Chairman of the Supervisory Board Ms Hanna Loikkanen, who is involved in workforce engagement matters, and the Chairman Mr Neil Janin. Other Board members also took part in these discussions, held in an open and informal atmosphere, where the participants were able to discuss the challenges and opportunities, motivators and detractors that they encounter in their current work-life. The initiative encourages the culture of joint responsibility and constant development by showing employees themselves and their role in a bigger organisational context. The next meeting is scheduled for March 2020.

Willing to foster the culture of trust and open dialogue, in 2019, the Management Board held site visits to the Bank's service centres, which provided another opportunity for employees to be heard, discuss the issues that affect them and empower them to contribute to organisational and workplace development processes. The Management Board demonstrated a strong interest in employee and organisation matters. Each participant was able to express their views, and received encouragement to take responsibility and more actively engage in the Bank's progress/development towards becoming a more entrepreneurial growth organisation. Feedback from the visits and a follow-up on respective actions to address the issues was provided to employees by the CEO, Mr Archil Gachechiladze, together with the Deputy CEO and other senior employees overseeing the retail business. It was communicated via Workplace live stream and enabled the employees to interact with the presenters in real-time, ask questions and receive answers to specific issues related to feedback and respective action plan.

Following the Barrett Organisational Values assessment in 2017, we closely monitor employee engagement and cultural factors. In 2019, employee engagement surveys, using the Engaged Performance™ Framework in cooperation with the Korn Ferry representative office in Ukraine and another wave of Barrett Organisational Culture and Values assessment, were conducted. The results of the surveys, along with the information from various initiatives, gave accurate and deep insights regarding the current state and needs on employee engagement, inclusion and other issues related to the employee productivity. With overall engagement of 68% according to the Korn Ferry survey, more focus on employee recognition and teamwork appeared as desired components of culture in Barrett assessment.

Based on this insight, the Bank turned its focus to new aspects of customer-centric culture. Aiming to improve every experience, we integrated the Customer Experience and the Human Capital Management into one comprehensive direction, since it is difficult to sustain high-level customer satisfaction without improving and elevating employee experience. The main activities and initiatives for implementing and realising this approach will be introduced in 2020. We plan to review, analyse and reshape the employee end-to-end journeys in order to create the best employee experience on the market, with diverse opportunities for development, and ensure a high level of employee engagement, while attracting and retaining best talent.

Together with the integration of customer and employee experience, 2019 was also the year of agile transformation. The Bank completed the transformation to its agile delivery model. Our major focus is on customer experience and therefore we strive to improve delivery efficiency and reduce time-to-market by empowering self-organised cross-functional teams around products and digital channels, and clearly translating top-level strategy to execution and team-level goals. Our Agile approach ensures technology and human experience connect by creating real-time, quick and personalised digital services. Both transformations incorporate regular feedback from customers, businesses and employees – we keep developing and advancing our feedback culture via open and constructive dialogue based on mutual trust. Such approach ensures that we help each other to grow and develop. The following activities are the part of this culture and were regularly performed in 2019:

- town hall meetings with the CEO;
- CEO Newsletters, thank-you emails and CEO VLOG on Workplace;
- agile quarterly business reviews (QBRs) with the management; and
- Employee Voice on Board meetings.

In order to measure success and effectiveness of the employee engagement initiatives and monitor their sustainability, we introduced ENPS as a main KPI in our human capital (see details on page 57). We use our customer experience online platform Medallia to help employees enhance their productivity by analysing live immediate feedback from our customers and capturing opportunities to improve our performance (see more information on Medallia in the customer experience section on page 47).

In order to ensure fair treatment towards our employees and their reward, the Bank monitors employee pay tendencies via labour market compensation surveys in the financial sector. The results of the 2019 survey, and its analysis with internal data, confirmed that the Bank remains a competitive employer.

Our remuneration structure supports employee performance, which is monitored on a regular basis. Performance reviews are part of our ongoing feedback process. Their frequency varies by position and can be conducted monthly, quarterly, semi-annually and annually, according to job specifics.

The Bank's employee remuneration package includes the following benefits:

- maternity leave compensation (paid to 385 employees in 2019);
- health insurance for our employees and their family members;
- financial aid in case of marriage, childbirth or adoption, employee death, illness and/or death of family member, employee illness (in particular cases) when the insurance package does not cover the expenses;
- flexible days off in addition to those defined by the Labour Code of Georgia; and
- special rates on banking products and services.

Bank of Georgia and its affiliates are committed to promoting equality and diversity, promoting a culture that actively values difference and recognises that people from 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, and has the ability to recruit and retain a diverse workforce.

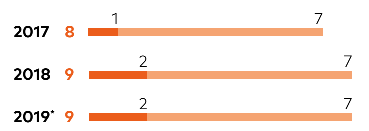
The Bank aims to ensure that no individual or group is directly or indirectly discriminated against for any reason (gender, marital status, ethnic origin, disability, age, sexual orientation, race, and nationality, political or religious beliefs) with regard to employment. The universal rights of all people to be treated with respect, equality and dignity are espoused and declared in our Employee Corporate Handbook and Human Rights Policy. With an Anti-Nepotism Policy, we ensure and support fair and transparent decision-making.

In 2019, the Bank conducted a self-assessment with guidance provided by the Women's Empowerment Principles, which were established by UN Global Compact and UN Women. The results will enable us to further advance our approach towards gender diversity.

With this outlook, the Bank keeps monitoring a fair balance in its workforce. Please follow the link to the Hampton-Alexander review: https://ftsewomenleaders.com/wp-content/uploads/2019/11/HA-Review-Report-2019.pdf.

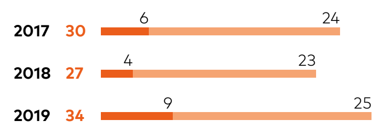
Directors
Headcount

9



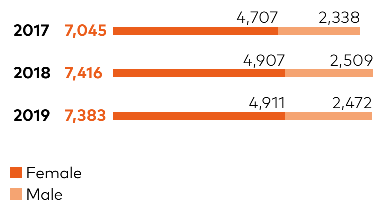
Senior managers
Headcount

34



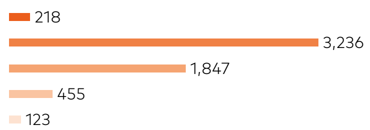
All employees
Headcount

7,383



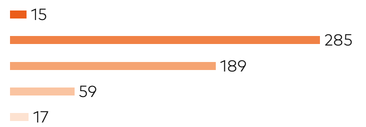
Employees headcount by age
Bank of Georgia

5,879



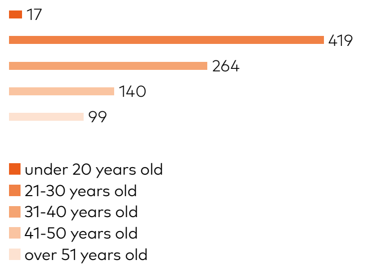
Employees headcount by age
BNB

565



Employees headcount by age
Others

939



* One of the Independent Non-Executive Directors stepped down from the Board of Directors on 31 January 2020 due to other business commitments.

Resources and Responsibilities continued

Talent acquisition and management

Our Talent Management system aims to attract and retain the best talent available on the market and make them fully engaged with the Group. Recruitment policy with panel interviews, relevant control procedures and online applicant tracking system (ATS) ensure an unbiased hiring process that provides equal employment opportunities to all candidates with diverse education and experience in line with our business development and respective new job requirements.

Our application process is conducted with a non-discriminative approach and does not request information on age, date of birth, gender, and/or a photo from candidates, thus ensuring inclusiveness and equal access to employment. We also aim to ensure talent development internally, and internal candidates have a priority when filling the vacant positions, especially in cases where there are openings in the top and middle management. Thus, in 2019, 142 Group employees (74 women and 68 men) were promoted to managerial positions.

In order to attract young talent, we actively partner with the leading Georgian business schools and universities, and constantly increase the number of our partners, thus fostering the cross-university diversity and broadening a range of degree disciplines that we consider for a talent acquisition. The Bank regularly participates in job fairs and runs extensive internship/student development programmes. Since 2012, we have run a regular student development programme in a special format and constantly advance it. During 2019, 38 participants were involved in our student development programme, of which 15 participants became Bank of Georgia's full-time employees. The programme currently runs under the name Leaderator, and is highly recognised on the Georgian labour market amongst students and recent graduates. In 2019, it was refreshed, restructured and several streams were introduced: Corporate and Investment Banking, including Wealth Management, IT, SME, data science, financial management, retail banking services and digital products, business development analytics, business efficiency, banking regulations and compliance. The programme participation is rewarded financially and offers flexible schedules in order to support students' academic activities. The programme attracts promising undergraduates and provides them with the opportunity to see a comprehensive 360° picture of the Bank in action, work on real projects and receive coaching and support from the Bank's executives and middle managers.

Participants take part in professional training and have a chance to become members of the leading financial institution in the country.

The Bank highly values the talent of its employees and provides various talent retention activities by engaging them through leadership development and various professional certification programmes. We are creating an equal opportunity workplace, where people of different cultures and values have an interesting and challenging working environment together. Various development opportunities in terms of career, as well as personal growth, are available for employees. Internal promotions are part of the talent attraction and retention system, and create a basis for employee loyalty and retention. Similar to the updates that we introduced in 2019 to the student development programme Leaderator, we plan to refresh and update our top-talent development programme in 2020 – to make them more concurrent and tailored to our top-performing employees. The Bank also offers competitive remuneration and benefit packages to its workforce and supports their work-life balance by providing additional paid days off, on top of those mandated by the Labour Code of Georgia. The Bank encourages engagement and dedication of its talented employees with awards granted to the Best Employee and Team of the Year.

Training and development

To manage our employees in a way that best supports our business strategy, we seek to help them contribute to business performance through personal and professional development. Following our aspiration to develop strong leaders, we have developed an extensive leadership development 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 given the opportunity to receive external training in well-known training institutions outside of Georgia.

Since 2014, Bank of Georgia runs a Leadership Development Executive Coaching programme which provides an individual approach in developing leadership skills. The programme continued successfully throughout 2019 and expanded to the lower leadership levels, and benefited its participants with a personally tailored development experience.

Employees involved in the programme gain greater awareness of their leadership strengths and opportunities for future growth. Based on its previous years' experience, the Bank regularly updates and improves its Leadership Development System, together with the 360° feedback process. The last update was delivered for the 2019 360° feedback process.

The Bank has an extensive training programme for front office employees in order to provide them with relevant knowledge and skills such as: banking services, compliance, effective communication, and building strong and valuable client relationships.

In 2018, we partnered with an international consulting and training company, Franklin Covey, to develop a training programme for our sales force to help them better understand the Bank's client-centred approach. The participants of this training programme improved their ability to communicate with the clients to achieve common goals, build long-term sustainable solutions and help in their decision-making in buying products and services. An in-house client-centric sales programme has been developed based on this experience by our Learning team. The goal of the programme is to enhance our employees' sales and customer relationship skills for developing mutually beneficial relationship with customers, strengthen the client-centric approach and equip them with relevant expertise and techniques.

The Bank's mentoring programme is also part of front office training. Every new employee is provided with regular advice, guidance and practical instructions from an appointed mentor, who later also evaluates a new employee's performance. Through this programme we aim to provide individual support to our employees in achieving their professional goals.

Since 2017, the Bank operates an online Learning Management System (LMS) offering employees an easy and comfortable access to corporate learning opportunities. LMS currently offers a wide range of distance and blended courses for professional development, various blogs, translated articles and videos about important topics. One of the themes intensively covered by online training is compliance, including risks, safety, and internal and external regulatory compliance that apply to day-to-day job responsibilities. These courses raise awareness about activities and initiatives that safeguard our value.

The Bank also offers face-to-face compliance courses with internal and external providers (compliance training hours increased by more than 50% from 2018 to 2019).

The Bank runs the onboarding programme, which is a special welcoming event for employees at all levels. It is an orientation programme, where information about the organisational culture, the Bank's values and benefits for employees are delivered and discussed. Participants are also informed about the Bank's social responsibilities, career opportunities, learning, and personal and professional development.

Agile-related intensive training was part of 2019 learning programmes, providing employees involved in transformation with various technical and soft skills (e.g. Agile Bootcamps and respective professional certifications, delivering effective feedback, coaching in squads, etc.) and ensuring their smooth transition and effectiveness in their new roles.

Human rights policy

Bank of Georgia is committed to introducing advanced human rights practices in its activity and uses this approach as a basis to the management and decision-making processes. We believe that the respect of human rights is central to the creation of social responsibility values. Our Human Rights Policy envisages the following principles in running the business:

- we act with integrity, fairness and transparency;
- our criteria for investments envisage economic return, environmental impact, social consequences and human rights;
- we treat people with fairness and respect;
- we create a healthy, safe and secure working environment; and
- through our initiatives, we facilitate the protection of human rights.

In order to ensure the implementation of these principles in the Bank's day-by-day activities, the policy sets clear standards for:

- equal opportunities and anti-discrimination;
- work environment free of harassment; and
- grievance resolution.

The human resources and human rights policies are an integral part of the employee onboarding package. It is available for employees on the intranet and the updates are communicated electronically. We monitor the employee awareness of these policies and ensure that our employees enjoy a corporate life full of opportunities.

Anti-nepotism policy

In making any decision regarding employees, Bank of Georgia observes a anti-nepotism policy which aims to prevent cases of nepotism and favouritism in the Bank in all processes of hiring and managing employees (development/learning, promotion, remuneration, etc), ensuring transparency, impartiality and equality of opportunities.

Code of conduct and ethics, anti-bribery and anti-corruption policies

The Group has a Code of Conduct and Ethics, as well as an Anti-Bribery and Anti-Corruption Policy, which are applicable to all companies within the Group. In the Bank, the Compliance Committee oversees the Code of Ethics Compliance. The Bank's Corporate Security unit is in charge of implementing and monitoring controls related to anti-bribery issues.

Resources and Responsibilities continued

The department has the procedures in place, which define the process of establishing relationships with vendors and other third-parties, undertaking public tenders, etc. The Corporate Security unit provides annual online training for employees on anti-bribery issues for key individuals on a face-to-face basis. For other staff, an online training platform is designed to ensure that all employees undertake online annual training. Anti-bribery issues are also included in induction trainings. 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.

Anti-Bribery and Anti-Corruption Policy enforcement processes include:

- operating an internal whistleblowing hotline system;
- disclosure of gifts or other benefits, including hospitality offered to, or received by, Bank personnel;
- voluntary disclosure of corrupt conduct;
- third-party screening to identify the risk level third parties might pose;
- all charitable and political donations must be authorised by the relevant responsible position;
- informing stakeholders about anti-corruption and anti-bribery principles before commencement of business relations;
- ensuring that anti-bribery and anti-corruption clauses are incorporated in the agreements with customers and third parties;
- ensuring that anti-bribery and anti-corruption matters are included in contractual agreements with partners/counterparties; and
- online training programmes aiming to raise awareness in corruption and bribery issues among employees.

As part of the Group's third-party screening to identify the level of risk the third parties might pose, the Group 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, joint venture partners, contractors, suppliers and other third parties, their reputation and information whether the company is a related party.

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.

Client experience

Bank of Georgia has identified customer experience as one of its strategic priorities and incorporates its principles in all relationships/touch-points with customers, new product and channel development, and optimisation of business processes in the back office. For more information, see pages 47 and 50 to 51.

Educating on banking matters

The Group recognises the importance of having the best interest of society both in the short and long term. With the aim to positively impact the community where it operates, the Bank is motivated to provide its clients with comprehensive information on their rights and financial transactions.

Aiming to increase financial knowledge throughout the country, Bank of Georgia, together with the National Bank of Georgia (NBG) and with the support of the German Foundation of Savings Banks for International Cooperation, launched a website – www.grovia.com.ge.

It contains information on World Savings Day, banking products and services, and customer rights. The idea behind the project is to restore the public trust in the financial sector and to overcome the hurdle between people and commercial banks.

Grovia, which is a symbol of World Savings Day in Georgia, was created within Savings Accumulation and Financial Opportunities – the project supported by the Savings Banks Foundation for International Cooperation (SBFIC), together with the Ministry of Economic Cooperation and Development of Germany. Public savings are important for the country's economy and financial institutions. The culture of saving is directly related to people's knowledge of financial and economic matters. Financial education is considered as one of the components of financial services and consumer protection. Due to its importance, many countries, including Georgia, have taken steps to increase opportunities to educate the population on financial services. Grovia is a step towards spreading financial education in Georgia and empowering people to make sound and informed decisions about their personal finances.

One of the goals of Grovia is to develop the saving skills in schoolchildren. In cooperation with other stakeholders, we organise multiple-round meetings in schools and raise awareness on the proper management of financial resources. Moreover, in cooperation with the NBG, we set up meetings with schoolchildren and teach them general principles of finance through interactive lectures and games. Similar educational events are also organised in the regions in Georgia.

In addition to Grovia, Bank of Georgia compiled a dictionary of banking terminology to help clients better understand the banking products offered to them, read and comment on the contracts they are about to sign, and as a result make informed decisions in their best interest. The dictionary includes more than 1,000 banking, financial, legal, accounting, insurance, marketing terms and phrases, and is available in the Bank's service centres, as well as online under www.terminebi.ge. Printed copies are also available in public libraries and universities. Similar projects are successfully implemented in various developed countries, including Germany and Poland.

Security matters

Bank of Georgia takes a number of measures to guarantee employee safety. The Bank regularly carries out fire and other emergency drills, and relevant training. Selected employees in every major branch of the Bank are periodically trained in providing first aid. Since September 2019, a new law on labour security has come into force, which mandated us to create a dedicated unit of three people (the law requires the organisations with more than 100 employees to have at least two people in the unit). All three employees were trained in the relevant institutions and were given certificates, which is also a mandatory requirement of the law. This unit covers both fire and emergency, medical emergency and occupational safety issues. These units are trained at least twice a year in all branches of Bank of Georgia throughout Georgia.

Bank of Georgia aims to provide security to employees in case they are blackmailed, abused, stalked, etc. In 2018, the Bank launched "My Lawyer" – a project created to protect the rights of employees and their family members in case a crime was committed against them or if they themselves are accused of wrong-doing. In 2019, we started processing our first cases and we plan to work with our colleagues to boost the participation in this programme.

Every service centre of the Bank is equipped with a security system and is protected by the police force when the alarm is activated. The Bank also employs its own security which patrols the service centres around the clock. In 2019, we set up a new model of security in closely located branches. We replaced security administrators with the properly trained and equipped patrol teams. Round-the-clock branches are monitored by our monitoring centre. We have implemented a 360° surveillance system in our service centres. Currently, we are working to implement video analytics and face recognition systems.

In 2019, we strengthened security systems in the Bank of Georgia branches. The aim was to make any attempt of robbery extremely difficult. We set up a round-the-clock monitoring hotline for employees to report security issues.

Group policies

The Group has in place a Code of Conduct and Ethics, as well as policies which relate to environmental matters, employees, social matters and anti-bribery and anti-corruption.

Copies of these polices can be found on the Group's website: https://bankofgeorgiagroup.com/governance/documents.

Overview of Financial Results

Continued strong momentum – excellent growth and outstanding profitability, supported by strong asset quality and capital position

The Group delivered another year of strong balance sheet and fee income growth, combined with superior profitability, achieved as a result of excellent customer franchise growth, good cost management in both the Retail and Corporate and Investment Banking businesses, whilst continuing to invest in core capabilities, and achieving continued improvements in asset quality. The new management is successfully executing the new strategy in the significantly lower-risk regulatory environment and the Group remains very well-positioned to continue to deliver good momentum and high returns in the future.

Group demerger

On 29 May 2018, the demerger of Bank of Georgia Group PLC's Investment Business to Georgia Capital PLC came into effect. The results of operations of the Investment Business prior to the demerger, as well as the gain recorded by the Group as a result of the Investment Business distribution, are classified under the "discontinued operations". The Group and Banking Business detailed financials, as well as Discontinued Operations and inter-business eliminations for the previous period, are presented on pages 217 to 221. Throughout the Overview of Financial Results section, the discussion is focused on the Banking Business results (excluding eliminations with Investment Business during the five months of 2018), which represents the continuing business of the Group since the demerger.

Income statement highlights

GEL thousands	Banking Business 2019	Banking Business 2018	Change y-o-y
Net interest income	789,419	739,604	6.7%
Net fee and commission income	180,014	153,182	17.5%
Net foreign currency gain	119,363	129,437	-7.8%
Net other income	21,474	7,815	NMF
Operating income	**1,110,270**	**1,030,038**	**7.8%**
Operating expenses	**(419,946)**	**(378,517)**	**10.9%**
Profit from associates	789	1,339	-41.1%
Operating income before cost of risk	**691,113**	**652,860**	**5.9%**
Cost of risk	(107,584)	(160,225)	-32.9%
Net operating income before non-recurring items	**583,529**	**492,635**	**18.5%**
Net non-recurring items	(10,723)	(22,643)	-52.6%
Profit before income tax expense and one-off costs	**572,806**	**469,992**	**21.9%**
Income tax expense	(58,619)	(34,948)	67.7%
Profit adjusted for one-off costs	**514,187**	**435,044**	**18.2%**
One-off termination costs of former CEO and executive management (after tax), one-off demerger-related expenses (after tax) and one-off impact of re-measurement of deferred tax balances	(14,236)	(56,402)	-74.8%
Profit	**499,951**	**378,642**	**32.0%**

Balance sheet highlights

GEL thousands	31-Dec-19	31-Dec-18	Change y-o-y
Liquid assets	5,559,500	4,540,032	22.5%
Cash and cash equivalents	*2,153,624*	*1,215,799*	*77.1%*
Amounts due from credit institutions	*1,619,072*	*1,305,216*	*24.0%*
Investment securities	*1,786,804*	*2,019,017*	*-11.5%*
Loans to customers and finance lease receivables	11,931,262	9,397,747	27.0%
Property and equipment	379,788	344,059	10.4%
Total assets	**18,569,497**	**14,798,303**	**25.5%**
Client deposits and notes	10,076,735	8,133,853	23.9%
Amounts owed to credit institutions	3,934,123	2,994,879	31.4%
Borrowings from DFIs	*1,486,044*	*1,302,679*	*14.1%*
Short-term loans from NBG	*1,551,953*	*1,118,957*	*38.7%*
Loans and deposits from commercial banks	*896,126*	*573,243*	*56.3%*
Debt securities issued	2,120,064	1,730,414	22.5%
Total liabilities	**16,418,589**	**13,000,030**	**26.3%**
Total equity	**2,150,908**	**1,798,273**	**19.6%**

Overview of Financial Results continued

Banking Business key ratios

	2019	2018
ROAA (adjusted)[1]	3.1%	3.2%
ROAA (reported)	3.1%	2.8%
ROAE (adjusted)[1]	26.1%	26.4%
ROAE (reported)	25.4%	22.9%
Net interest margin	5.6%	6.5%
Liquid assets yield	3.5%	3.8%
Loan yield	11.7%	13.5%
Cost of funds	4.6%	5.0%
Cost/income (adjusted)[2]	37.8%	36.7%
Cost/income (reported)	38.9%	36.7%
NPLs to gross loans to clients	2.1%	3.3%
NPL coverage ratio	80.9%	90.5%
NPL coverage ratio, adjusted for discounted value of collateral	139.6%	129.9%
Cost of credit risk ratio	0.9%	1.6%
NBG (Basel III) CET1 capital adequacy ratio	11.5%	12.2%
NBG (Basel III) Tier I capital adequacy ratio	13.6%	12.2%
NBG (Basel III) Total capital adequacy ratio	18.1%	16.6%

Results highlights

- **Outstanding performance.** Profit adjusted for one-off costs totalled GEL 514.2mln in 2019, up 18.2% y-o-y, with profitability of 26.1% ROAE[1] in 2019.
- **Loan book growth totalled 27.0% y-o-y at 31 December 2019.** Growth on a constant-currency basis was 22.0% y-o-y. Retail Banking loan book share in the total loan portfolio was 66.0% at 31 December 2019, compared with 69.8% at 31 December 2018.
- **Strong asset quality.** The cost of credit risk ratio improved to 0.9% in 2019 (down 70bps y-o-y), primarily reflecting our increasing focus on lending in the higher quality mortgage segment and to SME clients, as well as the recovery of several mid- to low-sized corporate loans. NPLs to gross loans ratio decreased to 2.1% at 31 December 2019 (down from 3.3% at 31 December 2018), while the NPL coverage ratio stood at 80.9% and the NPL coverage ratio adjusted for discounted value of collateral to 139.6% (129.9% at 31 December 2018).
- **Dollarisation of the loan book and client deposits.** Loan book in local currency accounted for 41.5% of the total loan book at 31 December 2019 (38.3% a year ago). The shift of the loan portfolio was partially driven by the Government's de-dollarisation initiatives and our goal to increase the share of local currency loans in our portfolio. Currently, the part of the loan portfolio which is most sensitive to foreign currency risk is largely de-dollarised. 72.6% of Retail Banking loans were issued in local currency during 2019. Client deposits in local currency represented 30.7% of the total deposit portfolio at 31 December 2019 (32.5% a year ago).
- **Strong capital position.** Basel III CET1, Tier 1 and Total Capital Adequacy ratios stood at 11.5%, 13.6% and 18.1%, respectively, at 31 December 2019, all comfortably above the minimum required levels of 10.1%, 12.2% and 17.1%, respectively.
  - **In March 2019, the Bank issued an inaugural US$100 million 11.125% Additional Tier 1 Capital Perpetual Subordinated Notes.** Regulatory approval on the classification of these securities as **Additional Tier 1 instruments** was received in April 2019. At the time of issuance, this has added approximately 230 basis points to the Bank's Tier 1 capital ratio.
  - **In December 2019, the Bank signed a ten-year US$ 107mln subordinated syndicated loan agreement** arranged by FMO – Dutch entrepreneurial development bank, in collaboration with other participating lenders. The facility is expected to be treated as a Bank **Tier 2 capital instrument** (upon disbursement and approval of the National Bank of Georgia) under the Basel III framework, which will help to further improve the Bank's capital position. US$ 52mln was already drawn-down by the Bank and the regulatory approval on classification was received in December 2019. The rest of the facility is expected to be utilised within six months of 2020.
- **Retail Banking ("RB") continued to deliver solid net interest income, coupled with net fee and commission income generation during 2019.** The Retail Banking net loan book reached GEL 7,427.7mln at 31 December 2019, up 18.5% y-o-y. The growth was predominantly driven by mortgage and MSME lending. At the same time, RB client deposits increased to GEL 5,712.5mln at 31 December 2019, up 31.7% y-o-y. The Retail Banking net interest margin stabilised at 6.1% in 2019.
- **Corporate and Investment Banking ("CIB") demonstrated outstanding growth,** generating strong net interest income and net fee and commission income, coupled with strong asset quality. CIB's net loan book reached GEL 3,804.4mln at 31 December 2019, up 45.3% y-o-y. The growth on a constant-currency basis was 37.4% y-o-y. The top ten CIB client concentration was 9.9% at 31 December 2019 (9.8% at 31 December 2018).
- **Assets Under Management ("AUM") within the Group's Investment Management business, increased to GEL 2,567.2mln at 31 December 2019,** up 13.0% y-o-y, reflecting an increase in client assets and bond issuances at Galt & Taggart, our brokerage subsidiary.
- **Digital channels.** We have actively continued the further development of our digital strategy:
  - **The Bank continued to introduce new features to our mobile banking application and our internet bank for individual customers.** As a result, the number of active internet and mobile banking users (largely flat and up 53.9% y-o-y, respectively) as well as the number and volume of transactions through our mobile and internet banking continued to expand (91.2% y-o-y increase in number of transactions and 73.3% y-o-y increase in volume of transactions during 2019). In total, more than 93% of daily transactions were executed through digital channels during 2019.
  - **In 1Q19, the Bank released a new business internet banking platform (Business iBank)** for MSME and corporate clients, which comes with many features designed to make its use an intuitive and smooth experience. We focused our efforts on making the Business iBank even more useful for business transactions, which should further incentivise offloading client activity to digital channels. As a result, we already saw a significant increase in the number and volume of transactions through Business iBank during 2019 (up 57.6% and up 31.7% y-o-y, respectively). More than 93% of daily transactions of legal entities were executed through the internet bank during 2019.
  - **Digital ecosystem developments.** In order to enhance our client-centric offering, we have developed a digital ecosystem with a number of integrated platforms aimed at providing the value-added solutions to our clients in addition to the traditional financial services. Currently, our digital ecosystem rests on two pillars: retail and MSME. Under the retail pillar, we launched a cutting-edge full-service real estate digital platform, ***area.ge*** in 1Q19, and acquired a leading Georgian e-commerce platform, ***extra.ge***, in 2Q19. Under the MSME pillar, in September 2019, we launched ***Optimo*** – a digital solution for our MSME customers to run their business sales and solutions. For more details on these platforms, see page 110.

Discussion of results

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

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

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

Overview of Financial Results continued

Operating income

GEL thousands, unless otherwise noted	2019	2018	Change y-o-y
Interest income	1,437,161	1,327,085	8.3%
Interest expense	(647,742)	(587,481)	10.3%
Net interest income	**789,419**	**739,604**	**6.7%**
Fee and commission income	284,193	229,670	23.7%
Fee and commission expense	(104,179)	(76,488)	36.2%
Net fee and commission income	**180,014**	**153,182**	**17.5%**
Net foreign currency gain	119,363	129,437	-7.8%
Net other income	21,474	7,815	174.8%
Operating income	**1,110,270**	**1,030,038**	**7.8%**

Net interest margin	5.6%	6.5%	
Average interest earning assets	14,054,063	11,312,219	24.2%
Average interest-bearing liabilities	14,203,556	11,814,475	20.2%
Average net loans and finance lease receivables, currency blended	10,563,962	8,331,812	26.8%
Average net loans and finance lease receivables, GEL	4,229,668	3,336,575	26.8%
Average net loans and finance lease receivables, FC	6,334,294	4,995,237	26.8%
Average client deposits and notes, currency blended	9,076,632	7,441,616	22.0%
Average client deposits and notes, GEL	2,904,441	2,557,565	13.6%
Average client deposits and notes, FC	6,172,191	4,884,051	26.4%
Average liquid assets, currency blended	4,767,599	4,395,537	8.5%
Average liquid assets, GEL	2,106,672	1,971,407	6.9%
Average liquid assets, FC	2,660,927	2,424,130	9.8%
Liquid assets yield, currency blended	3.5%	3.8%	
Liquid assets yield, GEL	6.6%	6.9%	
Liquid assets yield, FC	1.1%	1.2%	
Loan yield, currency blended	11.7%	13.5%	
Loan yield, GEL	17.0%	20.4%	
Loan yield, FC	8.1%	8.8%	
Cost of funds, currency blended	4.6%	5.0%	
Cost of funds, GEL	7.0%	7.2%	
Cost of funds, FC	3.2%	3.6%	
Cost/income (adjusted)[3]	37.8%	36.7%	
Cost/income (reported)	38.9%	36.7%	

Performance highlights

- **Strong operating income of GEL 1,110.3mln in 2019, up 7.8% y-o-y**. Y-o-y operating income growth in 2019 was primarily driven by a 6.7% y-o-y increase in net interest income, which resulted from strong loan book growth during the year. Additionally, net fee and commission income and net other income contributed to y-o-y growth of operating income. The latter was primarily driven by the GEL 12.8mln gain recorded as a result of revaluation of investment property in 2019.
- **Our NIM was 5.6% in 2019.** During 2019, loan yield was down 180bps y-o-y, while cost of funds decreased by 40bps y-o-y, causing net interest margin (NIM) to decline by 90bps y-o-y. The y-o-y decline in NIM was partially driven by the increased minimum reserve requirements mandated by the NBG as discussed in more detail later.
- **Loan yield.** Currency blended loan yield was 11.7% in 2019, down 180bps y-o-y. The y-o-y decline in loan yields was attributable to a decrease in both local and foreign currency loan yields, which primarily reflected the change in the product mix in our loan portfolio.

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

- **Liquid assets yield.** Currency blended liquid assets yield was 3.5% in 2019, down 30bps y-o-y. The local currency denominated liquid assets yield decline (down 30bps y-o-y) directly reflected the NBG monetary policy rate movements during the year. As for the foreign currency denominated liquid assets yields (down 10bps y-o-y), it reflected: a) an increase in obligatory reserves with NBG, primarily driven by the changes in minimum reserve requirements mandated by NBG since September 2018, whereby the foreign currency funds raised by local banks carried up to a 25% reserve requirement depending on maturity, and further increase of this requirement up to 30% since May 2019 (although the mandatory reserve requirements on funds attracted in foreign currency was reduced to 25% in October 2019); b) starting from 12 July 2018, NBG reduced interest rates on foreign currency obligatory reserves from US Fed rate upper bound minus 50bps to Fed rate upper bound minus 200bps, floored at zero for US Dollar reserves, and from ECB rate minus 50bps to ECB rate minus 200bps, floored at negative 60bps for EUR denominated reserves (however, starting from 3 October 2019, following rates are in place – US Fed rate upper bound minus 50bps for US Dollar reserves, and ECB rate minus 20bps for EUR denominated reserves).
- **Cost of funds.** Cost of funds stood at 4.6% in 2019, down 40bps y-o-y. Y-o-y decline in cost of funds was primarily due to a decline in the cost of client deposits and notes (down 50bps y-o-y in 2019), coupled with the decline in cost of amounts owed to credit institutions (down 20bps y-o-y), on the back of decrease in Libor rate and lower average NBG monetary policy rate in 2019, as well as the repayment of US$ 65mln subordinated debt in April 2019. Furthermore, starting from 2019, the Bank entered into certain cross-currency swap agreements to hedge net interest rate risk on Euro lending, which contributed to the reduction of all components of cost of funds y-o-y. This decline was partially offset by the increase in cost of funds as a result of issuance of inaugural US$ 100 million Additional Tier 1 capital perpetual subordinated notes at the end of March 2019.
- **Net fee and commission income**. Net fee and commission income reached GEL 180.0mln in 2019, up 17.5% y-o-y. Growth was mainly driven by the strong fees and commission income generation from guarantees and letters of credit issued by our Corporate and Investment Banking business.
- **Net foreign currency gain.** In line with currency volatility, client-driven flows, as well as robust interest from foreign financial institutions in local currency, the net foreign currency gain was down 7.8% y-o-y in 2019.
- **Net other income.** Significant y-o-y increase in net other income in 2019 was largely driven by GEL 12.8mln net gains recorded as a result of the revaluation of investment property in 2019.

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

GEL thousands[4]	2019	2018	Change y-o-y
Salaries and other employee benefits	(231,443)	(215,816)	7.2%
Administrative expenses	(106,157)	(113,264)	-6.3%
Depreciation, amortisation and impairment	(78,118)	(45,442)	71.9%
Other operating expenses	(4,228)	(3,995)	5.8%
Operating expenses	**(419,946)**	**(378,517)**	**10.9%**
Profit from associate	789	1,339	-41.1%
Operating income before cost of risk	**691,113**	**652,860**	**5.9%**
Expected credit loss/impairment charge on loans to customers	(94,155)	(139,499)	-32.5%
Expected credit loss/impairment charge on finance lease receivables	(885)	(164)	NMF
Other expected credit loss/impairment charge on other assets and provisions	(12,544)	(20,562)	-39.0%
Cost of risk	**(107,584)**	**(160,225)**	**-32.9%**
Net operating income before non-recurring items	**583,529**	**492,635**	**18.5%**
Net non-recurring items	(10,723)	(22,643)	-52.6%
Profit before income tax expense and one-off costs	**572,806**	**469,992**	**21.9%**
Income tax expense	(58,619)	(34,948)	67.7%
Profit adjusted for one-off costs	**514,187**	**435,044**	**18.2%**
One-off termination costs of former CEO and executive management (after tax), one-off demerger-related expenses (after tax) and one-off impact of re-measurement of deferred tax balances	(14,236)	(56,402)	-74.8%
Profit	**499,951**	**378,642**	**32.0%**

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

Overview of Financial Results continued

- **Operating expenses** adjusted for one-off employee costs related to termination benefits of former executive management members (acceleration of share-based compensation) were GEL 419.9mln in 2019, up 10.9% y-o-y. The increase in salaries and other employee benefit expenses was mainly driven by increased investments in IT-related resources as part of the Agile transformation process, focus on digitalisation, investments in marketing and branch network.
- The y-o-y decline in **administrative expenses** and increase in **depreciation, amortisation and impairment expenses** in 2019 is primarily driven by the adoption of a new standard IFRS 16, Leases replacing IAS 17, Leases effective 1 January 2019. As a result of the adoption of the standard, the Group recorded on its balance sheet assets related to the right to use the rented properties together with corresponding liabilities for respective payments under the lease contracts. Excluding this impact, the increase in depreciation, amortisation and impairment expenses was due to increased investments during 2019.
- **Improved asset quality.** The cost of credit risk ratio was 0.9% in 2019, down 70bps y-o-y. RB's cost of credit risk ratio was 1.2% in 2019, down 90bps y-o-y, while CIB's cost of credit risk ratio stood at 0.2% in 2019, down 60bps y-o-y. The decrease in RB's cost of credit risk ratio reflected improved loan portfolio quality due to our increasing focus on lending in the mortgage segment and to SME clients, while CIB's cost of credit risk ratio improvement during the year was primarily driven by the recovery of several mid- to low-sized corporate loans in 2019.
- **Quality of our loan book remained strong in 2019** as evidenced by the following closely monitored metrics. The improvement in NPLs to gross loans was primarily driven by write-off and recovery of several non-performing corporate loans in 2019. The NPL coverage ratio was also down due to write-offs during the year. That said, NPL coverage ratio adjusted for the discounted value of collateral improved y-o-y at 31 December 2019:

GEL thousands, unless otherwise noted	31-Dec-19	31-Dec-18	Change y-o-y
Non-performing loans			
NPLs	252,695	318,356	-20.6%
NPLs to gross loans	2.1%	3.3%	
NPLs to gross loans, RB	1.5%	2.1%	
NPLs to gross loans, CIB	3.0%	5.6%	
NPL coverage ratio	80.9%	90.5%	
NPL coverage ratio adjusted for the discounted value of collateral	139.6%	129.9%	

- **BNB – the Group's banking subsidiary in Belarus – continues to remain strongly capitalised,** with capital adequacy ratios well above the requirements of the National Bank of the Republic of Belarus ("NBRB"). At 31 December 2019, total capital adequacy ratio was 15.0%, above the 12.5% minimum requirement, while Tier I capital adequacy ratio was 9.1%, above NBRB's 7% minimum requirement. ROAE was 14.5% in 2019, compared with 14.6% in 2018.
- **Net non-recurring items**. Net non-recurring expenses adjusted for one-off costs amounted to GEL 10.7mln in 2019 (GEL 22.6mln in 2018), largely reflecting legal fees incurred during 2019.
- **Overall, profit adjusted for one-off costs** totalled GEL 514.2mln in 2019 (up 18.2% y-o-y), while ROAE[5] was 26.1% in 2019 (26.4% in 2018).

5 The 2019 ROAE is adjusted for GEL 14.2mln one-off employee costs (net of income tax) related to termination benefits of the former CEO and executive management. The 2018 ROAE is adjusted for GEL 3.9mln one-off employee costs (net of income tax) related to termination benefits of the former CEO, and GEL 52.5mln demerger-related expenses (net of income tax) and one-off impact of re-measurement of deferred tax balances.

Balance sheet highlights

GEL thousands, unless otherwise noted	31-Dec-19	31-Dec-18	Change y-o-y
Liquid assets	5,559,500	4,540,032	22.5%
Liquid assets, GEL	2,245,740	2,283,812	-1.7%
Liquid assets, FC	3,313,760	2,256,220	46.9%
Net loans and finance lease receivables	11,931,262	9,397,747	27.0%
Net loans and finance lease receivables, GEL	4,946,387	3,597,826	37.5%
Net loans and finance lease receivables, FC	6,984,875	5,799,921	20.4%
Client deposits and notes	10,076,735	8,133,853	23.9%
Amounts owed to credit institutions	3,934,123	2,994,879	31.4%
Borrowings from DFIs	1,486,044	1,302,679	14.1%
Short-term loans from central banks	1,551,953	1,118,957	38.7%
Loans and deposits from commercial banks	896,126	573,243	56.3%
Debt securities issued	2,120,064	1,730,414	22.5%
Liquidity and capital adequacy ratios			
Net loans/client deposits and notes	118.4%	115.5%	
Net loans/client deposits and notes + DFIs	103.2%	99.6%	
Liquid assets/total assets	29.9%	30.7%	
Liquid assets/total liabilities	33.9%	34.9%	
NBG liquidity ratio	31.1%	31.9%	
NBG liquidity coverage ratio	136.7%	120.1%	
NBG (Basel III) CET1 capital adequacy ratio	11.5%	12.2%	
NBG (Basel III) Tier I capital adequacy ratio	13.6%	12.2%	
NBG (Basel III) Total capital adequacy ratio	18.1%	16.6%	

Our balance sheet remains highly liquid (NBG liquidity coverage ratio of 136.7%) **and strongly capitalised** (NBG Basel III Tier I capital adequacy ratio of 13.6%) **with a well-diversified funding base** (client deposits and notes to total liabilities of 61.4%).

- **Liquidity**. Liquid assets stood at GEL 5,559.5mln at 31 December 2019, up 22.5% y-o-y. The notable increase over the year was in obligatory reserves with NBG, combined with excess liquidity deployed with credit institutions. The NBG Liquidity coverage ratio was 136.7% at 31 December 2019 (120.1% at 31 December 2018), well above the 100% minimum requirement level.
- **Loan book**. Our net loan book and finance lease receivables reached GEL 11,931.3mln at 31 December 2019, up 27.0% y-o-y. As at 31 December 2019, the retail loan book represented 66.0% of the total loan portfolio, compared with 69.8% at 31 December 2018. Both local and foreign currency portfolios experienced strong y-o-y growth of 37.5% and 20.4%, respectively. The local currency loan portfolio growth was partially driven by the Government's de-dollarisation initiatives and our goal to increase the share of local currency loans in our portfolio.
- **Dollarisation of our loan book and client deposits**. The retail client loan book in foreign currency accounted for 43.7% of the total RB loan book at 31 December 2019 (50.3% at 31 December 2018), while retail client foreign currency deposits comprised 68.0% of total RB deposits at 31 December 2019 (69.7% at 31 December 2018). At 31 December 2019, 81.1% of CIB's loan book was denominated in foreign currency (82.3% at 31 December 2018), while 65.9% of CIB deposits were denominated in foreign currency (61.2% at 31 December 2018).
- **Net loans to customer funds and DFI ratio.** Our net loans to customer funds and DFI ratio, which is closely monitored by management, remained strong at 103.2% at 31 December 2019, compared with 99.6% at 31 December 2018.
- **Diversified funding base.** Debt securities issued grew by 22.5% y-o-y at 31 December 2019. The y-o-y increase was primarily driven by the issuance of US$ 100 million Additional Tier 1 capital notes in March 2019 (see details on page 106).

Overview of Financial Results continued

- **Capital adequacy requirements**. At 31 December 2019, the Basel III Common Equity Tier 1, Tier 1 and Total capital adequacy ratios stood at 11.5%, 13.6% and 18.1%, respectively, all comfortably above the minimum required levels of 10.1%, 12.2% and 17.1%, respectively.
  - In March 2019, the Bank issued its inaugural US$ 100 million 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 at an issue price of 100.00% (the "Notes"). The Notes are listed on the Irish Stock Exchange and rated B- (Fitch). The issuance was the first international offering of Additional Tier 1 Capital Notes from Georgia and the South Caucasus region. The regulatory approval on the classification of the Notes as Additional Tier 1 instruments was received in April 2019.
  - In December 2019, the Bank signed a ten-year US$ 107mln subordinated syndicated loan agreement arranged by FMO – Dutch entrepreneurial development bank in collaboration with other participating lenders (the Bank's existing and new partner financial institutions). The facility is expected to be treated as a Bank Tier 2 capital instrument (upon disbursement and approval of the National Bank of Georgia) under the Basel III framework, which will help to further improve the Bank's capital position. Of the total facility, US$ 52mln was already drawn-down by the Bank and the regulatory approval on classification was received in December 2019. The undrawn part of the facility is expected to be utilised as needed within six months of 2020.

Discussion of Segment Results

Retail Banking (RB)

Retail Banking provides consumer loans, mortgage loans, overdrafts, credit card facilities and other credit facilities as well as funds transfer and settlement services and the handling of customer deposits for both individuals and legal entities (SME and micro businesses only). RB is represented by the following sub-segments: (1) the emerging retail segment (through our Express brand); (2) retail mass market segment; (3) SME and micro businesses – "MSME" (through our Bank of Georgia brand); and (4) the mass affluent segment (through our SOLO brand).

GEL thousands, unless otherwise noted	2019	2018	Change y-o-y
Income statement highlights[6]			
Net interest income	545,701	546,873	-0.2%
Net fee and commission income	136,510	118,858	14.9%
Net foreign currency gain	51,009	56,357	-9.5%
Net other income	8,230	1,372	NMF
Operating income	**741,450**	**723,460**	**2.5%**
Salaries and other employee benefits	(147,982)	(138,635)	6.7%
Administrative expenses	(70,968)	(84,323)	-15.8%
Depreciation, amortisation and impairment	(66,136)	(39,134)	69.0%
Other operating expenses	(2,286)	(2,332)	-2.0%
Operating expenses	**(287,372)**	**(264,424)**	**8.7%**
Profit from associate	789	1,339	-41.1%
Operating income before cost of risk	**454,867**	**460,375**	**-1.2%**
Cost of risk	(89,879)	(130,715)	-31.2%
Net operating income before non-recurring items	364,988	329,660	10.7%
Net non-recurring items	(846)	(13,529)	-93.7%
Profit before income tax expense and one-off costs	**364,142**	**316,131**	**15.2%**
Income tax expense	(35,396)	(21,389)	65.5%
Profit adjusted for one-off costs	**328,746**	**294,742**	**11.5%**
One-off termination costs of former CEO and executive management (after tax), one-off demerger-related expenses (after tax) and one-off impact of re-measurement of deferred tax balances	(10,142)	(36,483)	-72.2%
Profit	**318,604**	**258,259**	**23.4%**

GEL thousands, unless otherwise noted	31-Dec-19	31-Dec-18	Change y-o-y
Balance sheet highlights			
Net loans, currency blended	7,427,721	6,267,071	18.5%
Net loans, GEL	4,181,192	3,117,454	34.1%
Net loans, FC	3,246,529	3,149,617	3.1%
Client deposits, currency blended	5,712,535	4,338,712	31.7%
Client deposits, GEL	1,829,133	1,314,902	39.1%
Client deposits, FC	3,883,402	3,023,810	28.4%
of which:			
Time deposits, currency blended	3,221,741	2,430,311	32.6%
Time deposits, GEL	817,879	566,490	44.4%
Time deposits, FC	2,403,862	1,863,821	29.0%
Current accounts and demand deposits, currency blended	2,490,794	1,908,401	30.5%
Current accounts and demand deposits, GEL	1,011,254	748,412	35.1%
Current accounts and demand deposits, FC	1,479,540	1,159,989	27.5%

Key ratios	2019	2018
ROAE[6]	28.6%	30.3%
Net interest margin, currency blended	6.1%	7.5%
Cost of credit risk ratio	1.2%	2.1%
Cost of funds, currency blended	5.2%	5.8%
Loan yield, currency blended	12.9%	15.1%
Loan yield, GEL	17.6%	21.5%
Loan yield, FC	7.3%	7.9%
Cost of deposits, currency blended	2.6%	2.9%
Cost of deposits, GEL	5.1%	4.9%
Cost of deposits, FC	1.5%	2.0%
Cost of time deposits, currency blended	3.9%	4.2%
Cost of time deposits, GEL	8.6%	8.7%
Cost of time deposits, FC	2.3%	2.9%
Current accounts and demand deposits, currency blended	1.0%	1.1%
Current accounts and demand deposits, GEL	2.2%	2.0%
Current accounts and demand deposits, FC	0.2%	0.6%
Cost/income ratio[7]	38.8%	36.6%

Performance highlights

- **Retail Banking delivered solid results in each of its major segments and generated operating income of GEL 741.5mln in 2019, up 2.5% y-o-y.**
- RB's net interest income was largely flat in 2019, primarily driven by the regulations introduced by the NBG on consumer lending in 2018. Net interest income still benefits from the growth of the local currency loan portfolio, which generated 10.3ppts higher yield than the foreign currency loan portfolio in 2019.
- **Retail Banking net loan book reached GEL 7,427.7mln at 31 December 2019, up 18.5% y-o-y. On a constant currency basis, retail loan book increased by 15.1% y-o-y.** Local currency denominated loan book increased by 34.1% y-o-y, while the foreign currency denominated loan book grew by 3.1% y-o-y. As a result, the local currency denominated loan book accounted for 56.3% of the Retail Banking loan book at 31 December 2019, compared with 49.7% at 31 December 2018. The shift of the loan portfolio was partially driven by the Government's de-dollarisation initiatives and our goal to increase the share of local currency loans in our portfolio. Currently, the part of the loan portfolio which is most sensitive to foreign currency risk is largely de-dollarised.

6 The 2019 income statement adjusted profit excludes GEL 10.1mln one-off employee costs (net of income tax) related to the former CEO and executive management termination benefits. The amount comprises GEL 8.6mln (gross of income tax) excluded from salaries and other employee benefits and GEL 2.9mln (gross of income tax) excluded from non-recurring items. The 2018 income statement adjusted profit excludes GEL 2.9mln one-off employee costs (net-off income tax) related to the former CEO termination benefits, and GEL 33.5mln demerger-related expenses (net of income tax) and one-off impact of re-measurement of deferred tax balances. The ROAE has been adjusted accordingly for both periods presented.

7 The 2019 cost/income ratio is adjusted for GEL 8.6mln one-off employee costs (gross of income tax) related to termination benefits of the former executive management.

Overview of Financial Results continued

- **The loan portfolio composition reflects the shift towards a higher quality, finer margin product mix on the back of tighter lending conditions for unsecured consumer lending.** The y-o-y loan book growth reflected continued strong loan origination levels in MSME and mortgage segments. The y-o-y decline in the mortgage loan originations is reflective of the consumer lending regulation change in 2018 becoming effective from 1 January 2019, which drove higher demand on this product in the second half of 2018 on the back of upcoming regulation expectations. Furthermore, the GEL devaluation since June 2019 has also contributed to slowdown of originations:

Retail Banking loan book by products

GEL million, unless otherwise noted	2019	2018	Change y-o-y
Loan originations			
Consumer loans	1,523.0	1,492.1	2.1%
Mortgage loans	1,438.4	1,814.6	-20.7%
Micro loans	1,313.4	1,144.2	14.8%
SME loans	1,093.7	697.8	56.7%
POS loans	81.9	137.0	-40.2%
Outstanding balance			
Consumer loans	1,549.0	1,379.7	12.3%
Mortgage loans	3,042.5	2,539.3	19.8%
Micro loans	1,492.0	1,246.3	19.7%
SME loans[8]	1,031.5	758.7	36.0%
POS loans	43.4	58.6	-25.8%

- **Retail Banking client deposits increased to GEL 5,712.5mln as at 31 December 2019, up 31.7% y-o-y.** The dollarisation level of our deposits stood at 68.0% at 31 December 2019, compared with 69.7% at 31 December 2018. The cost of foreign currency denominated deposits was down 50bps y-o-y in 2019, while the cost of local currency denominated deposits increased by 20bps y-o-y in 2019. The spread between the cost of RB's client deposits in GEL and foreign currency widened to 3.6ppts in 2019 (GEL: 5.1%; FC: 1.5%) compared with 2.9ppts in 2018 (GEL: 4.9%; FC: 2.0%). Local currency denominated deposits increased at a faster pace to GEL 1,829.1mln (up 39.1% y-o-y), as compared with foreign currency denominated deposits that grew to GEL 3,883.4mln (up 28.4% y-o-y).
- **Retail Banking NIM was 6.1% in 2019 (down 140bps y-o-y).** The y-o-y decline in NIM was attributable to lower loan yield (down 220bps y-o-y), mainly driven by the change in the Retail Banking loan portfolio product mix, with the lower yield-lower risk products share increasing in the total RB loan portfolio. Meanwhile, the cost of funds decreased by 60bps y-o-y in 2019, primarily on the back of a decrease in Libor rate and lower average NBG monetary policy rate during 2019, as well as net gains recorded in 2019 as a result of cross-currency swap agreements signed to hedge net interest rate risk on Euro lending.
- **Strong growth in Retail Banking net fee and commission income.** The strong y-o-y growth in net fee and commission income during 2019 was driven by an increase in settlement operations and the strong underlying growth in our SOLO, mass retail and MSME segments.
- **RB's asset quality improved significantly in 2019, reflecting our increasing focus on lending in the mortgage segment and to finer margin SME clients.** Cost of credit risk ratio was 1.2% in 2019, down from 2.1% in 2018.
- **Our Retail Banking business continued to deliver solid growth as we further develop our strategy towards continuous digitalisation,** as demonstrated by the following performance indicators:

8 SME portfolio was up 43.9% y-o-y on a constant currency basis excluding the GEL 120mln loan portfolio reclassification from SME to CIB in the second quarter of 2019.

Retail Banking performance indicators

Volume information in GEL thousands	2019	2018	Change y-o-y
Retail Banking customers			
Number of new customers	178,857	202,386	-11.6%
Number of customers	2,540,466	2,440,754	4.1%
Cards			
Number of cards issued	766,653	833,807	-8.1%
Number of cards outstanding	2,145,060	2,177,273	-1.5%
Express Pay terminals			
Number of Express Pay terminals	3,217	3,115	3.3%
Number of transactions via Express Pay terminals	108,329,849	108,240,230	0.1%
Volume of transactions via Express Pay terminals	8,244,816	6,741,247	22.3%
POS terminals			
Number of desks	15,592	10,009	55.8%
Number of contracted merchants	7,519	5,575	34.9%
Number of POS terminals	21,869	16,870	29.6%
Number of transactions via POS terminals	83,054,544	62,110,165	33.7%
Volume of transactions via POS terminals	2,555,076	1,937,392	31.9%
Internet banking			
Number of active users[9]	294,081	295,226	-0.4%
Number of transactions via internet bank	5,302,066	5,892,493	-10.0%
Volume of transactions via internet bank	2,269,103	2,029,599	11.8%
Mobile banking			
Number of active users[9]	513,677	333,698	53.9%
Number of transactions via mobile bank	35,938,168	15,676,447	129.2%
Volume of transactions via mobile bank	4,646,167	1,961,108	136.9%

- **Growth in the client base was due to the increased offering of cost-effective remote channels.** The increase to 2,540,466 customers as at 31 December 2019 (up 4.1% y-o-y) reflects sustained growth in our client base over recent periods, and was one of the drivers of the increase in our Retail Banking net fee and commission income in 2019.
- **The number of outstanding cards** decreased by 1.5% y-o-y at 31 December 2019 primarily due to Express cards which have been declining in line with the recently introduced regulations on consumer lending. Excluding the Express cards, total number of cards outstanding as at 31 December 2019 increased by 23.3% y-o-y. The number of Loyalty programme Plus+ cards, launched in July 2017 as part of RB's client-centric approach, reached 858,707 as at 31 December 2019, up 44.9% y-o-y.
- **Digital channels.** We have actively continued the further development of our digital strategy. The Bank continued introducing new features to our mobile banking application and our internet bank and introducing dedicated digital spaces in our branches to incentivise offloading client activity to digital channels. As a result of investments, the number of active internet and mobile banking users, as well as the number and volume of transactions through our mobile and internet banking, continued to expand.
  - **mBank digital penetration growth.** For our mobile banking application, the number of transactions (up 129.2% y-o-y in 2019) and the volume of transactions (up 136.9% y-o-y in 2019) continue to show outstanding growth. Since its launch on 29 May 2017, 1,263,162 downloads have been made by the Bank's customers. During the same period, approximately 55.0 million transactions were performed using the application.
  - **Significant growth in loans issued and deposits opened through Internet and Mobile Bank of individual customers.** In 2017, we started actively offering loans and deposit products to our clients through the Internet Bank. In 2019, 22,605 loans were issued with a total value of GEL 34.5mln, and 14,811 deposits were opened with a total value of GEL 42.2mln through Internet Bank. Starting from 2018, our customers have been able to apply for a loan and open a deposit account via mBank as well. In 2019, 77,232 loans were issued with a total value of GEL 80.3mln, and 52,980 deposit accounts were opened with a total deposited amount of GEL 60.4mln using the mobile banking application. As a result, more than 93% of total daily transactions were executed through digital channels in 2019.
  - **The utilisation of Express Pay terminals continued to grow in 2019.** The volume of transactions increased by 22.3% y-o-y, and the number of transactions increased by 0.1% y-o-y. Largely flat number of transactions was primarily due to the migration of customers to mobile and internet banking platforms. The fees charged to clients for transactions executed through Express Pay terminals amounted to GEL 23.0mln in 2019, up 4.3% y-o-y.

9 The users that log-to in internet and mobile banking at least once in three months.

Overview of Financial Results continued

- **Digital ecosystem developments:**
  - **In 1Q19, the Group launched a cutting-edge full-service real estate digital platform, area.ge.** The platform is unique on the Georgian real estate market and is the first platform to be fully integrated with the Bank to provide its users a "one-click" live credit limit appraisal and mortgage application experience. The Group aims to boost its mortgage portfolio by gaining access to a new clientele, and simultaneously offering value-added services to real estate developers and agencies. During 2019, more than 1,500,000 unique visitors and over 600 developers and real estate agencies were registered, and mortgage leads with a value of more than GEL 80 million have been generated through the platform since its launch in March 2019.
  - **In 2Q19, the Group acquired a leading Georgian e-commerce platform, extra.ge.** Previously, the platform facilitated consumer-to-consumer (C2C) sales through its website and social media channels. Since the acquisition in May 2019, the extra.ge is being upgraded to support the marketplace with business-to-consumer (B2C) and business-to-business (B2B) sales, already having a network of the 100+ largest vendors onboard supporting its new strategy. As a result, the platform has grown to 109,000 registered users and up to two million unique visitors. The Group is in the process of transforming the platform into a vibrant and dynamic full-scale digital marketplace and the full-scale re-launch is planned in the first quarter of 2020. The revamped extra.ge will facilitate consumer-to-consumer (C2C), business-to-consumer (B2C), and business-to-business (B2B) sales through its website and social media channels. In 2020, we target up to 600,000 unique visitors per month buying and selling c.100,000 unique products and services via the platform. The clients will be able to access their Bank of Georgia banking products in a fully integrated way; extra.ge will be integrated with the Bank's current flexible single sign-on and payment system and will offer the Bank's pre-approved instant instalment loans to enable its customers to purchase selected products. The Bank's retail and MSME clients will enjoy the excellent opportunities of a new consumer experience and doing business in a dynamic and flexible digital marketplace.
  - **In September 2019, the Group launched Optimo – a digital solution for our MSME customers to run their business sales and solutions.** The platform is designed to address the needs of micro, small and medium size enterprises in optimising their day-to-day operations and better managing their businesses in general. Optimo challenges the status quo on the Georgian market, committing to the goal to change the MSME business environment by uniting the fragmented players under one community via providing access to technology, knowledge and services that were previously accessible only for big market players. Optimo's cutting-edge digital inventory management and POS solution, with integrated software and a rich variety of functions and analytical tools, enables businesses to easily manage sales and inventory, as well as access their most recent data on sales transactions, inventory, revenues and profitability, anytime and anywhere, and make timely decisions with relevant information at hand.
- **SOLO, our premium banking brand, continues its strong growth and investment in its lifestyle brand.** We now have 12 SOLO lounges, of which nine are located in Tbilisi, the capital of Georgia, and three in major regional cities of Georgia. The number of SOLO clients reached 54,542 at 31 December 2019, compared with 44,292 customers at 31 December 2018. **SOLO is targeting doubling profit in three years to GEL 112mln through excellence in customer service, higher digitalisation and tailor-made bundled offerings.** At 31 December 2019, the product to client ratio for the SOLO segment was 5.1, compared with 2.1 for our retail franchise. While SOLO clients currently represent 2.1% of our total retail client base, they contributed 29.7% to our retail loan book, 38.8% to our retail deposits, 20.4% and 22.5% to our net retail interest income and to our net retail fee and commission income in 2019, respectively. The fee and commission income from the SOLO segment reached GEL 25.5mln in 2019, up from GEL 21.2mln in 2018. 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 2019, SOLO Club had 5,482 members, up 43.3% y-o-y.
- **MSME banking delivered strong growth.** The number of MSME segment clients reached 220,603 at 31 December 2019, up 13.0% y-o-y. MSME's loan portfolio reached GEL 2,697.4mln at 31 December 2019 (up 23.9% y-o-y) and client deposits and notes increased to GEL 807.7mln (up 21.6% y-o-y). The MSME segment generated operating income of GEL 208.4mln in 2019 (up 25.9% y-o-y).
- **Retail Banking profit adjusted for one-off costs** was GEL 328.7mln in 2019, up 11.5% y-o-y. Retail Banking continued to deliver an outstanding ROAE[10] of 28.6% in 2019, compared with 30.3% in 2018.

10 The 2019 ROAE is adjusted for GEL 10.1mln one-off employee costs (net of income tax) related to termination benefits of the former CEO and executive management. The 2018 ROAE is adjusted for GEL 2.9mln one-off employee costs (net of income tax) related to termination benefits of the former CEO, and GEL 33.5mln demerger-related expenses (net of income tax) and one-off impact of re-measurement of deferred tax balances.

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 in Tbilisi, London, Budapest, Istanbul and Tel Aviv.

GEL thousands, unless otherwise noted	2019	2018	Change y-o-y
Income statement highlights[11]			
Net interest income	217,874	165,723	31.5%
Net fee and commission income	37,018	26,680	38.7%
Net foreign currency gain	49,355	54,702	-9.8%
Net other income	13,506	6,699	101.6%
Operating income	**317,753**	**253,804**	**25.2%**
Salaries and other employee benefits	(57,975)	(54,792)	5.8%
Administrative expenses	(22,886)	(17,409)	31.5%
Depreciation, amortisation and impairment	(8,437)	(4,945)	70.6%
Other operating expenses	(1,042)	(1,175)	-11.3%
Operating expenses	**(90,340)**	**(78,321)**	**15.3%**
Operating income before cost of risk	**227,413**	**175,483**	**29.6%**
Cost of risk	(14,548)	(25,888)	-43.8%
Net operating income before non-recurring items	**212,865**	**149,595**	**42.3%**
Net non-recurring items	(293)	(6,597)	-95.6%
Profit before income tax expense and one-off costs	**212,572**	**142,998**	**48.7%**
Income tax expense	(19,819)	(10,014)	97.9%
Profit adjusted for one-off costs	**192,753**	**132,984**	**44.9%**
One-off termination costs of former CEO and executive management (after tax), one-off demerger-related expenses (after tax) and one-off impact of re-measurement of deferred tax balances	(4,094)	(13,846)	-70.4%
Profit	**188,659**	**119,138**	**58.4%**
Balance sheet highlights			
Net loans and finance lease receivables, currency blended	3,804,448	2,618,489	45.3%
Net loans and finance lease receivables, GEL	720,375	464,397	55.1%
Net loans and finance lease receivables, FC	3,084,073	2,154,092	43.2%
Client deposits, currency blended	3,824,667	3,473,054	10.1%
Client deposits, GEL	1,305,230	1,347,754	-3.2%
Client deposits, FC	2,519,437	2,125,300	18.5%
Time deposits, currency blended	1,349,969	1,337,112	1.0%
Time deposits, GEL	366,847	491,622	-25.4%
Time deposits, FC	983,122	845,490	16.3%
Current accounts and demand deposits, currency blended	2,474,698	2,135,942	15.9%
Current accounts and demand deposits, GEL	938,383	856,132	9.6%
Current accounts and demand deposits, FC	1,536,315	1,279,810	20.0%
Letters of credit and guarantees, standalone (off-balance sheet item)	1,376,196	1,035,630	32.9%
Assets under management	2,567,177	2,271,543	13.0%

11 The 2019 income statement adjusted profit excludes GEL 4.1mln one-off employee costs (net-off income tax) related to the former CEO and executive management termination benefits. The amount comprises GEL 3.8mln (gross of income tax) excluded from salaries and other employee benefits and GEL 1.1mln (gross of income tax) excluded from non-recurring items. The 2018 income statement adjusted profit excludes GEL 0.9mln one-off employee costs (net-off income tax) related to the former CEO termination benefits, and GEL 12.9mln demerger-related expenses (net of income tax) and one-off impact of re-measurement of deferred tax balances, excluded from non-recurring items.

Overview of Financial Results continued

GEL thousands, unless otherwise noted	2019	2018
Ratios		
ROAE[12]	25.6%	22.8%
Net interest margin, currency blended	3.6%	3.3%
Cost of credit risk ratio	0.2%	0.8%
Cost of funds, currency blended	4.1%	4.6%
Loan yield, currency blended	9.1%	10.2%
Loan yield, GEL	12.0%	13.1%
Loan yield, FC	8.6%	9.6%
Cost of deposits, currency blended	3.3%	4.1%
Cost of deposits, GEL	5.8%	6.4%
Cost of deposits, FC	1.8%	2.4%
Cost of time deposits, currency blended	5.4%	6.1%
Cost of time deposits, GEL	7.2%	7.9%
Cost of time deposits, FC	4.3%	4.5%
Current accounts and demand deposits, currency blended	2.1%	2.6%
Current accounts and demand deposits, GEL	4.9%	5.2%
Current accounts and demand deposits, FC	0.3%	0.9%
Cost/income ratio[13]	28.4%	30.9%
Concentration of top ten clients	9.9%	9.8%

Performance highlights

- **Corporate and Investment Banking delivered strong results.** CIB continued further growth in 2019 and generated strong net interest income and net fee and commission income during the year, coupled with efficient cost discipline and improved asset quality, resulting in outstanding profitability.
- CIB delivered strong net interest income during 2019, which increased by 31.5% y-o-y in 2019. **CIB NIM was 3.6% in 2019, up 30bps y-o-y.** Increase in NIM was due to a 50bps decrease in cost of funds, partially offset by a 110bps decline in currency blended loan yields in 2019.
- **CIB's net fee and commission income reached GEL 37.0mln in 2019, up 38.7% y-o-y.** The outstanding growth in net fee and commission income was largely driven by increased fees from guarantees and letters of credit issued and higher placement fees during 2019.
- **CIB's loan book and de-dollarisation.** CIB loan portfolio reached GEL 3,804.4mln at 31 December 2019, up 45.3% y-o-y. On a constant currency basis, CIB loan book was up 37.4% y-o-y (up 33.1% y-o-y excluding the GEL 120mln loan portfolio reclassification from SME to CIB in the second quarter 2019). The concentration of the top ten CIB clients stood at 9.9% at 31 December 2019 compared with 9.8% at 31 December 2018. Foreign currency denominated net loans represented 81.1% of CIB's loan portfolio at 31 December 2019, compared with 82.3% a year ago. At 31 December 2019, 41.5% of total gross CIB loans were issued in foreign currency with exposure to foreign currency risk in regards of income, while 39.8% of total gross CIB loans were issued in foreign currency with no or minimal exposure to foreign currency risk.
- **Dollarisation of CIB deposits** increased to 65.9% at 31 December 2019 from 61.2% a year ago. A y-o-y increase in foreign currency denominated deposits was partially due to local currency depreciation in 2019. Despite the y-o-y decline in interest rates on local currency deposits in 2019, the cost of deposits in local currency still remained well above the cost of foreign currency deposits.
- **Net other income.** Significant y-o-y increase in net other income in 2019 was largely driven by net gains recorded as a result of the revaluation of investment property in the fourth quarter of 2019.
- **Cost of credit risk.** CIB's cost of credit risk ratio remained well-controlled and stood at 0.2% in 2019, down 60bps y-o-y, primarily driven by the improved quality of the CIB loan portfolio and the recovery of several mid- to low-sized corporate loans during 2019. At the same time, CIB's NPL coverage ratio was down to 62.0% at 31 December 2019 from 90.3% as at 31 December 2018, primarily driven by the write-off of several non-performing loans in 2019.
- As a result, **CIB's profit adjusted for one-off costs** was GEL 192.8mln in 2019, up 44.9% y-o-y. CIB ROAE[12] was 25.6% in 2019, compared with 22.8% in 2018.

12 The 2019 ROAE is adjusted for GEL 4.1mln one-off employee costs (net of income tax) related to termination benefits of the former CEO and executive management. The 2018 ROAE is adjusted for GEL 0.9mln one-off employee costs (net of income tax) related to termination benefits of the former CEO, and GEL 12.9mln demerger-related expenses (net of income tax) and one-off impact of re-measurement of deferred tax balances.

13 The 2019 cost/income ratio is adjusted for GEL 3.8mln one-off employee costs (gross of income tax) related to termination benefits of the former executive management.

Performance highlights of investment management operations

- **The Investment Management's AUM increased to GEL 2,567.2mln as at 31 December 2019, up 13.0% 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 increase in AUM mostly reflected increase in client assets and bond issuance activity at Galt & Taggart.
- **Wealth Management deposits reached GEL 1,404.8mln as at 31 December 2019, up 10.8% y-o-y, growing at a compound annual growth rate (CAGR) of 11.8% over the last five-year period.** The cost of deposits was 3.2% in 2019, down 10bps y-o-y.
- We served 1,557 wealth management clients from 77 countries as at 31 December 2019, compared with 1,528 clients as at 31 December 2018.
- In January 2019, Bank of Georgia opened a new office in the centre of Tbilisi, dedicated to serving its wealth management clients. The office resides in a historic 19th century building, which originally used to house the First Credit Society of Georgia and is considered to be the first residence of a local banking institution. The design concept was derived from the integration of Georgian culture with western values, while the artistic expression of the building has been left intact. The new office coincides with a creation of a new brand identity of the Bank's wealth management business and is in line with its strategy to become the regional hub for private banking.
- **Galt & Taggart, which brings under one brand corporate advisory, debt and equity capital markets research and brokerage services, continues to develop local capital markets in Georgia.**
- During 2019, Galt & Taggart acted as a:
  - lead manager for several international finance institutions (IFIs) facilitating placement of c.GEL 320mln local public and private bond issuances denominated in Georgian Lari;
  - lead manager for several Georgian corporates and microfinance organisations facilitating placement of c.GEL 205mln local public bond issuances denominated both in Georgian Lari and US$;
  - co-manager of Bank of Georgia's inaugural US$ 100mln international Additional Tier 1 bond issuance, in March 2019;
  - buy-side adviser for Bank of Georgia Group on acquisition of extra.ge online platform, in May 2019; and
  - sole sell-side adviser of Linnaeus Capital Partners B.V. on a sale of 100% shareholding in Lilo1- logistics center, in June 2019.
- In February 2020, *Global Finance Magazine* named Galt & Taggart *Best Investment Bank in Georgia* for the sixth consecutive year.
- In May 2019, Galt & Taggart participated in a competitive tender process and won a three-year exclusive mandate to manage the private pension fund of a large Georgian corporate client.
- Galt & Taggart Research – *"G&T Industry Series":*
  - In February 2019, Galt & Taggart, together with JSC Bank of Georgia, organised a conference to discuss the findings of Galt & Taggart's research on Georgia's energy sector with an emphasis on ongoing reforms and their impact on the sector development. The conference gathered together all stakeholders, including high-level representatives from the Government, private sector and IFIs. A follow-up conference was held in April 2019 due to high interest from the Government and private sector participants. The Deputy Minister of Economy and Sustainable Development, Head of Energy Regulatory Commission and Head of Georgian Energy Development Fund, presented the Government's vision of the reform process, while Galt & Taggart focused on the reform vision from a private sector perspective. Presentations were followed by a panel discussions with key market players affected by the reform process.
  - In July 2019, Galt & Taggart and JSC Bank of Georgia, in cooperation with the Tbilisi City Hall, organised a seminar for tourism sector representatives to discuss the effects of Russia's direct flight ban on tourism industry and the desired measures to mitigate consequences.
  - In July 2019, Galt & Taggart published an initiation report of Georgia's Auto Business sector.
  - In July 2019, Galt & Taggart published Georgia's Wine & Spirits sector report, followed by a conference, which gathered wine producers and other sector players.
  - In December 2019, Galt & Taggart organised a conference to discuss the findings of Galt & Taggart's research on Tbilisi Real Estate market, covering residential real estate, as well as retail, office and hotels. The conference gathered together all stakeholders and a presentation was followed by a panel discussion, with the participation of private sector representatives and Vice President of National Bank of Georgia.

Governance

Directors' Governance Statement

Neil Janin
Chairman

Hanna Loikkanen
Senior Independent
Non-Executive Director

Chairman and Senior Independent Non-Executive Director's introduction

Dear Shareholders,

We are delighted to present the second Governance Statement of the Bank of Georgia Group PLC.

The Board is responsible for ensuring sound management and long-term success of the Group, which can only be achieved with an appropriate governance framework. The Board has applied the UK Corporate Governance Code published in 2018 (the "Code") and it is against that version of the Code that we are reporting.

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.

The Board was fully briefed on the revisions made to the Code during 2018, which applied to the Group from 1 January 2019. An analysis of the Group's compliance with the revised Code was undertaken, and the Group has taken appropriate steps to ensure compliance with the new requirements, as well as with the spirit of the Code.

We are pleased to report that we have made very good progress in delivering on our key corporate governance commitments in 2019, 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, we have implemented a number of changes to governance standards set by the NBG, which aimed to align Georgia with internationally recognised practices including: the Basel Committee's guidelines on Corporate Governance Principles for Banks; OECD Principles of Corporate Governance; requirements of EU Directives (CRD IV – CRR); and recommendations of the European Banking Authority. During 2019, the Bank's Supervisory Board (the composition of which is compliant with the National Bank of Georgia's Corporate Governance Code requirements, including gender diversity requirements) undertook a review of all policies to ensure they reflected the required standards of the National Bank of Georgia's Compliance Code.

In 2019, the Board has given additional focus on 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 report, including in particular output from the Employee Voice at Board Level initiative.

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.

Neil Janin
Chairman of the Board
16 March 2020

Hanna Loikkanen
Senior Independent Non-Executive Director
16 March 2020

Directors' Governance Statement continued

Statement of Compliance with UK Corporate Governance Code

The Board and its Committees have spent significant time reviewing the 2018 UK Corporate Governance Code, and the added emphasis in the Code around the Company's purpose, culture, stakeholder engagement, succession planning and diversity are all areas that we as a Board strongly support. We have taken several important steps during 2019 with a view to complying with actions needed over the course of the year under the new Code, and have set out through this report how the Board ensures compliance with the principles and provisions of the Code.

Steps we have taken to implement the 2018 UK Corporate Governance Code

- Received a briefing from the UK General Counsel and the Company Secretary on the principles and provisions of the Code, and an analysis of any gaps in the Company's application of the provisions and principles.
- Reviewed the matters reserved for the Board and the terms of reference of each Board Committee to align with the provisions of the Code in 2018, and reviewed again in 2019 to ensure they were functioning correctly.
- Dedicated time to cover the expanded remit of the Remuneration Committee, particularly ahead of implementing the new Remuneration Policy.
- Dedicated significant time in 2019 at both the Board and the Nomination Committee level on succession planning and diversity at senior and middle management level.
- Dedicated further time in 2019 at the Board level to the development of the Group's values in line with the strategic direction, as well as how the culture promotes long term value creation; and
- Appointed Hanna Loikkanen as designated Non-Executive Director for workforce engagement in 2018, whose 2019 work is described later in this report.

Through the year ended 31 December 2019, the Board is of the view that we applied all of the main principles and complied with all provisions of the 2018 UK Corporate Governance 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 eight Directors, seven 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://bankofgeorgiagroup.com/governance/documents. For further information about the Committees, see the Nomination Committee Report on page 132, the Audit Committee Report on page 137, the Risk Committee Report on page 143, and the Remuneration Committee Report on page 146.

BOARD

Audit Committee

Key responsibilities:
- Reviews and monitors the integrity of the Group's financial and reporting processes.
- Responsible for the governance of both the internal audit function and external auditor.
- Works with the Risk Committee in assessing the effectiveness of the risk management and internal control framework.

See pages 137 to 142 for the Audit Committee Report.

Nomination Committee

Key responsibilities:
- Ensures the Board has the right balance of skills, experience, independence and Group knowledge.
- Responsible for both Director and management succession planning.

See pages 132 to 136 for the Nomination Committee Report.

Remuneration Committee

Key responsibilities:
- Makes recommendations to the Board on the Directors' Remuneration Policy.
- Determines the remuneration package of the Chief Executive Officer and executive management.
- Assesses the performance of Directors and Executive Management Team against KPIs.
- Responsible for design and oversight of the Group employee share schemes.

See pages 146 to 161 for the Remuneration Committee Report.

Risk Committee

Key responsibilities:
- Assists the Board in relation to risk oversight.
- Reviews Group risk appetite in line with strategy.
- Identifies and monitors risk exposure and the risk management infrastructure.
- Assesses the strength and effectiveness of the risk management and internal control framework.

See pages 143 to 145 for the Risk Committee Report.

Chief Executive Officer

Management Team

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, the environment and the community as a whole.

You can read more about how our Directors had regard to their duties under section 172 of the Companies Act on pages 59 of the Strategic Report. Particular discussion concerning our social responsibility and sustainability initiatives are in the Resources and Responsibilities section on pages 83 to 97.

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://bankofgeorgiagroup.com/governance/documents.

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 the Directors had regard to these factors in Section 172(1) of the Companies Act 2006, and how Directors performed their duties under section 172 on page 59 of the Strategic Report.

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 meets at least four times a year in Georgia. We also hold meetings at our London office, with the Directors either attending in person or via teleconference. 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 phone 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.

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.

The roles and responsibilities of our Chairman, CEO, Senior Independent Director and other Non-Executive Directors can be found on our website at: https://bankofgeorgiagroup.com/governance/documents.

In 2019, 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.

Directors' Governance Statement continued

What was on the Board's agenda during 2019

There is an annual schedule of rolling agenda items 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 2019:

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 ▪ Project updates ▪ Feedback from the Board Committees
Governance and policies	▪ Reviewed the culture and established the desired culture of the Group ▪ Considered external legislative and governance developments ▪ Board succession ▪ Policy reviews ▪ Board and Committees effectiveness ▪ Committees terms of reference reviews
Stakeholder engagement	▪ Actively engaged with shareholder (and our other stakeholders) to ensure that the Board understands the views of shareholder (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 Hanna Loikkanen, the designated Non-Executive Director for engagement with the workforce ▪ Directors met 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 the 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 BOGG and demonstrating our leadership, management is able to implement key policies and procedures we have created 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 has two goals: helping people achieve more of their potential; and to ensure a culture of teamwork across the organisation. If the practices and processes inside a company do not drive the execution of values, then people do not get it. The question for us is, how do you create a culture of behaviour and actions that really demonstrates those values, and a reward system for those who adhere to them?

Starting with the Board, in 2019, the Board has given additional focus towards developing, monitoring and assessing corporate culture and thinking about the ways in which our culture might serve as a long-term differentiator, both in terms of strategy and of recruitment and retention.

Additionally, our CEO has made culture one of his leadership priorities, including having "employee engagement and culture" as one of his personal KPIs. 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;
- highlights where employees have shown potential; and
- employees have the opportunity to ask questions of the CEO and talk directly with him.

More information on our employee engagement initiatives can be found on pages 91 and 92.

Following the feedback received and output from both our NPS surveys and Barrett Values Surveys, and the Board's increased emphasis on our culture, the following core values have been 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, also identified several business principles designed to support the organisational values, as well as reinforcing our message of risk mitigation within the Group. Our business principle are:

- teamwork;
- development;
- fairness;
- customer centricity;
- operational excellence; and
- innovation.

Every employee is encouraged to participate in the development of culture, and the Board has received updates on the processes by which culture is being shaped. In line with the recommendations of the Code, Hanna Loikkanen has been appointed as the designated Non-Executive Director to engage with the workforce, specifically direct employees of the Group.

In 2018, the Board introduced a new initiative, Employee Voice on Board Level – a quarterly held informal discussion forum for the Board to engage with the workforce. These meetings are facilitated by Hanna Loikkanen, and 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. Over the course of 2019, four such meetings were held, covering all business lines of the Group, and which were attended by several Directors. The key takeaways and significant employee matters were reported back to the full Board and the CEO after each meeting.

Members of the Board also visited the new Wealth Management office in order to speak directly to employees and to observe the extent to which the Company's culture and purpose was being implemented, as well as other site visits during the year.

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.

The Board believes that there is significant value in these engagements, both in allowing Directors to gain further insight into the Group's culture and employee issues, and in providing employees further opportunities to engage with the Board.

Looking ahead to 2020, the Board will monitor and assess our culture and its development by considering the metrics and output from the Barrett Value Survey, the Employee Engagement Survey undertaken by Korn Ferry, and eNPS survey. We will receive further reports from Hanna Loikkanen on employee matters.

In addition to which, the Board will continue to receive reports on whistleblowing to help inform their assessment of the development of the Group's culture.

The above disclosures reflect how our employees are taken into account in our board decision making.

Our priorities for 2020 include: further developing our culture to help people achieve more of their potential; to embed our values and business principles across all parts of the Group; to boost the employee experience; to encourage talent development, growth and innovation; and to support IT growth and digital culture.

We will report in our 2020 Annual Report on the ways in which we have developed these initiatives over the forthcoming year.

Board and Committee meeting attendance

Details of Board and Committee meeting attendance in 2019 are as follows:

Members	Board	Audit Committee	Nomination Committee	Remuneration Committee	Risk Committee
Neil Janin*	6 of 6 scheduled 4 of 4 ad hoc	n/a	2/2	2 of 2 scheduled 3 of 3 ad hoc	n/a
Alasdair Breach*	6 of 6 scheduled 4 of 4 ad hoc	n/a	2/2	2 of 2 scheduled 3 of 3 ad hoc	4/4
Tamaz Georgadze[3]*	5 of 6 scheduled[3] 4 of 4 ad hoc	n/a	2/2	2 of 2 scheduled 2 of 3 ad hoc	4/4
Archil Gachechiladze[1]	6 of 6 scheduled 3 of 3 ad hoc	n/a	n/a	n/a	1/1
Hanna Loikkanen[2]*	6 of 6 scheduled 3 of 4 ad hoc	6 of 6 scheduled 3 of 4 ad hoc	2/2	1 of 1 scheduled	n/a
Véronique McCarroll*	5 of 6 scheduled[4] 4 of 4 ad hoc	n/a	2/2	n/a	4/4
Jonathan Muir*	6 of 6 scheduled 4 of 4 ad hoc	6 of 6 scheduled 4 of 4 ad hoc	2/2	n/a	n/a
Cecil Quillen*	6 of 6 scheduled 4 of 4 ad hoc	6 of 6 scheduled 4 of 4 ad hoc	2/2	2 of 2 scheduled 3 of 3 ad hoc	n/a
Andreas Wolf[5]*	6 of 6 scheduled 4 of 4 ad hoc	6 of 6 scheduled 4 of 4 ad hoc	2/2	n/a	n/a

* denotes Independent Director.

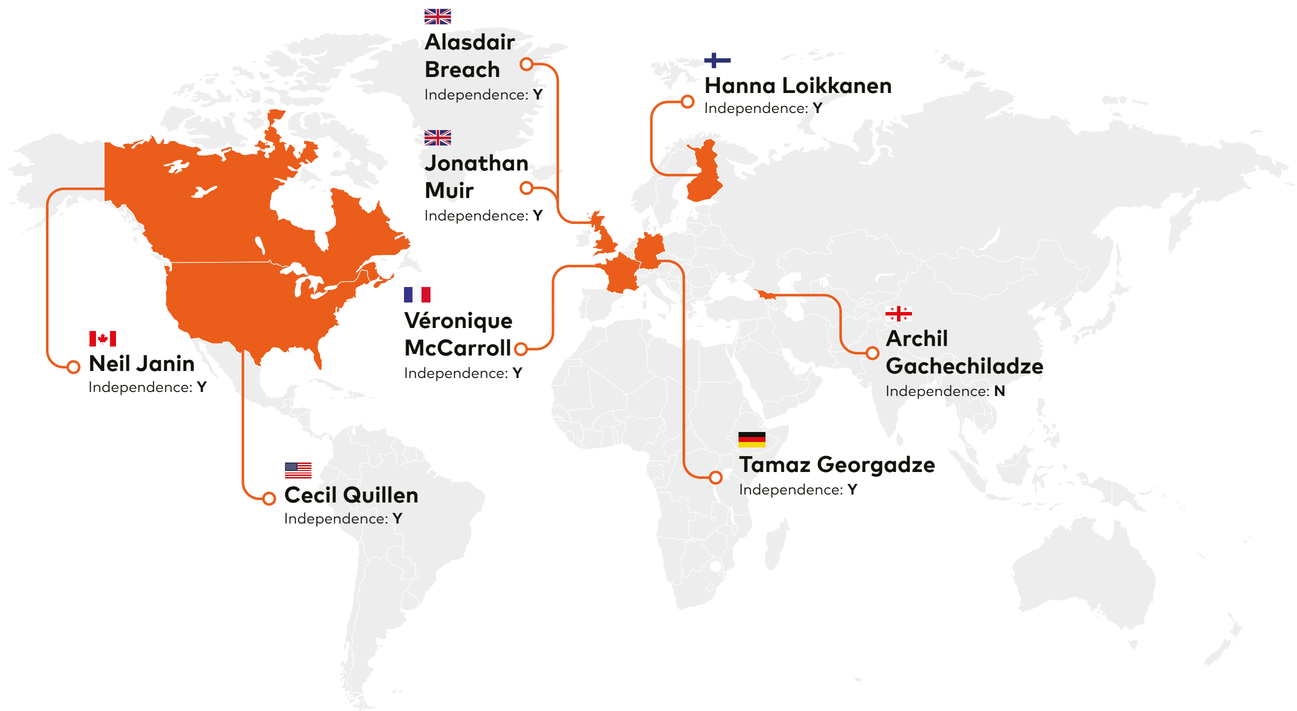
Notes:
1 Appointed to the Board on 28 January 2019. Stepped down from the Risk Committee on 28 June 2019.
2 Appointed to the Remuneration Committee on 20 September 2019.
3 Mr Georgadze was unable to attend one Board meeting due to a prior commitment, however, he provided full comments on the materials discussed to the Board ahead of the meeting.
4 Ms McCarroll was unable to attend one Board meeting due to a prior commitment, however, she provided full comments on the materials discussed to the Board ahead of the meeting.
5 Mr Andreas Wolf stepped down from the Board on 31 January 2020.

Directors' Governance Statement continued

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 Risk Committee, and together 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; discussions on IFRS 9 staging; and scenario testing for challenging but plausible risks to the Company.

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, independence and knowledge 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. As shown in the Hampton-Alexander Review's November 2019 report "Improving Gender Balance in FTSE Leadership", over 40% of the executive committee and their direct reports are female, an increase from the previous year.

Following appointments made in October 2018, the gender balance of the Board has improved and is consistent with the leading constituent of the FTSE banking sector. The Board has noted the recommendations on women on Boards that a target of 33% female Board representation is achieved by FTSE 350 companies by 2021.

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.

We have assessed the independence of the Chairman and each of the seven 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.

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 management and receive information about the role of the Board and individual Directors, each Board Committee and the powers delegated to those Committees. They are also advised by the UK General Counsel and the 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 in order 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 2019, which included briefings, site visits, development sessions and presentations by the UK General Counsel, our Company Secretary, members of management, and our professional advisers. During the year, our UK General Counsel and the Company Secretary provided updates on legislative changes including the Non-Financial Reporting Directive and diversity initiatives, as well as refresher training on section 172 and 175 duties under the UK Companies Act. In addition, amendments to the Disclosure Guidance and Transparency Rules and the FRC's guidance on reporting were presented. The UK General Counsel also trained the Board on proposed changes to the UK Corporate Governance Code, the new FRC Guidance on Board Effectiveness and on Director's liabilities. The 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 the Company Secretary as well as independent professional advice, at the Company's expense, on any matter relating to their responsibilities.

Shareholder and stakeholder engagement

How we engage with our shareholders

The Company has a comprehensive shareholder engagement programme and encourages an open and transparent dialogue with existing and potential shareholders.

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 Chairmen 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 Annual General Meeting to be held in May 2020, 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 2019, we met with some 400 institutional investors, and participated in more than 40 investor conferences and roadshows. Throughout the year, our Directors and management met with shareholders in Georgia, the UK, Europe, North America, Singapore and South Africa.

In June 2019, the Company hosted an Investor Day in Tbilisi, Georgia, which was open to all investors and analysts. This day provided an opportunity for investors to receive an update from the Board and management team on strategy and performance, as well as to meet informally with Board members and raise matters of interest. The Company was pleased to host approximately 100 investors and analysts at the event and has ensured that the views expressed by the investors have been fed back to the Board.

The Company also engaged with shareholders ahead of the new Remuneration Policy, and again following the significant advisory vote against the Remuneration Policy at the AGM in May 2019 to understand views further, and released an update statement to shareholders. Further information on this can be found in the Directors' Remuneration Report on page 146.

In addition to our shareholders, we meet with analysts throughout the year, hold regular meetings with the Group's existing lenders and actively engage with potential lenders to discuss our funding strategy. The UK General Counsel and the Company Secretary have ongoing dialogue with the shareholders' 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 and factors those views into its critical decisions. The full Board is regularly kept informed of these views by the Chairman as well as management team 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, such as responding to feedback in our quarterly trading updates. Informal feedback from analysts and the Group's corporate advisers is also shared with the Board.

Our website, https://bankofgeorgiagroup.com/, provides our shareholders with access to the Group's results, press releases, investor presentations, analyst reports, details on our corporate governance 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 stakeholders

Stakeholders	Our engagement	Outcomes
Our customers	We detail in our **Resources and Responsibilities** section our engagement with customers, which includes: ▪ supporting Georgia's emerging economy by financing industries that are of strategic importance for the development of the country; ▪ promoting financial products to support young people in Georgia; ▪ education on financial culture; and ▪ considering our duties under section 172 reporting.	We plan to continue to prioritise the development of self-service skills. We have also established an information security risk management framework, and continue to invest in technology to enhance our ability to protect against evolving information security threats.
Employees	We detail in our **Resources and Responsibilities** section and earlier in this report on our engagement with employees, which includes: ▪ half-early and annual performance reviews; ▪ employee engagement surveys; ▪ Town Hall sessions with senior management; ▪ workforce engagement with a designated Non-Executive Director; and ▪ 'meet the Board' sessions.	We aim to review and reshape the employee end-to-end journey in order to create a positive employee experience, with diverse opportunities for development, and to ensure high levels of employee engagement. We will use our employee engagement surveys to help us attract and retain the right people.
Government	▪ Regular liaison with Government departments, including Ministerial liaison, as the Bank is regulated.	Open and transparent communication with NBG allows us to better understand the key drivers behind their policies.
Local communities	As we detail in our Resources and Responsibilities section, we have a range of initiatives including: ▪ volunteer days for employees; ▪ support of relevant charities through selective partnerships; and ▪ the regular review of additional ways we can provide support to the wider community and relevant charitable organisations.	We will continue to promote and enhance access to education for Georgian students, and also to promote further our charitable endeavours, including providing sponsorship for the Georgian Olympic and Paralympic team.
Third-party suppliers	▪ Regular meetings and reviews with key contacts of suppliers and their senior management teams.	These meetings 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, in 2019 the Board undertook an internal effectiveness review, supported by the Company Secretary. Committees have reported individually elsewhere in this Annual Report, on the outcomes of their reviews, which were administered via surveys with the opportunity to provide anonymous feedback collated via the Company Secretary. We were pleased with the results of the evaluation and are confident that the Board has a good balance of skills, experience and diversity of backgrounds and personality that encourages open, transparent debate and change. The results of the evaluation rated the Board highly in most of the areas listed and confirmed that the Board operated effectively. The Board also recognised the areas for further improvement and set objectives for 2020 to address these.

Based on the evaluation, the Board's objectives for 2020 are to:

- encourage the development of a culture of teamwork and initiative-taking at all levels of the organisation;
- pursue the digital transformation of the organisation; and
- achieve more diversity at the Board and at the top levels of the organisation.

Based on the premise that people do what you inspect, not what you expect, we will measure progress. Female representation on the Board has increased to 25% and we intend to improve this with future Board appointments. Starting with the Board, we commit to a target for diversity of 33% female representation. We will also be monitoring and assessing culture using a number of metrics such as the employee engagement survey results.

In addition, in September 2019, 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 2019.

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 internal and external auditors and the Group's risk management function (supported by the Audit Committee).

A review of the Group's risk management approach is further discussed in the Strategic Report on pages 58 to 113. For detail on the management and mitigation of each principal risk, see pages 72 to 79. See pages 137 to 142 for further detail in relation to the role of the Audit Committee.

The Group's governance structure for risk management is illustrated on page 62.

Diversity Policy

More information on the Company's Diversity Policy, its objectives, implementation and results can be found on page 134.

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, and he is 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 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 coordinate 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 within 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 17 years' experience in the financial services, including various senior positions both in 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), 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. In previous appointments he has demonstrated leadership and vision, and will lead the development of the Group's strategy and promotion of its culture.

Kaha Kiknavelidze

Former CEO

Kaha Kiknavelidze was appointed as an Executive Director and CEO of Bank of Georgia Group PLC on 24 February 2018. Mr Kiknavelidze stepped down from the Board on 28 January 2019.

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 also serves as a member of the Audit Committee, Nomination Committee and Remuneration 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' 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 Country Manager and 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. During her tenure at FIM Group, the company advised several large foreign companies in their Mergers & Acquisitions activities 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 Skandinaviska Enskilda Banken 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). 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 Chairman of Bank of Georgia Group PLC's Remuneration Committee, as well as a member of the Risk Committee and Nomination Committee. Mr Breach also serves as a member of the Bank's 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 adviser 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

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, a company which launched the first global deposit intermediation in Europe, and he continues to serve as its CEO/Chairman. PayPal and Goldman Sachs are amongst shareholders of Raisin. Prior to founding this company, Mr Georgadze had a ten-year career at McKinsey & Company in Berlin, where he served as a Partner from 2009 to 2013. At McKinsey & Company, he conducted engagements with banks in Germany, Switzerland, Russia, Georgia and Vietnam, focusing on strategy, risk identification and management, deposit and investment products, operations and sales. Prior to joining McKinsey & Company, Mr Georgadze worked as an aide to the President of Georgia in the Foreign Relations Department from 1994 to 1995. Save for his role at Raisin GmbH, Mr Georgadze does not hold any other directorships.

Education:
Mr Georgadze holds two PhDs, one in Economics from Tbilisi State University and the other in Agricultural Economics from Justus-Liebig University Gießen, Germany. Mr Georgadze also studied Law at Justus-Liebig Universität Gießen and graduated with honours.

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. Mr Muir also serves as a member of the Bank's Supervisory Board. He was previously appointed as an Independent Non-Executive Director to BGEO Group PLC.

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 of working in different corporate and national cultures affords him a strong understanding of the Georgian political and economic experience, which is in addition to his accounting experience and qualifications making 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 US partner of Linklaters LLP, the global law firm. He is the leader of the firm's US 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, chairing its Regulatory Subcommittee, and sits on the Advisory Committee for Securities Regulation in Europe of the Practising Law Institute. He is a trustee of UK Friends of Harvard University and 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 currently heads 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.

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 124 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.

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 to 2009), Manager of the Financial Monitoring, Strategy and Planning department (1999 to 2000) and Head of the Financial Analysis division (1997 to 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.

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.

Vakhtang Bobokhidze

Deputy CEO, Chief Information Officer

Mr Bobokhidze was appointed as Deputy CEO, Chief Information Officer of JSC Bank of Georgia in March 2018, prior to which he served as Head of IT since April 2016. Mr Bobokhidze joined the Bank in late 2005 as a Quality Control Manager through a progression of positions until he joined JSC Bank Republic in 2010. Mr Bobokhidze made his return to the Bank in December 2010 as IT Business Consultant and he currently holds the position of Chief Information Officer. Mr Bobokhidze received his undergraduate and MBA degree from Tbilisi State University.

Mikheil Gomarteli

Deputy CEO, Retail Banking (Emerging and 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 Emerging and Mass Retail Banking and Micro Business Banking of JSC Bank of Georgia. Prior to this, Mr Gomarteli had served as the sole Deputy CEO of Retail Banking since February 2009. He has been with the Bank since December 1997. During his over 20 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 an undergraduate degree in Economics from Tbilisi State University.

Eter (Etuna) Iremadze

Head of SOLO Business Banking

Ms Iremadze was appointed as Head of SOLO Business Banking of JSC Bank of Georgia in May 2019. Ms Iremadze has over 18 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. Prior to her recent appointment, Ms Iremadze served as Head of Strategic Projects Department in Georgian Global Utilities (formerly part of BGEO Group PLC), where she was working under the direct supervision of the CEO since 2017. 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. From 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. From 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.

Management Team continued

Giorgi Pailodze

Deputy CEO, Corporate and Investment Banking

Mr Pailodze was appointed as Deputy CEO, Corporate and Investment Banking of JSC Bank of Georgia in June 2019. Mr Pailodze has extensive experience in the global financial services sector, having worked for international and local banking institutions. Prior to joining the Bank, Mr Pailodze was a Vice President at Evercore, an investment banking advisory firm, where he was based in London (2017-2019) and New York (2015-2017). In his role at Evercore he provided strategic, debt and equity advice to corporate and private equity clients across a range of sectors. Prior to joining Evercore, Mr Pailodze spent two years in corporate and investment banking at Citigroup in New York. Mr Pailodze started his banking career in Georgia, where he held various managerial roles at TBC Bank and HSBC Bank Georgia. Mr Pailodze received his MBA degree from Cornell University and his undergraduate degree in business administration from Caucasus School of Business.

Ekaterine Liluashvili

Head of Wealth Management

Ms Liluashvili was appointed as Head of Wealth Management of JSC Bank of Georgia in May 2019. Ms Liluashvili has extensive experience in financial services. She joined the Bank in 2008 and has held various senior positions, including Head of International Business Development (2015-2019) and Private Banker (2008-2015). Prior to joining the Bank, Ms Liluashvili worked at Bank Republic (Société Générale Group) as a Private Banker. Ms Liluashvili received her undergraduate degree in business administration from European School of Management Tbilisi and holds a degree in Banking from University of Cooperative Education – Berufsakademie Mosbach, Germany, with a specialisation in private banking.

Andro Ratiani

Head of Innovation

Mr Ratiani was appointed as Head of Innovation of JSC Bank of Georgia in 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 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 over eight 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.

Nino Suknidze

General Counsel, Georgia

Ms Suknidze was appointed as General Counsel of JSC Bank of Georgia in December 2017. Prior to joining the Bank, Ms Suknidze worked as Counsel at an international law firm, Dentons Georgia. Ms Suknidze held a position of Legal Director at international law firm DLA Piper Georgia for several years after serving as a Senior Associate at the same company. Prior to starting her career at a law firm, Ms Suknidze served as a legal adviser to financial director of United Energy Distribution Company of Georgia and senior legal adviser at Georgian representative office of PA Consulting Group GmbH. Ms Suknidze has experience of working with Georgian non-governmental organisations on various legal projects and worked as a foreign legal intern with various law firms in the US and the Netherlands. Ms Suknidze obtained her LLM (cum laude, Nuffic scholar) in Business and Trade Law from Erasmus University Rotterdam. She graduated with honours from the faculty of International Law and International Relations of Ivane Javakhishvili Tbilisi State University, and is qualified as a lawyer specialising in international law. Ms Suknidze is a certified attorney and a member of the Georgian bar.

Nomination Committee Report

Planning for our future

Neil Janin
Chairman of the Nomination Committee

Dear Shareholders,

I am pleased to present the report on the activities of the Nomination Committee.

Following our report last year that Kaha Kiknavelidze would be stepping down from the Board and as CEO, we undertook a thorough recruitment process for the role of CEO. After careful deliberation, we recommended Archil Gachechiladze's appointment as CEO from January 2019.

Andreas Wolf stepped down from the Board on 31 January 2020 due to his other business commitments. The Board acknowledged Andreas' valuable contribution during his time on the Board, particularly in respect of his input to digital transformation, Project Lean and of the future strategy of the Bank. In the context of future succession planning and future appointments, the Nomination Committee will take into consideration the skills and experience across existing Board members, possible gaps, and other matters including diversity, if and when it recruits another Director.

Succession planning within the Executive Management remained a priority this year. A number of initiatives, with a particular focus on digitalisation, have been implemented to encourage talent development across the Group. The Nomination Committee has, alongside the Board, dedicated time to strengthening the Executive Management as part of the wider strategic development of the Group.

The Nomination Committee has this year maintained gender diversity as a key focus for management succession planning and we continue to apply the Company-wide Diversity Policy. The Nomination Committee is of the view that diversity at all levels of the Group is pivotal to the effective delivery of our strategy.

We believe that the skills, experience, knowledge and attributes of the members of our Board and Executive Management are important drivers for the successful delivery of the Group's strategic and financial objectives. These appointments help ensure that different perspectives and challenges are brought to the decision making process at different levels of the Group. We believe that the right mixture of talent, experience and diversity at senior management level is vital to the continued success of the Group and to our aim of attracting and inspiring the best people possible.

A key factor in our succession plans is the importance of fostering the culture of the Group, and the Nomination Committee has, alongside the Board, dedicated time to considering our organisational culture and the competitive advantage that an agile and entrepreneurial culture can bring to the Group, and the ways in which our values are promoted throughout the organisation. We report elsewhere in this report on some of the measures we have taken to assess our culture, and we will continue to monitor this carefully over the next 12 months.

I invite you to read more about our work in the following report.

Neil Janin
Chairman of the Nomination Committee
16 March 2020

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 to ensure they are appropriately constituted and balanced in terms of diversity of skills, social and ethnic background, nationality, experience, cognitive and personal strengths, knowledge, outlook, approach and gender size, skills, experience, independence and knowledge;
- responsibility for identifying and nominating for the approval of the Board, candidates to fill the Board vacancies as and when they arise;
- giving full consideration to succession planning for Directors, including the Chairman and CEO and other senior management 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 re-appointment 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 the 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 the light of the knowledge, skills and experience required and their independence, bearing in mind the need for progressive refreshing of the Board (particularly in relation to Directors being re-elected for a term beyond six years).

The Nomination Committee's Terms of Reference were reviewed and approved by the Board in September 2019. The full Terms of Reference are available on our website at https://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 119.

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 Committee asks the 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 independence of character and integrity. It then recommends to the Board whether each Non-Executive Director should be re-appointed.

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 at our 2020 Annual General Meeting.

Appointment of the Chief Executive Officer

Following the announcement of Kaha Kiknavelidze's intention to step down from the Board in December 2018, the Nomination Committee acted quickly to find and appoint a new Chief Executive Officer and Board member. The Nomination Committee was delighted to unanimously recommend the appointment of Archil Gachechiladze as CEO and a Director to the Board in January 2019.

Further information on the recruitment and engagement of the CEO can be found in the Nomination Committee section of our 2018 Annual Report.

Each Director, upon appointment, receives a tailored induction to the Company. In 2019, a full induction programme was undertaken by Mr Gachechiladze, including:

- meetings with management and employees across the business to understand the Company's strategy and structure and the Company's risk profile and risk management procedures;
- meetings with major shareholders and a range of stakeholders, including the Company's external advisers and senior Governmental figures; and
- a session with the Company Secretary on the statutory and regulatory obligations upon the Company and upon himself as a Director.

Continuing education and training

During the year, Nomination Committee members received training on the UK Corporate Governance Code, including the required composition of the Board and Board Committees, recent

Nomination Committee Report continued

developments in respect of diversity in the UK and wider diversity initiatives.

Diversity policy

The Board has adopted a Diversity Policy, mirroring current best practice, which was most recently reviewed in September 2019.

As a Board, we are supportive of the ambition shown in recent reviews on diversity, including the Davies Review and the Hampton-Alexander Review, and will continue to examine ways in which we can increase female representation at the Board and executive management level. While we have not previously set any formal diversity targets, in 2020 we will commit to a target for diversity of 33% female representation on the Board. 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.

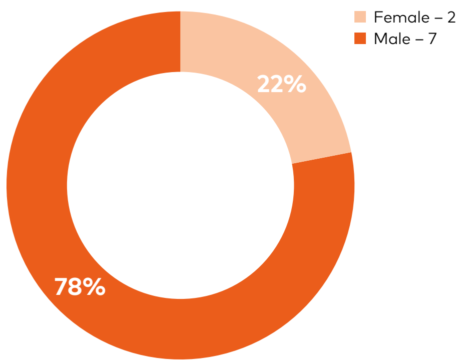
Female representation on the Board is currently 25%, based on two female Directors and six male Directors. Whilst we recognise that more needs to be done to meet the gender target set in the Hampton-Alexander Review for Board membership, we are not "one and done", and we continue to score highly regarding the executive management and direct reports (see below). We are also a highly diverse Board in terms of nationality, our eight Directors are citizens of seven different countries. The Nomination Committee carefully considered whether to adopt a gender diversity target at Board-level this year, and agreed to commit to a target of 33% female representation.

Consequently, diversity of skills and experience, gender, social and ethnic backgrounds, cognitive and personal strengths, and gender, amongst other factors including merit and other objective criteria, will be taken into consideration when seeking to appoint a new Director to the Board. Similarly, we are clear that diversity of outlook and approach, while inevitably being difficult to measure, may be equally as important.

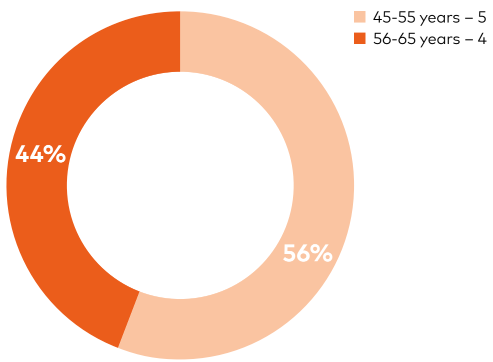
The Nomination Committee was pleased to note the November 2019 edition of the Hampton-Alexander Review report, which indicated that the Bank of Georgia Group PLC continued to be one of the highest rated banks listed in the FTSE 350: the Group's female representation in executive committee and direct reporting positions, a combined total of 41.1%, is considerably above the average in the FTSE 350 (32.8%), and an increase on our position in 2018. This is a tribute to some of the talent development, and management processes and initiatives we have in place, detailed later in this report.

The below graphs show, as at 31 December 2019, the gender and age diversity on the Board level and at management level.

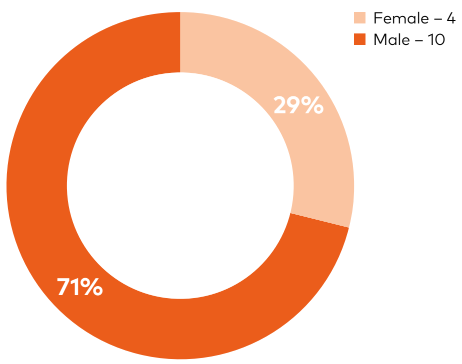
Board
Gender diversity



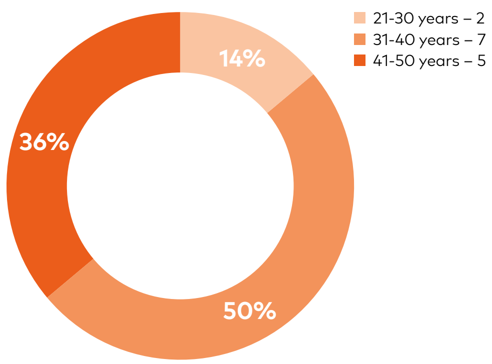
Board
Age diversity



Management
Gender diversity



Management
Age diversity



Note: At the date of this Annual Report and Mr Andreas Wolf stepping down from the Board of Directors on 31 January 2020, female representation on the Board is 25%.

Our practices for supporting women in the workforce have been recognised externally, and the Bank has been nominated for supporting women in the workforce; for having policies and programs beyond those required to meet compliance targets; and for attempting to address barriers to women's employment.

In our 2018 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:** Three female employees in the Leadership Talent Pool were nominated as candidates for progression to Management Board positions. Each individual has a development plan tailored for her own development needs, and is mentored by a designated Management Board member with practical guidance and experience. There are now four female employees within the programme, which will continue to meet our target of nine candidates overall.
2. **Entrepreneurs' event:** In cooperation with the National Bank of Georgia, the Company arranged for more than 70 women entrepreneurs to receive advice and guidance on business-related issues including: finance and financial services; digital marketing; approaches and indicators used for business assessments; HR; and practical advice on how to sell products online. The event was well-received and feedback from the attendees was positive.
3. **Sessions for staff with Board members and successful Georgian women leaders:** In March 2019, the Company, with Senior Independent Director Hanna Loikkanen, held a meeting for successful Georgian women. Guest speakers included the Chairman of the Farmers Association and a young winemaker. Ms Loikannen shared her more than 20 years of personal experience with the invited guests, and the forum discussed matters such as the role of women in business and economics, and the obstacles and challenges facing women in business. The event was well-received and feedback from the attendees was positive, and was reported back to the wider business.

Diversity remains an important area of focus, and we are committed to sustaining and developing our gender balance and wider diversity in 2020, and will oversee the following initiatives to help us further improve gender diversity at both the Board and 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. We await recommendations from our self-assessment in the first half of 2020, and will use these to consider how best to advance our approach to these issues over the coming years.

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.

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 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 Chairman, 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

In 2019, the Board, upon the Nomination Committee's recommendations, refreshed the membership of the Remuneration and Risk Committees to ensure that they continue to have the right mixture of skills, experience, knowledge and independence to function effectively.

Our priority for 2020 is to commit to a target for diversity of 33% female representation on the Board. The Nomination Committee will be mindful of this when analysing the current skills and competencies amongst the Board's membership.

Nomination Committee Report continued

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 make a stronger us';
- value meritocracy over favouritism;
- encourage challenge and dialogue instead of authoritative decision-making; and
- favour cooperation over individualistic or "heroic" behaviour.

During 2019, the Bank undertook an Agile transformation and implemented a number of initiatives to encourage talent development across the Group. We implemented an agile delivery model for our IT solutions and digital products development, and are investing in our IT and digital capabilities with the intention of increasing our digitally-focused staff numbers over the coming year. We also ensured that Agile-related training was provided during 2019, and approximately 300 hours of training was undertaken to ensure the transformation was fully effective.

During 2019, 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 Executive Management Team as part of the wider strategic development of the Group. In April 2019, we reported on a new management structure, which included the appointments of Sulkhan Gvalia as Deputy CEO, Chief Financial Officer, and Giorgi Pailodze as Deputy CEO, Corporate and Investment Banking. Mr Gvalia brought extensive experience in banking to the Management team, and Mr Pailodze has a background of banking management roles. Both appointments, and the additional restructure, were designed to enhance the depth of management talent within the Group.

Review of Board and Committees' effectiveness

The Nomination Committee undertook a self-assessment of its effectiveness towards the end of the year as part of the Board evaluation process. The findings of the review were considered by the Nomination Committee at its September 2019 meeting. The Nomination Committee was pleased with the results of the evaluation and is confident that it continues to operate and perform appropriately, and fulfils its responsibilities fully. For more information on the Board and Committee evaluation, see page 123.

Looking ahead to 2020

In addition to those areas we have committed to earlier in this report, including diversity targets, in the coming year, the Nomination Committee will also consider how best to: support the employee experience; encourage talent development; and to encourage growth and innovation in line with the Company's newly adopted core values and business principles.

Audit Committee Report

Upholding integrity, transparency and accountability

Jonathan Muir
Chairman of the Audit Committee

Dear Shareholders,

I am delighted to provide the report of the Audit Committee and its activities.

The Audit Committee recommends the financial statements to the Board and reviews the Group's financial reporting and accounting policies, including formal announcements and trading statements relating to the Company's financial performance. It also oversees the relationship with Ernst & Young LLP ("EY"), the Group's external auditor, and the role and effectiveness of the internal audit function.

During the year, the Audit Committee expanded its role to include corporate governance of the Bank as required by the National Bank of Georgia, and reviewed and approved the internal audit plan and execution for 2019. The Audit Committee 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.

We maintained our focus on the new international reporting standards, and the Audit Committee worked with management and the external auditor to review the changes required in response to the introduction of new accounting standards, and particularly IFRS 16 Leases.

The Audit Committee has focused attention on how the Bank can best ensure that it has a risk-aware culture, and receives regular reports of work on training and on the embedding of fraud risk management requirements into management's performance appraisals. This will continue to be an area of focus in 2020.

As a Committee, we regularly review and consider cyber and wider information security data and statistics, and monitor the activities executed and planned to mitigate against the associated risks.

The Committee also responded to internal audit report feedback by inviting heads of departments to discuss the mitigating actions against risks raised by the Internal Auditor.

The Audit Committee collaborates with the Risk Committee at regular points during the year to discuss matters of mutual relevance, and these meetings help support the integrated risk management approach so important today.

I, and the Audit Committee more widely, firmly believe that the Group has strong foundations in place in terms of risk management and internal control processes and structures, and I look forward to the Audit Committee playing a very active role in continuing to build upon these foundations over the course of 2020.

I now invite you to read this year's Audit Committee report.

Jonathan Muir
Chairman of the Audit Committee
16 March 2020

Audit Committee Report continued

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 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 as a professional in both accounting and auditing. In addition, Ms Loikkanen has significant experience of working with financial institutions and has held a number of senior positions within the banking industry. 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 125 and 127.

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 2019, are available at: https://bankofgeorgiagroup.com/governance/documents). It also reacts to business developments as they arise.

Attendance at meetings by Audit Committee members during the year can be found on page 119 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 Operating Officer, Head of Internal Audit and Head of Compliance. Representatives of EY also attend meetings. The Chief Executive Officer, General Counsel and 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.

Private meetings

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 Bank's Head of Internal Audit.

The Chairman of the Audit Committee attends the AGM to respond to any shareholder questions that may be raised on the Audit Committee's activities.

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, and to 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 external auditor in respect of key areas of management judgement, 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.

Financial reporting 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 Committee
Additional Tier 1 Instrument	Received an update on accounting for Additional Tier 1 Instruments and discussed any implications to the Bank with management.
Presentation of cross-currency swap gain/losses	Reviewed and agreed a representation for the treatment for FX Swap gains/losses in accordance with IAS 1.
Valuation of Investment Properties and impairment of assets held for sale	Considered the reports of management and the external valuer on the Bank's properties and agreed a revaluation of investment properties for year-end 2019.
Executive ESOP Scheme	Reviewed and received assurances on the accounting treatment for the new Executive ESOP Scheme.
IFRS 9 and IFRS 16 implementation	Received regular reports on the implementation of IFRS 9 and discussed with management the practical measures put in place to implement IFRS 16.
Litigation	Reviewed litigation that could be material to the Company and whether provisions and disclosures for contingent liabilities were required in respect of such cases.

The Audit Committee also received regular reports on recoveries and write-offs of loans and 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-up.

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.

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 the 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;
- closely monitored the audit engagement, including the process and conclusions around areas of 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 requirement;
- reviewed audit fees;
- monitored the rotation of key partners in accordance with applicable legislation; and
- recommended the appointment, re-appointment or removal, as applicable, of the external auditor.

Auditor independence

To safeguard the auditors' independence and objectivity, the Group has a policy on non-audit services which is approved and maintained by the Audit Committee. It is available at https://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 2019 the total fees paid to EY for the year ended 31 December 2019 were GEL 2.0 million, of which GEL 0.3 million related to work other than the audit or review of the interim accounts.

The Audit Committee is of the view that engaging EY on certain and specific occasions for non-audit work is the most efficient method of having those particular services delivered to the Company, and do not consider that this work compromised the independence of the external auditor.

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 it has 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;
- a formal questionnaire issued to all Audit Committee members and to the executive management of the Group managing the audit process, 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 auditor and management allows for scrutiny and challenge of views on both sides and it is comfortable with the proven ability and willingness of the external auditor to challenge management views in a constructive and proportionate manner.

The Audit Committee has recommended to the Board that EY be re-appointed as auditor of the Company, and the Directors will be proposing the re-appointment and the determination of EY's remuneration at the 2020 AGM.

Audit tender and lead partner rotation

EY was appointed as auditors of Bank of Georgia Group PLC in 2018, and subsequently appointed by shareholders at the 2019 AGM, and the Board was authorised to set the remuneration of the Auditor, with 95.3% and 96.2% votes in favour for each resolution.

The Group will be required to put the external audit contract out to tender no later than 2027. We continue to review the auditor appointment and this year considered the opportune time to next tender for the provision of audit services to the Company. EY appointed John Headley as our lead audit partner in 2018. The external auditor is required to rotate the audit partner responsible for the Group at least every five years.

During 2019, 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.

Whistleblowing, conflicts of interest, anti-bribery and anti-corruption, data protection

The Audit Committee ensures that there are effective procedures relating to whistleblowing, and a policy is in place which allows staff to confidentially raise any concerns about business practices which is kept under review. In 2018, the Group also implemented Whistle B, an advanced independent whistleblowing reporting channel and case management tool to replace its existing whistleblowing platform. This is working well, and we reviewed additional measures being put in place to improve the robustness of investigations made as a result of issues raised both through this channel and 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 Whistle B and the case management tool are provided to the Audit Committee at quarterly intervals.

The Audit Committee reviews 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. There were no significant findings in 2019. The Audit Committee oversaw the successful introduction of the Group's response to the new General Data Protection Regulation, and continues to receive regular updates from the Data Protection Officer.

Risk management and internal controls

Although the Board assumes 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 National Bank of Georgia requirements, and in line with identification and verification guidelines of beneficial owners and Know Your Customer guidelines issued by the National Bank of Georgia.

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 enhancements to controls including effectiveness of dual authorisation. It also receives reports from the Internal Audit department, as well as reports on any compliance issues and litigation updates.

For 2019, 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 2019, 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 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 Audit 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.

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 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 report? ▪ Is the Report presented in straightforward language, and in a user-friendly and easy to understand manner?

Audit Committee Report continued

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

Towards the end of the year, the Audit Committee reviewed its effectiveness as part of a broader review of all Board committees' effectiveness facilitated by the Company Secretary. The effectiveness evaluation concluded that, overall, the Audit Committee is performing effectively and its composition remains appropriate. Following the review, the Audit Committee agreed a number of areas of focus for 2020, including monitoring IT security and anti-money laundering procedures, evolving risks, and holding management to account for continued improvement in internal controls and risk management.

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 Board, and to provide details on how we have discharged our responsibilities throughout 2019.

In 2019 the Risk Committee built on the progress made last year in strengthening 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, and has helped ensure that the business continues to target effective risk management as a means of ensuring a sound underpinning to the achievement of our strategic objectives.

The Bank adapted well to a stringent regulatory environment, successfully implementing new regulatory requirements into the lending processes. The resulting shift in the credit products led to a significantly reduced credit risk profile of the Bank's retail loan portfolio.

Throughout the year, the Risk Committee has carefully monitored the development of the credit portfolio, ensuring compliance to 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, well inside the frames of its defined limits.

The Risk Committee also kept its focus on improving the risk culture and improving the Bank's risk appetite framework. We initiated several stress and scenario tests to model the potential impact of global, as well as Georgia specific, macro events on the Bank's financial position and its capacity to meet its strategic objectives.

We recognise that there are challenges in the global and regional macroeconomic environment, including the potential negative impact from novel COVID-19 virus, as well as challenges posed by climate change. Related to this, and in line with the requirements of the UK Corporate Governance Code, we intend to do more to consider emerging risks and undertake more forward-looking work, including engaging with policymakers within Georgia on climate change risks. The potential implications on the Georgian economy, and the consequent impact upon the Group, will be areas of focus for us during 2020.

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
16 March 2020

An overview of our risk management framework is set out on pages 58 to 71.

A description of principal risks and uncertainties, in addition to recent trends and outlook, as well as mitigation efforts, can be found on pages 72 to 79.

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 risk exposure and the implementation of strategy to address risk;
- support the Board in monitoring risk exposure and the implementation of our 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 cyber-security, anti-fraud and bribery controls, information systems, compliance and financial crime. The Risk Committee also considers external risks arising from macro-economic issues, regional stability and regulatory changes.

The Risk Committee's Terms of Reference were reviewed by the Risk Committee and approved by the Board in September 2019. The full Terms of Reference are available on our website at https://bankofgeorgiagroup.com/governance/documents.

Composition of the Risk Committee and meetings

Our Risk Committee comprises Independent Non-Executive Directors with extensive experience of the types of risk facing a modern bank. The Committee members are Tamaz Georgadze (Chairman), Al Breach and Véronique McCarroll. Archil Gachechiladze stepped down as a member of the Risk Committee on 28 June 2019. Details of attendance are on page 119.

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-Committee Board members are invited to attend. Meetings of the Risk Committee take place prior to 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 rate, 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 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 takes place at Board meetings, and continues to provide the context to the Risk Committee's discussions on the Group's management of financial risks. Political events that took place during June 2019 in Georgia led to a ban on flights from Russia, and resulted in weakness of local currency versus all the major currencies, and the currencies of regional trading partners as well. This has led to increased inflation expectations in the second half of 2019. In response, NBG increased the refinancing rate by 250 basis points. The Georgian economy still grew by more than 5%, as the decline in tourist number from Russia was made up for by an increase in number of visitors from other countries. However, this highlighted the vulnerabilities of Georgian economy and its growing dependence on tourism revenues. We remain alert to a number of macro-economic scenarios, both global and regional, that could negatively impact economic growth of Georgia in 2020.

We expect changes in the regulatory framework to continue going forward as Georgia aligns its regulatory framework with that of the EU according to the Association Agreement signed in 2014. This will 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 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.

Financial risks and our loan book

The Risk Committee receives regular updates on the top 20 corporate exposures, and management's plans to manage these through initiatives including increasing local currency loans 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 has a had a multi-year programme to reduce its concentration risk, and the share top ten exposures is 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 creditors, as well as a broader economic downturn. Both internally-developed stress tests, and one using NBG-specified criteria are considered.

During 2019, we closely monitored NPL levels and management actions to assure adequate coverage of our loan loss exposure. Our NPL coverage ratio changed from 90.5% at 31 December 2018 to 80.9% at 31 December 2019. 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. Last year, we made changes to the Risk Appetite Framework to better integrate the risk considerations and risk KPIs in the strategic planning and budgeting processes. The Risk Committee also adopted a new risk dashboard which covers the principal risks and gives the Risk Committee members a high level view of the risk profile relative to approved risk appetite parameters. We also monitored risk exposure and actions taken to address risks, which included oversight and support of our executive management risk team. During the year we work closely with the Audit Committee to ensure that our risk management framework and systems of internal control operates effectively and in compliance with the Code and FRC guidance. We also work through the processes supporting the assessment of the Group's longer-term solvency and liquidity which underpin the viability statement. In 2019 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. The Risk Committee also worked with the Board and the Audit Committee to monitor the embedding of the Group's Compliance Policy, the development of our Data Protection Policy in line with 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 to the Board with our recommendations 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 81.

Risk committee effectiveness review

The Committee undertook a self-assessment of its effectiveness towards the end of the year as part of the Board evaluation process. The findings of the review were considered by the Committee at its September 2019 meeting. The Committee concluded that it assesses and challenges the principal risks facing the Group in an effective manner.

During 2020, the Committee will work towards further refining the risk appetite framework. At the same time, we want to improve our sectoral view, especially with regards to our corporate client credit risk exposure and further invest into our open and collaborative involvement of National Bank of Georgia in the development of tools and metrics. We will also engage with policy makers on the risks presented by climate change and solutions that the Group can further implement to manage climate-related risks, and consider the appropriateness of disclosing in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

Last year's review highlighted the need to work closely with other Board Committees, and to address this, the Committee agreed that joint meetings would be held with the Audit Committee, primarily relating to operational risks, which are within the scope of both Committees. The Board is confident that the joint meetings have ensured that the link between risk and audit is maintained and was greatly improved throughout 2019 without the need for overlapping membership.

Directors' Remuneration Report

Aligning incentivisation with the long-term success of the Group

Alasdair Breach
Chairman of the Remuneration Committee

Dear Shareholders,

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2019.

We welcomed Hanna Loikkanen, our Senior Independent Director, to the membership of the Remuneration Committee in September 2019, and our Remuneration Committee now comprises five Independent Non-Executive Directors.

Directors' Remuneration Policy

At our AGM in May 2019, the Remuneration Committee was pleased to note that the new Directors' Remuneration Policy (the "Policy") was widely supported by shareholders, with 91% approval.

The Policy focuses on alignment between the Executive Director and our shareholders. In particular, by structuring the remuneration so that most of the salary, and all of the bonus, is paid in shares which vest over five years (including holding period). The key features of the Policy in respect of the Executive Director are: (i) weighting salary in favour of payment in deferred shares rather than in cash, and (ii) discretionary performance-based remuneration in the form of deferred shares (no cash bonus and no LTIP). The Policy is in tune with relevant guidance including:

- pension contribution by the Company the same for CEO as for the Group employees;
- shareholding guidelines with an equivalent of 200% of cash plus deferred share salary, also to be maintained for two years' post-employment; and
- malus and clawback provisions enhanced, with prescribed triggers consistent with the UK best practice.

A summary of the Policy is on pages 157 to 161 of this Remuneration Report, and the full text of the Policy is available on the website at https://bankofgeorgiagroup.com/governance/documents.

Addressing the factors in provision 40 of the Code

The Remuneration Committee paid 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:

- *Clarity:* remuneration arrangements are transparent and competitive. The Remuneration Committee set out the rationale and full Policy last year. This year, we summarise the Policy in this report so that the main features are clear.
- *Simplicity:* the rationale is simple – this structure focuses the Executive Director and senior management on sustainable, long-term performance of the Company by remuneration being weighted towards 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 senior management to mitigate reputational and behavioural risks. The Policy also introduced a minimum shareholding and post-employment shareholding requirements.
- *Predictability:* the range of possible values was set out in the Policy voluntarily, including the impact of share price appreciation and depreciation, to aid predictability.
- *Proportionality:* outcomes reward performance proportionately by reference to performance targets, and furthermore to allow appropriate adjustment the entire "bonus" is discretionary. For further considerations on proportionality, see section "Chief Executive's Pay and Comparators" on pages 151 and 152.
- *Alignment to culture:* a high proportion of remuneration in deferred shares rather than cash promotes alignment with culture and the long-term success of the Company, supported by the CEO's performance KPIs, including: (i) employment engagement and culture; and (ii) developing corporate social responsibility in accordance with the Group's purpose.

Shareholder engagement and response to significant vote against Remuneration report

The Remuneration Committee recognises that at the 2019 AGM the majority of the shareholders who voted supported the resolution to receive and approve the Directors' Remuneration Report (74%), but nonetheless a significant minority opposed this advisory resolution.

Early in 2019, the Company and members of the Remuneration Committee engaged with shareholders and shareholder advisory groups regarding remuneration arrangements, including the remuneration package for the Executive Director; and our major shareholders were generally supportive.

We continued to engage with shareholders after the AGM to further understand their views on this matter, noting that the foregoing resolution relates to its implementation of the previous Directors' Remuneration Policy.

Lastly, further to the AGM and shareholder engagement, in September 2019 the Company issued a statement on our website, which can be seen at https://www.bankofgeorgiagroup.com/information/meetings. We confirmed to shareholders that there will be no increase in cash salary, the number of deferred salary shares, nor in the maximum bonus opportunity, over the three years from the date of the 2019 AGM for the current Executive Director.

Workforce engagement

Employees were able to raise matters relating to the workforce through the designated Non-Executive Director. In 2018, the Board introduced a new initiative, Employee Voice at Board Level – an informal discussion forum held quarterly for the Board to engage with the workforce. These meetings are facilitated by Hanna Loikkanen, the designated Non-Executive Director for engagement 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. Hanna is also a member of the Remuneration Committee. Over the course of 2019, four such meetings were held, covering all business lines of the Group, and which were attended by several Directors. The key takeaways and significant employee matters were reported back to the full Board and the CEO after each meeting.

Pension update and alignment

Other activities of the Remuneration Committee included considering group employee remuneration structures and reviewing changes to the pension provision, following new Georgian state pension legislation. This implementation has been Group-wide in Georgia; the Group, the employee and the Georgian Government each contribute an amount equivalent up to 2% (up to a ceiling) of the employee's remuneration. The same pension arrangements apply to our Executive Director, the CEO.

Pay for performance in 2019

The Remuneration Committee made its annual determination of the discretionary performance-based remuneration (in deferred shares) for our CEO and sole Executive Director, Archil Gachechiladze, over 2019. The remuneration operated as intended in terms of performance and quantum. The performance-based remuneration is entirely discretionary, although based upon the CEO's performance measures and will vest on a phased basis with a total vesting and holding period of five years. There is more explanation about the rationale and performance metrics later in this report on pages 150 to 151.

Mr Gachechiladze's performance this year was exceptional. He exceeded or fully met all of his KPIs. Having joined the Company in January 2019, he has set a new strategy for the Group, formed a new senior management team with significant key hire, reviewed many approaches and ways of working, and was instrumental in the Company's success with the Company delivering a return on average equity for the year of 26.1%, and 22% growth in customer lending on a constant currency basis. Beyond his KPIs, Mr Gachechiladze has shown strong and inclusive leadership by engaging the workforce to help shape and set new values and principles for the Group. The strategy to date has also been proven: the Company's full-year results in all metrics were exceptional. As a result, the Remuneration Committee decided to award Mr Gachechiladze 100% of his maximum opportunity for the year, whilst noting that such award is for a genuinely outstanding achievement with significant personal input.

The 2019 KPIs were chosen to align the CEO's incentives with the strategic priorities of the Company, whilst also taking into account the important metrics of advancing employee engagement, improving customer satisfaction and understanding and helping to shape the culture for the Group. The 2020 KPIs have been selected with similar aims in mind, although given the unpredictability of the future under the circumstances created by COVID-19, the Remuneration Committee will review and adjust the KPIs as appropriate.

Other Remuneration Committee activities in 2019

As described in the last year's Remuneration Report and discussed ahead of the last year's AGM, which included the approval of the new Remuneration Policy, the Remuneration Committee set the package of the new CEO Archil Gachechiladze.

Lastly, during the year the Remuneration Committee decided the discretionary deferred shares for senior management as well as for the previous CEO. The Remuneration Committee performed an overall review of senior management's contracts, including implementing extended vesting and holding periods for future years and additional malus and clawback for senior employees. We also updated the Executive Incentive Plan to align it with these matters and other aspects of the Policy.

We invite your suggestions on how we can make this report most useful to you.

Alasdair Breach
Chairman of the Remuneration Committee
16 March 2020

Directors' Remuneration Report continued

The Remuneration Committee and its advisers

The Remuneration Committee is principally responsible to the Board for establishing a Remuneration Policy for the Executive Directors, Chairman and designated members of the Executive Management Team 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's Terms of Reference were reviewed in 2019 and are available on our website at https://www.bankofgeorgiagroup.com/governance/documents.

The Remuneration Committee comprises five independent Non-Executive Directors: Al Breach serves as Chairman, Neil Janin, Tamaz Georgadze, Hanna Loikkanen and Cecil Quillen. The members' attendance is shown in the Board and Committee meetings attendance table on page 119.

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 UK General Counsel. Attendees at the Remuneration Committee meetings do not participate in discussions or decisions related to their own remuneration.

The Remuneration Committee received additional advice on compliance from Baker & McKenzie LLP, the Group's legal advisers. The Remuneration Committee is of the view that the advice received from Baker & McKenzie LLP is objective and independent.

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 2019.

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 157 to 161. The full Policy is set out on our website at https://bankofgeorgiagroup.com/governance/documents.

The Annual Report on Remuneration (set out on pages 146 to 161), which includes the Annual Statement by the Chairman of the Remuneration Committee, will be subject to an advisory vote at the 2020 AGM.

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 Chairman of the Remuneration Committee) presented at our 2019 AGM.

Resolution	Votes for	%	Votes against	%	Total votes cast	Votes withheld
Approval of the Directors' Remuneration Report	30,993,360	73.57	11,134,173	26.43	42,127,533	4,063

Single total figure of remuneration for the sole Executive Director (audited)

The table below sets out the remuneration earned by the Company's Executive Directors during 2019, Archil Gachechiladze, in respect of his employment with the Company for the year ended 31 December 2019. For 2019, 90% 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 (cash salary converted into shares plus number of deferred salary shares).

Mr Gachechiladze was appointed as Executive Director on 28 January 2019, and Mr Kiknavelidze stepped down from the Board and the CEO role on the same day and remained in employment for a transition period until 28 February 2020.

Archil Gachechiladze	Cash salary (US$)[1]	Deferred share salary (US$)[2]	Total salary (US$)	Discretionary deferred share remuneration (US$)[3]	Taxable benefits (US$)[4]	Pension benefits[5]	Dividend equivalents[6]	Total (US$)
2019	**343,222**	**1,275,460**	**1,618,682**	**1,724,012**	**1,528**	**3,197**	**–**	**3,347,419**

Kakhaber Kiknavelidze	Cash salary (US$)[1]	Deferred share salary (US$)[2]	Total salary (US$)	Discretionary deferred share remuneration (US$)[3]	Taxable benefits (US$)[4]	Pension benefits[5]	Dividend equivalents[6]	Total (US$)
2019	**73,365**	**247,310**	**320,675**	**237,047**	**860**	**2,386**	**29,159**	**590,127**
2018	295,000	1,483,800	1,778,800	1,349,985	2,584	1,906	6,278	3,139,552

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.
2 Deferred share salary. The figures show the value of the underlying nil-cost options over BOGG shares granted in respect of 2019. For 2019, Mr Gachechiladze was awarded 69,247 BOGG shares. A service agreement with Mr Gachechiladze, signed on 9 January 2019, came into effect on 28 January 2019. The value attached to each BOGG share is calculated by reference to 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). For 2019, Mr Kiknavelidze was awarded pro-rata portion of deferred share salary of 10,000 BOGG shares for his employment to end of February 2019. For 2018, Mr Kiknavelidze was awarded 60,000 BOGG shares. The value attached to each BOGG share, for 2019 and 2018 work years, is calculated by reference to the share price used is at the date of demerger, 29 May 2018, being US$ 24.731 per share (the official share price of GBP 18.638 per share converted into Dollars using an exchange rate of 1.3269 being the official exchange rate published by the Bank of England on the same date).
3 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 2019, Mr Gachechiladze was awarded 86,460 BOGG shares. The discretionary remuneration in respect of 2019 is deferred and will vest 40% in January 2022 and 60% in January 2023. Each tranche is subject to a further two-year holding period following vesting. 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/the day of the meeting at which the award was determined) which was US$ 19.94 (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 2019 awards are subject to the leaver provisions 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 2019 discretionary award is described on the next two pages. For 2019, Mr Kiknavelidze was awarded 11,888 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/the day of the meeting at which the award was determined) which was US$ 19.94 (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). For 2018, Mr Kiknavelidze was awarded options over 68,000 BOGG shares. The value was calculated by reference to the closing share price on 22 January 2019 (the day of the meeting at which the award was determined) which was US$ 19.853 (based on the official share price of GBP 15.322 per share converted into US Dollars using an exchange rate of 1.2957, being the official exchange rate published by the Bank of England on the same date). The discretionary remuneration in respect of 2019 and 2018 is deferred and vests over three years under the previous Remuneration Policy in equal amounts in each of the second, third and fourth years following the work year.
4 Benefits. The figures show the gross taxable value of health, life and personal accident insurance.
5 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.
6 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 2019.
7 Mr Gachechiladze and Mr Kiknavelidze were reimbursed for reasonable business expenses, on provision of valid receipts.
8 No money or other assets are received or receivable by Mr Gachechiladze or Mr Kiknavelidze 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 2019.

Directors' Remuneration Report continued

The following table sets out details of total remuneration for the Chief Executive Officer, Mr Gachechiladze, for the year ended 31 December 2019, and his discretionary compensation as a percentage of maximum opportunity. As Mr Gachechiladze was appointed on 28 January 2019, there is no prior year comparator which can be shown.

	2019
Single total figure of remuneration (US$)	3,347,419
Discretionary compensation as a percentage of maximum opportunity (%)	100%

Basis for determining Mr Gachechiladze's discretionary deferred share remuneration in respect of 2019

Mr Gachechiladze's KPIs included both objective and non-tangible components. The objective elements largely track the Group's KPIs as he is expected to deliver on the Group's strategy, but the KPIs also include non-tangible factors such as strategy development and implementation, as well as corporate and social responsibility. The Remuneration Committee exercised its discretion when awarding discretionary share remuneration. The following table sets out the objective KPIs set for Mr Gachechiladze in respect of 2019 as well as Mr Gachechiladze's performance against them: see below the table for further explanation.

Financial measures

Key Performance Indicator	2019 Target	2019 Performance	Committee Evaluation
Return on average equity[1]	20%+	26.1%	Exceeded
Net Promoter Score	Equal or more than 35%	42.3%	Exceeded
Capital Adequacy	Capital adequacy requirements to be sustained with an appropriate buffer. Buffer guideline initially 150 bbps for Tier 1, lowered by the Remuneration Committee to deliver higher loan growth (given loan growth reduces capital ratios).	CET1 buffer – 11.5% (buffer of 140 bbps) Tier 1 buffer – 13.6% (buffer of 140 bbps) Capital adequacy requirements met. Appropriate level to balance capital adequacy buffer with delivery of loan growth.	Fully met
Growth in Net Income	Profit adjusted for one-off costs: growth to be shown y-o-y.	18.2% increase y-o-y	Exceeded
Risk Tolerance	Below 2% cost of risk	0.9%	Exceeded

Non-financial measures

Key Performance Indicator	2019 Target	2019 Performance	Committee Evaluation
Employee Engagement and Culture	(i) Initiating a scoring process to benchmark against in future years. (ii) Remuneration Committee would exercise judgement on the improvement of culture at the Bank.	Initiated different processes to ensure maximum input: (i) Performed Barrett's value study, which then shaped the values and principles of the Group, to allow full employee engagement with the new values and principles. (ii) Employee eNPS (which will be completed quarterly). (iii) Korn Ferry employee engagement study completed, and to become semi-annual. Motivated employees to participate in culture development via regular VLOGS on the corporate social network, Workplace. Regular emails from the CEO highlighting where employees reached their potential. Teamwork across the organisation promoted as a goal.	Exceeded
Developing CSR in accordance with the Group's purpose	Developing CSR in accordance with the Group's purpose of "we help people achieve more of their potential"	Three pillars of CSG set: education, employment and MSME development. New brand platform and campaign launched to show we empower and support our customers and employees. Sponsorship of Olympic Committee and Paralympic Committee. Education in Georgia on saving skills and customer rights. Launched Medallia to capture feedback. Improved customer satisfaction (CSAT) scores.	Exceeded

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

In June 2019 the Board, including all members of the Remuneration Committee, reviewed the KPIs and targets to ensure they remained appropriate, such forthcoming review being disclosed in the 2018 Annual Report. This review took place after the new strategy had been set to ensure that the new CEO's KPIs were appropriately aligned with the strategy. Regarding the financial measures: two of the same targets were as for 2018 with ROAE target at 20% and Cost of Credit Risk Ratio below 2%; the ROAE target is one of the central tenets of the Group's long-term strategy. The capital adequacy requirements were set at NBG level plus an appropriate buffer, as further explained in the table above. Net Promoter Score measures how likely it is that a customer would recommend the Bank to a friend or colleague and 35% is considered competitive. Further, growth in the Group's net income was included as an additional KPI.

The Remuneration Committee discussed the CEO's extraordinary performance against the agreed KPIs. They also discussed further soft achievements of the CEO including the positive changes made in the senior management team, and the additional motivation that the CEO brought to the organisation. The CEO had led and promoted cultural change within the Company which underpinned the strategy. The Remuneration Committee considered ESG matters and the role of the Company within the Georgian community such as becoming the sponsor for Georgia's Olympic and Paralympic teams. The Bank also educated Georgian citizens on banking and saving skills, and customer rights: it compiled a dictionary of banking terminology to help clients better understand the banking products offered to them, read and comment on the contracts they are about to sign, and as a result make informed decisions in their best interest. In 2019, the Bank launched Assessing and Improving Bank of Georgia's Environmental and Social Management System supported by DEG (Deutsche Investitions- und Entwicklungsgesellschaft). Lastly, the Group has had a very strong performance this year, particularly in full-year results (as per the Chairman's Letter).

The Remuneration Committee discussed whether 100% was an appropriate bonus, noting that such was not to be considered the norm and that 70% was to be awarded for being on target overall. In this case, the CEO had exceeded the majority of his targets and showed strong leadership of the new culture. Further, the new strategy which the CEO had initiated, with the Board's guidance and review, had placed the Group in a strong position for the future. The Remuneration Committee noted that awarding 100% would reward pay for performance, given the above achievements and his significant personal input to the very strong full-year results. Given the extraordinary performance of the CEO, the Remuneration Committee agreed to award 100% of maximum opportunity to the CEO.

Percentage change in remuneration of CEO

The following table sets out details of the percentage change in the remuneration awarded to the CEO between 2018 and 2019, compared with the average percentage change in the per capita remuneration awarded to the Group's employees as a whole between 2018 and 2019. See the Single Total Figure Remuneration Table on page 149 for an explanation of cash salary, deferred share salary, taxable benefits and discretionary deferred remuneration of the CEO.

	Percentage change for the CEO between 2018 and 2019	Average percentage change for the Group's employees as a whole (excluding, the CEO) between 2018 and 2019
Total cash salary	0.0%	-12.2%
Total deferred share salary	-6.9%	-25.4%
Taxable benefits	-35.5%	-9.1%
Total bonus (discretionary deferred share remuneration, in the case of the CEO, and deferred discretionary share remuneration plus cash bonus, in the case of other employees of the Group)	38.2%	5.1%

Note:
1 For the purpose of this disclosure the CEO's 2018 and 2019 remuneration was scaled up to the full years.
2 The negative percentage change in the employees remuneration is due to the demerger, following which a number of employees transferred to Georgia Capital PLC.

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 pay against the UK pay (and indeed given it has less than 20 UK employees, to do so would be distortionary).

Directors' Remuneration Report continued

The Remuneration Committee instead benchmarked the CEO's remuneration against FTSE 250 companies financial services across all sectors. The delayed receipt of the majority of salary and of all the bonus (in shares vesting across several years) means that the time value of money and also the risk of salary and bonus 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.

The Company has also committed to shareholders not to increase the CEO's fixed salary and maximum discretionary bonus for three years from the 2019 AGM, as in the Chairman's letter above and the statement on the Company's website at https://bankofgeorgiagroup.com/files/2/5d88729cbe4b6.pdf.

Details of payments made to the former CEO Kakhaber Kiknavelidze

Mr Kiknavelidze stepped down from the Board and as Chief Executive of the Group and JSC Bank of Georgia on 28 January 2019. To aid handover, he continued employment with the Group until end of February 2019. The below payments have been made in relation to his cessation of employment. A de minimis threshold is $500 and the payments below this amount will not be disclosed.

US$11,698 for accrued but untaken annual leave
GEL 46,411 outstanding business expenses
Pro-rata portion of deferred share salary, paid in nil-cost options over 10,000 shares
US$42,192 in lieu of contractual notice
£5,000 contribution to legal fees incurred in connection with the termination of the employment
US$85,000 severance payment under JSC Bank of Georgia contract in line with contractual arrangements
Pro-rata portion of deferred discretionary shares, paid in nil-cost options over 11,888 Bank of Georgia Group PLC shares

In respect to the pro-rata portion of discretionary shares to the end of February 2019, the Remuneration Committee considered: keeping the Group on track and stable, continued contribution to the business and smooth transfer to the new CEO. The Remuneration Committee also noted that this handover period included continuous solid business growth across all lines and further developments in digitalisation strategy. Lastly, the Remuneration Committee noted that the successes of the financial and non-financial KPIs which Mr Kiknavelidze had been measured on 22 January 2019 (for work year 2018) continued into the first two months of 2019. The Remuneration Committee in its discretion awarded 15.1% of the maximum annual amount. See page 149 for further details of this award and the deferred share salary.

There was no accelerated vesting. Any outstanding nil-cost options awards under the equity compensation plans will continue to vest on their normal vesting dates, subject to the rules of the relevant plan.

Further details of fixed and discretionary deferred share compensation granted during 2019 (audited)

The following table sets out details of the nil-cost options over BOGG shares which have been granted to Mr Gachechiladze in 2019.

	Deferred share salary
Number of underlying shares and basis on which award was made	69,247 granted on the basis of the 2019 Policy available at www.bankofgeorgiagroup.com/governance/documents.
Type of interest	Nil-cost option
Cost to Group	US$1,275,460[1]
Face value	US$1,275,460[1] 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.
Exercise price	Nil. The options form part of the Executive Director's salary under the policy and so no payment is required upon exercise.
Vesting period	25% in each of 2021, 2022, 2023 and 2024.
Performance measures	None. See the 2019 Policy available at www.bankofgeorgiagroup.com/governance/documents.

Note:
1 Figures calculated as described in Note 2 to the table of Single Total Figure of Remuneration for the Executive Director.

The following table sets out details of the nil-cost options over BOGG shares which have been granted to Mr Kiknavelidze in 2019 in respect of the year ended 31 December 2018.

	Deferred share salary	Discretionary deferred share compensation
Number of underlying shares and basis on which award was made	60,000 granted on the basis described in the old BGEO 2017 policy available at www.bankofgeorgiagroup.com/reports/annual.	68,000 granted on the basis described in the old BGEO 2017 policy available at www.bankofgeorgiagroup.com/reports/annual.
Type of interest	Nil-cost option	Nil-cost option
Cost to Group	US$ 1,483,800[1]	US$1,349,985[2]
Face value	US$1,483,800[1]	US$1,349,985[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 2018 performance (and this is not a 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.	Nil. The options form part of the Executive Director's salary under the policy and so no payment is required upon exercise.
Vesting period	20% in each of 2020, 2021 and 2022 and 40% in 2023.	33% in each of 2020, 2021 and 2022.
Performance measures	None. See section (1) of the BGEO 2017 Policy available at www.bankofgeorgiagroup.com/reports/annual.	See section (2) of the BGEO 2017 Policy available at www.bankofgeorgiagroup.com/reports/annual.

Notes:
1 Figures calculated as described in Note 2 to the table of Single Total Figure of Remuneration for the Executive Director.
2 Figures calculated as described in Note 3 to the table of 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 2018 and 2019. The Group has been publicly listed since 21 May 2018. However, a number of Non-Executive Directors served as Non-Executive Directors of BGEO Group PLC prior to the demerger and the remuneration for the 2018 FY period includes remuneration for pre- and post-demerger, including JSC Bank of Georgia fees for the whole period.

	Bank of Georgia Group PLC fees (US$)		BGEO Limited fees (US$)	JSC Bank of Georgia fees (US$)		**Total fees (US$)**	
	2019	2018	2018	2019	2018	2019	2018
Neil Janin	**103,587**	63,264	40,323	**210,313**	210,313	**313,900**	313,900
Alasdair Breach	**57,389**	37,851	24,126	**100,479**	94,973	**157,868**	156,950
Tamaz Georgadze	**56,420**	40,735	24,235	**104,964**	102,384	**161,384**	167,354
Hanna Loikkanen	**64,686**	41,195	24,235	**116,709**	104,593	**181,395**	170,023
Véronique McCarroll	**47,753**	13,085	–	**77,720**	–	**125,473**	13,085
Jonathan Muir	**54,323**	39,991	21,666	**96,391**	94,446	**150,714**	156,103
Cecil Quillen	**57,389**	52,497	–	**100,479**	61,836	**157,868**	114,333
Andreas Wolf	**50,819**	13,852	–	**91,719**	6,844	**142,538**	20,696
TOTAL	**492,366**	302,470	134,585	**898,774**	675,389	**1,391,140**	1,112,444

Notes:
1 Neil Janin, Alasdair Breach, Tamaz Georgadze, Hanna Loikkanen and Jonathan Muir were appointed to the Board and its Committees on 24 February 2018. They also served as Non-Executive Directors of BGEO Group PLC until BOGG listed on 21 May 2018. The BGEO Group PLC Non-Executive Directors waived their entitlement to the Bank of Georgia Group PLC fees up until the listing date, receiving BGEO Group PLC fees to that date. Cecil Quillen, Andreas Wolf and Véroniqe McCarroll were appointed during 2018 and so the increase in fees attributable to these individuals reflects full year service rather than the pro-rated amount paid for 2018.
2 Hanna Loikkanen was appointed to the Remuneration Committee on 20 September 2019.
3 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.

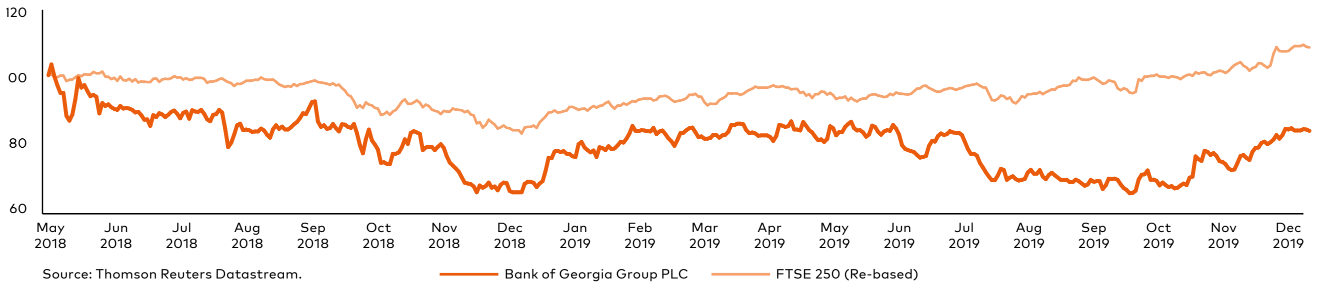
Payments to former Directors and payments for loss of office

No payments were made to former Directors or in respect of loss of office during the year ended 31 December 2019, other than those to Kakhaber Kiknavelidze disclosed on page 152.

Total Shareholder Return

Bank of Georgia Group PLC TSR vs. the FTSE indices TSR

The following graph compares the Total Shareholder Return (TSR) of Bank of Georgia Group PLC with the companies comprising the FTSE 250 Index for the period since BOGG's listing on the Premium Segment of the LSE on 21 May 2018 until 31 December 2019.



Source: Thomson Reuters Datastream.

Relative importance of spend on pay

The following table shows the difference in remuneration paid to all employees of the Group between 2018 and 2019 as well as the difference in value of distribution paid to shareholders by way of dividends between 2018 and 2019.

	Remuneration paid to all employees of the Group	Distributions to shareholders by way of dividends
Years ended 31 December 2019 (US$) (dividend paid for 2018)	85,034,919	43,137,357
Years ended 31 December 2018 (US$) (interim dividend paid in 2018)	100,677,034	45,654,562
Percentage change	-15.5%[1]	-5.5%

Notes:
1 Decrease in total remuneration paid to the Group's employees is due to the demerger, following which a number of employees transferred to Georgia Capital PLC.
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.

	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 BOGG shares held under option 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
Archil Gachechiladze[2]	140,266	N/A	69,247	209,513
Alasdair Breach[3]	24,000	N/A	N/A	24,000
Tamaz Georgadze	5,000	N/A	N/A	5,000
Kaha Kiknavelidze[4]	–		188,668	188,668
Hanna Loikkanen	800	N/A	N/A	800
Véronique McCarroll	–	N/A	N/A	–
Jonathan Muir	–	N/A	N/A	–
Cecil Quillen	–	N/A	N/A	–
Andreas Wolf	–	N/A	N/A	–

Notes:
1 At 2019 year-end, NeilCo Ltd, a company wholly owned by Mr Janin, held 7,000 BOGG shares. This is not included in table above.
2 In December 2019, Mr Gachechiladze was granted 69,247 nil-cost options in respect of deferred salary shares for the 2019 work year pursuant to the executive equity compensation plan. In early 2020, Mr Gachechiladze was granted 75,000 nil-cost options in respect of deferred salary shares for 2020 work year. This is not included in the table above, which is as at 31 December 2019. As at 16 March 2020, Mr Gachechiladze's total interest is 284,513 BOGG shares.
3 At 2019 year-end, Gemstock Fund, which Mr Breach manages, held 20,000 BOGG shares. This is not included in the table above.
4 In January 2019, Mr Kiknavelidze was granted 60,000 nil-cost options in respect of deferred salary shares and 68,000 nil-cost options in respect of discretionary deferred salary shares for the 2018 work year pursuant to the executive equity compensation plan. In February 2019, Mr Kiknavelidze exercised options in respect of 23,833 BOGG shares, of which 4,767 were withheld to satisfy tax liabilities. The net gain on exercise of these nil-cost options was US$421,359.

As at 31 December 2019, Mr Gachechiladze's vested and unvested shareholding was 209,513 shares, representing approximately 0.4% of the share capital of BOGG. None of Mr Gachechiladze's or Mr Kiknavelidze's connected persons 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). We believe these results are consistent with the principles of the Investment Management Association. As at 31 December 2019, Mr Gachechiladze met the shareholding requirement. The Group does not require Non-Executive Directors to hold a specified number of shares in Bank of Georgia Group. Notwithstanding this, some Non-Executive Directors have chosen to become shareholders. There have been no changes in the current Directors, except for Mr Gachechiladze, interests in shares in the Company between the end of the financial year and 16 March 2020. The Chairman and Non-Executive Directors are not awarded incentive shares and are not subject to a shareholding requirement.

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 and Andreas Wolf's letters of appointment being effective from 1 October 2018. 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 "re-appointment" 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 internal effectiveness review was conducted by the Remuneration Committee in 2019. It scored highly on the main areas of composition, process and support, and the work of the Remuneration Committee over the year. The Remuneration Committee received an update in December 2019 from the UK General Counsel on the Company's approach to benchmarking, as well as the wider market approach on remuneration. The Remuneration Committee remained satisfied that the remuneration structure and packages remained appropriate for the Group, whilst noting the wider views. The Remuneration Committee conclude that it continued to operate and perform effectively. It noted in particular that the Terms of Reference were appropriate, and the Remuneration Committee had the right composition to fulfil its duties, including reporting to the Board.

Our priorities for 2020 are ensuring that the structure for senior management and other employees remains appropriate, while enhancing long-term shareholder value.

Implementation of Remuneration Policy for 2020

Details of how the Policy will be implemented for the 2020 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
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 159.

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.

2020 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 2020, which will be reviewed as appropriate throughout the year. Given the emergence of COVID-19 we are keen to maintain a flexible approach to the KPIs as the year progresses. Our overarching goal – or "KPI" – is the soundness of the Bank, particularly in a time of potential real stress. Ensuring its soundness may include prioritising liquidity, capital and operational efficiency or similar over the below KPIs. While the below KPIs constitute current strategy and aspirational belief and are achievable on a business as normal basis, the current situation gives us a reason to believe that we may need to adjust KPIs and/or targets in order to safeguard the long-term success of the business and help Georgian society to cope with the challenges ahead. ▪ ROAE ▪ NPS ▪ Capital Adequacy ▪ Growth in Net Income ▪ Managing the Bank within the Agreed Risk Tolerance ▪ Employee Engagement and Culture ▪ Developing CSR in accordance with Group's purpose ▪ Adopting a set of concrete measures that aim to support the gender diversity at the management level

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 2020 Remuneration Report following the completion of the financial year. KPIs and targets will be reviewed and may be revised by the Remuneration Committee throughout the year and by the Board as appropriate, subject to the terms of the Policy. In particular this may be necessary given the impact of, and appropriate response to and adjustments arising from, COVID-19 as above and including likely ensuing global recession and changing requirements from officials and the regulators of the Bank.

See page 159 to 160 for malus and clawback, and the Policy available at https://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.

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 2019. 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://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

Directors' Remuneration Report continued

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

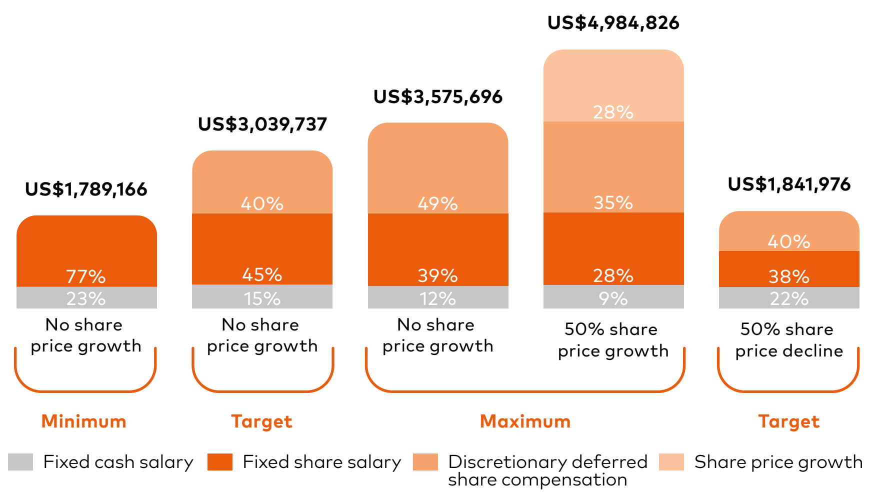
Malus and clawback provisions apply to discretionary deferred shares in the following circumstances:

- 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;

Directors' Remuneration Report continued

- 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. (It is an extract from the Policy as released in 2019.)



The 50% share price appreciation disclosure is made voluntarily by the Group (as performance measures are limited to one year) for investor information.

Notes:
1 Salary is 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 investor.

Remuneration Policy table for the Chairman and Non-Executive Directors

Chairman 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 attributes-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.

Letters of Non-Executive Directors' 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 Group 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

Alasdair Breach
Chairman of the Remuneration Committee
16 March 2020

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 Financial Reporting Standards (IFRS) as adopted by the European Union and applicable law.

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 for that period.

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;
- state whether they have been prepared in accordance with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; 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 and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the consolidated and separate financial statements, Article 4 of the IAS Regulation.

We have further responsibility for safeguarding the assets of the Company and the Group, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 IFRS, as adopted by 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;
- the Strategic Report and Directors' Report contained in this Annual Report and Accounts include 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 it faces.

We consider that the Annual Report and Accounts, taken as a whole, is 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
16 March 2020

Archil Gachechiladze
CEO
16 March 2020

Directors' Report

The Directors present their Annual Report and the audited consolidated financial statements for the year ended 31 December 2019.

Strategic Report

The Strategic Report on pages 1 to 113 was approved by the Board of Directors on 16 March 2020 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 113, form 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 4 to 113
Going Concern Statement	Page 80
Viability Statement	Page 80
Risk Management	Pages 58 to 71
Principal Risks and Uncertainties	Pages 72 to 79
Directors' Governance Statement	Pages 114 to 123
The Board of Directors	Pages 124 to 127
Nomination Committee Report	Pages 132 to 136
Audit Committee Report	Pages 137 to 142
Risk Committee Report	Pages 143 to 145
Greenhouse Gas Emissions	Pages 86 to 87
Employee Matters	Pages 90 to 95
Environmental Matters	Pages 84 to 86
Share Capital	Note 19 on pages 252 to 253
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 260 to 276

Articles of Association

The Articles of Association of the Bank of 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 BOGG website: https://bankofgeorgiagroup.com/storage/documents/Articles%20of%20Association.pdf.

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 pages 252 to 253 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 case proportionally (calculated to two decimal places) in accordance with the votes cast on each resolution on an Initial Vote (the "Proportional Voting Mechanism").

Directors' Report continued

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 of the Company on 17 May 2019 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 2020 or, if earlier, the close of business on 17 June 2020.

During 2019, Sanne Fiduciary Services Limited, acting as a trustee of the BOG Group Employee Trust, purchased 439,320 shares representing 0.89% of the issued share capital as at 31 December 2019. During 2019, Sanne Fiduciary Services Limited, acting as a trustee of the Rubicon Executive Equity Compensation Trust, purchased 299,643 shares representing 0.61% of the issued share capital as at 31 December 2019.

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.

At the 2019 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 27 March 2019, and (b) to allot equity securities up to an aggregate nominal amount of GBP 163,989.09, 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 2020 AGM (or, if earlier, at the close of business on 17 August 2020) 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 that 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 556.4 million. The Group's profit after taxation for the year was GEL 500.0 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.

Please refer to the announcement in Events after the Reporting Period, page 288. The Board has decided not to recommend a dividend to shareholders at the 2020 Annual General Meeting, at this stage. When the full economic impact of the COVID-19 pandemic is better understood, the Board will consider the appropriate level.

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 dependents, 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 LSE will not exceed 10% of Bank of Georgia Group'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 2019. 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 2019 pursuant to their letters of appointment are shown on page 153. The fees paid to the former Executive Director for the period 1 January 2019 to 28 January 2019, pursuant to his service agreements with Bank of Georgia Group PLC, are shown on page 149. The fees paid to the Executive Director for the period 28 January 2019 to 31 December 2019, pursuant to his service agreements with Bank of Georgia Group PLC are shown on pages 149.

Directors' interests

The Directors' beneficial interests in ordinary shares of Bank of Georgia Group PLC as at 31 December 2019 are shown on page 154, 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 re-election in 2020. The Board has set out in its Notice of Annual General Meeting the qualifications of each Director and support for re-election as applicable.

Annual General Meeting

The Notice of Annual General Meeting is circulated to all shareholders at least 20 working days prior to such meeting. All shareholders are invited to attend the Annual General Meeting, where there is an opportunity for individual shareholders to question the Chairman and, through him, the Chairs of the principal Board Committees. After the Annual General Meeting, shareholders can meet informally with the Directors.

As recommended by the UK Corporate Governance Code, all resolutions proposed at the 2020 Annual General Meeting will be voted on separately and the voting results will be announced to the London Stock Exchange 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 London Stock exchange 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 Annual General Meeting regarding feedback received from shareholders and any subsequent actions taken by the Company.

See page 295 for further Shareholder information and pages 121 to 122 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 Resources and Responsibilities section of this Report on pages 82 to 97.

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 162 of this Annual Report. A further statement is provided confirming that the Board considers the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Directors' Report continued

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 286 of this Annual Report.

Significant agreements
The Company 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.

Presence outside of Georgia
We have our registered office in London, see page 295, and additional offices and subsidiaries 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 people, are included in the section Employee Matters on pages 90 to 95, and in the Nomination Committee Report on pages 132 to 136.

Political donations
The Group did not make any political donations or expenditure during 2019. Authority to make political donations and incur political expenditure will be put to shareholder vote at the 2020 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 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://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 2019:

Shareholder	As at 31 December 2019 Number of voting rights	 % of voting rights
JSC Georgia Capital	9,784,716	19.90%
Harding Loevner LP	2,349,771	4.78%
JP Morgan Asset Management (UK) Ltd	1,731,260	3.52%

Source: Georgeson, Computershare.

From the period 1 January 2020 up to and including 16 March 2020, 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 BOGG website: https://bankofgeorgiagroup.com/news/regulatory and the London Stock Exchange website: https://www.londonstockexchange.com/home/homepage.htm.

Post balance sheet events
As result of global pandemic in relation to COVID-19, the Group has introduced a number of resilience protocols and a comprehensive business continuity plan, as announced on 16 March 2020. See page 288 "Events after the Reporting Period" for information on this matter.

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 auditors are 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 auditors are 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 terms of 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;
- 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 163 to 167 was approved by the Board of Directors on 16 March 2020 and signed on its behalf:

By order of the Board

Link Company Matters Limited
Company Secretary
16 March 2020

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 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Bank of Georgia Group PLC which comprise:

Group

- Consolidated statement of financial position as at 31 December 2019
- 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 consolidated financial statements, including a summary of significant accounting policies

Parent Company

- Separate statement of financial position as at 31 December 2019
- 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 effect 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 Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions 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 below. We are independent of the Group and Parent Company 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 principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on pages 72 to 79 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 140 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 191 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- whether the Directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 81 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	▪ Allowance for expected credit loss ▪ Valuation of investment property
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 102% of Profit before non-recurring items and tax, 98% of Revenue and 99% of Total assets.
Materiality	Overall Group materiality of GEL 25 million which represents 4.4% of pre-tax profit adjusted for non-recurring items.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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 forming our opinion thereon, and we do not provide a separate opinion on these matters.

In the prior year, our auditor's report included a key audit matter in respect of Revenue recognition which primarily related to revenue of the investment business which the Group demerged in May 2018. In the current year, revenue recognition substantially related to banking activities and did not have such significant effect on the overall audit strategy, allocation of resources and directing the efforts of the audit team as in the previous year. Accordingly, we no longer include revenue recognition as a key audit matter.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Allowance for expected credit loss **Expected credit loss allowance GEL 227.4m, (2018: GEL 313.5m)** The allowance for expected credit loss is highly judgmental 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 judgments including: ▪ accounting interpretations and modelling assumptions used to build the models for calculating the expected credit loss (ECL); ▪ allocation of loans to stage 1, 2, 3 or POCI based on credit risk using criteria set in accordance with IFRS 9 'Financial Instruments'; ▪ identification of significant increase in credit risk based on criteria defined by management ▪ estimation of probability of default (PD), loss given default (LGD) and exposure at default (EAD), including the valuation of collateral; ▪ inputs and assumptions used to estimate the impact of multiple economic scenarios; 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 judgment involved in establishing the allowance, there is a greater risk of misstatement in this balance, either by fraud or error, including through the potential override of controls by management. As this is a second year of application of IFRS 9, this risk has decreased compared with the previous year. Refer to the Audit Committee Report (page 139); Accounting policies (pages 200-206 and 214-217); and Note 9 to the financial statements.	▪ We obtained an understanding, performed walkthroughs and tested 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. ▪ 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 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. 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. ▪ 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 sed, such as recovery strategies, collateral rights and valuations and ranges of potential outcomes, were appropriate in the borrower's circumstances; and we re-calculated the impairment allowance. ▪ 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 judgmental, based on the results of our audit procedures, we concluded that the ECL provision is appropriate as at 31 December 2019.

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 **Investment property of GEL 225m and real estate classified as held for sale of GEL 36m (2018: Investment property of GEL 151m and real estate classified as held for sale of GEL 42m)** 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. Management engaged qualified valuers during the year to perform a revaluation of investment properties and properties held for sale as at 30 September 2019. 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. Although the real estate valuations are performed by appropriately qualified valuers, there remains a risk that individual assets might be inappropriately valued. As a result of the revaluation performed in this year and, consequently, more data and judgment points, the risk has increased compared with the previous year. Refer to the Audit Committee Report (page 139); Accounting policies (page 207); and Notes 3 and 10 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 2019 to 31 December 2019 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 2019 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 2019 is appropriate.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the 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 findings when assessing the level of work to be performed at each entity.

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 24 reporting components of the Group (2018: 22), we selected five components covering entities within the UK, Georgia and Belarus, which represent the principal business units within the Group.

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 account balances 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 102% (2018: 99%) of the Group's Profit before non-recurring items and tax, 98% (2018: 94%) of the Group's Revenue and 99% (2018: 94%) of the Group's Total assets, all benchmarks related to continuing operations.

The table below illustrates the coverage obtained from the work we performed:

	2019				2018			
	No.	Revenue	Profit[4]	Total assets	No.	Revenue	Profit[4]	Total assets
Full scope[1]	3	95%	102%	94%	3	94%	99%	93%
Specific scope[2]	2	3%	0%	5%	1	0%	0%	1%
Full and specific scope coverage	5	98%	102%	99%	4	94%	99%	94%
Remaining components[3]	19	2%	-2%	1%	18	6%	1%	6%
Total reporting components	24	100%	100%	100%	22	100%	100%	100%

Notes:
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 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.
4 Profit from continuing operations before non-recurring items and tax.

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

Changes from the prior year

For the year ended 31 December 2019, we included JSC BNB into our audit scope to increase the overall audit coverage of loans and advances to customers. We allocated JSC BNB a specific scope for this purpose.

Independent auditor's report to the members of Bank of Georgia Group PLC continued

Audit team structure
All audit work for the purposes of the Group audit was undertaken by the primary engagement audit team except for JSC BNB which work was undertaken by EY Belarus under our instructions and oversight. In respect of this component, the primary audit engagement team interacted regularly with the component team where appropriate throughout the course of the audit, which included holding a planning meeting, 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. There was regular interaction between team members in each jurisdiction and the Senior Statutory Auditor and the UK members of the audit team visited Georgia five times during the current year's audit.

These visits involved discussing the audit approach with the local team members and any issues arising from their work, as well as meeting with local management. In addition, the UK members of the team interacted regularly with the Georgia members of the team 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.

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 25 million (2018: GEL 20 million), which was approximately 5% (2018: 5%) of forecast profit from continuing operations before tax and non-recurring items at the time of our audit planning. We consider that this adjusted profit figure best represents the results of the underlying operations of the Group and as such provides us with an appropriate basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. Although the actual profit for the financial year exceeded the forecast, we decided to retain the original materiality amount. As a consequence, materiality is approximately 4.4% of actual profit from continuing operations before tax and non-recurring items.

Starting basis	• Profit before tax from continuing operations: GEL 556.4 million
Adjustments	• Non-recurring items: GEL 14.7 million
Materiality	• Totals GEL 571.1 million (materiality basis) • Materiality of GEL 25.0 million (approx. 4.4% of materiality basis)

We determined materiality for the Parent Company to be GEL 161 million, which is approximately 5% of equity of GEL 3,238 million. We consider that, in respect of the Parent Company, equity is most relevant to the stakeholders and is best representative of the economic size of the entity and as such provides us with an appropriate basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

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 judgment was that performance materiality was 50% (2018: 50%) of our planning materiality, namely GEL 12.5 million (2018: GEL 10 million).

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 performance materiality allocated to components was set at the level of the Group performance materiality, namely GEL 12.5 million (2018: GEL 10 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 1.25 million (2018: GEL 1 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 information included in the Annual Report, other than the financial statements and our auditor's report thereon, including the following sections of the Annual Report:
- Strategic Report, including Overview, Strategy and Performance sections set out on pages 1 to 113.
- 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 114 to 167.
- Additional information, including Abbreviations, References, Glossary and Shareholder information, set out on pages 290 to 295.

The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, 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 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 or a material misstatement of the other information. 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.

Independent auditor's report to the members of Bank of Georgia Group PLC continued

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable** set out on page 141 – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting** set out on pages 137 to 142 – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** set out on page 116 – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

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.

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 162, 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's and the 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

The objectives of our audit:

- in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management; and
- in respect to irregularities, considered to be non-compliance with laws and regulations, are: to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements ('direct laws and regulations'), and perform other audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. We are not responsible for preventing non-compliance with laws and regulations and our audit procedures cannot be expected to detect non-compliance with all laws and regulations.

Our approach was as follows:

- We obtained a general 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 obtained a general understanding of how the Group complies with these legal and regulatory 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 judgment, 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.

Independent auditor's report to the members of Bank of Georgia Group PLC continued

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 which we are required to address

We were appointed by Bank of Georgia Group PLC on 25 January 2018 to audit the financial statements for the first accounting period ending 31 December 2017 and subsequent annual financial periods. The period of total uninterrupted engagement is two years and two months, covering the three accounting periods from our appointment through 31 December 2019.

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 our audit.
Our 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
16 March 2020

Notes:
1 The maintenance and integrity of the Bank of Georgia Group PLC's website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Statement of Financial Position

As at 31 December 2019 (thousands of Georgian Lari)

	Notes	2019	2018	2017
Assets				
Cash and cash equivalents	6	2,153,624	1,215,799	1,582,435
Amounts due from credit institutions	7	1,619,072	1,305,216	1,225,947
Investment securities	8	1,786,804	2,019,017	1,564,869
Loans to customers and finance lease receivables	9	11,931,262	9,397,747	7,690,450
Accounts receivable and other loans		3,489	2,849	38,944
Insurance premiums receivable		–	–	30,573
Prepayments		42,632	44,294	149,558
Inventories		12,297	13,292	100,194
Right-of-use assets		96,095	–	–
Investment properties	10	225,073	151,446	353,565
Property and equipment	11	379,788	344,059	988,436
Goodwill	12	33,351	33,351	55,276
Intangible assets	11	106,290	83,366	60,980
Income tax assets	13	282	19,451	2,293
Other assets	14	143,154	126,008	188,732
Assets held for sale		36,284	42,408	–
Assets of disposal group held for sale		–	–	1,136,417
Total assets		**18,569,497**	**14,798,303**	**15,168,669**
Liabilities				
Client deposits and notes	15	10,076,735	8,133,853	6,712,482
Amounts owed to credit institutions	16	3,934,123	2,994,879	3,155,839
Debt securities issued	17	2,120,064	1,730,414	1,709,152
Lease liability		94,616	–	–
Accruals and deferred income		52,471	47,063	132,669
Insurance contract liabilities		–	–	46,402
Income tax liabilities	13	37,918	28,855	20,959
Other liabilities	14	102,662	64,966	142,133
Liabilities of disposal group held for sale		–	–	516,663
Total liabilities		**16,418,589**	**13,000,030**	**12,436,299**
Equity	19			
Share capital		1,618	1,618	1,151
Additional paid-in capital		492,072	480,555	106,086
Treasury shares		(64)	(51)	(66)
Other reserves		(7,481)	30,515	122,082
Retained earnings		1,655,256	1,277,732	2,180,415
Reserves of disposal group held for sale		–	–	10,934
Total equity attributable to shareholders of the Group		**2,141,401**	**1,790,369**	**2,420,602**
Non-controlling interests		9,507	7,904	311,768
Total equity		**2,150,908**	**1,798,273**	**2,732,370**
Total liabilities and equity		**18,569,497**	**14,798,303**	**15,168,669**

The financial statements on pages 179 to 289 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 190 to 289 are an integral part of these financial statements.

Consolidated Income Statement

For the year ended 31 December 2019 (thousands of Georgian Lari)

	Notes	2019	2018	2017
Interest income calculated using EIR method		1,411,359	1,302,906	1,117,770
Other interest income		25,802	19,391	14,144
Interest income		**1,437,161**	**1,322,297**	**1,131,914**
Interest expense		(639,444)	(574,589)	(459,379)
Deposit insurance fees		(8,298)	(5,955)	–
Net interest income	20	**789,419**	**741,753**	**672,535**
Fee and commission income		284,193	228,769	190,392
Fee and commission expense		(104,179)	(76,107)	(60,342)
Net fee and commission income	21	**180,014**	**152,662**	**130,050**
Net foreign currency gain		119,363	128,762	79,106
Net other income		21,474	7,262	18,645
Operating income		**1,110,270**	**1,030,439**	**900,336**
Salaries and other employee benefits	22	(243,855)	(214,761)	(195,994)
Administrative expenses	22	(106,157)	(112,654)	(98,372)
Depreciation, amortisation and impairment		(78,118)	(45,442)	(40,974)
Other operating expenses		(4,228)	(3,995)	(3,458)
Operating expenses		**(432,358)**	**(376,852)**	**(338,798)**
Profit from associates		789	1,339	1,311
Operating income before cost of risk		**678,701**	**654,926**	**562,849**
Expected credit loss/impairment charge on loans to customers	23	(94,155)	(139,499)	(155,210)
Expected credit loss/impairment charge on finance lease receivables	23	(885)	(164)	(496)
Other expected credit loss	23	(119)	(2,799)	–
Impairment charge on other assets and provisions		(12,425)	(17,763)	(11,590)
Cost of risk		**(107,584)**	**(160,225)**	**(167,296)**
Net operating income before non-recurring items		**571,117**	**494,701**	**395,553**
Net non-recurring items	24	(14,708)	(57,156)	(4,300)
Profit before income tax expense from continuing operations		**556,409**	**437,545**	**391,253**
Income tax expense	13	(56,458)	(56,665)	(26,592)
Profit from continuing operations		**499,951**	**380,880**	**364,661**
Profit from discontinued operations		–	107,898	98,788
Profit for the year		**499,951**	**488,778**	**463,449**
Total profit attributable to:				
– shareholders of the Group		497,664	468,996	437,615
– non-controlling interests		2,287	19,782	25,834
		499,951	**488,778**	**463,449**
Profit from continuing operations attributable to:				
– shareholders of the Group		497,664	379,313	362,971
– non-controlling interests		2,287	1,567	1,690
		499,951	**380,880**	**364,661**
Profit from discontinued operations attributable to:				
– shareholders of the Group		–	89,683	74,644
– non-controlling interests		–	18,215	24,144
		–	**107,898**	**98,788**

	Notes	2019	2018	2017
Basic earnings per share:	19	10.4457	10.7783	11.6086
– earnings per share from continuing operations		10.4457	8.7173	9.6285
– earnings per share from discontinued operations		–	2.0610	1.9801
Diluted earnings per share:	19	10.4238	10.7125	11.0724
– earnings per share from continuing operations		10.4238	8.6640	9.1838
– earnings per share from discontinued operations		–	2.0485	1.8886

The accompanying Notes on pages 190 to 289 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019 (thousands of Georgian Lari)

	Notes	2019	2018	2017
Profit for the year		**499,951**	**488,778**	**463,449**
Other comprehensive loss from continuing operations				
Other comprehensive loss from continuing operations to be reclassified to profit or loss in subsequent periods:				
– Net change in fair value on investments in debt instruments measured at fair value through other comprehensive income (FVOCI)	8	(39,277)	1,571	n/a
– Unrealised revaluation of available-for-sale securities		n/a	n/a	3,862
– Realised gain on financial assets measured at FVOCI		(5,419)	(137)	n/a
– Realised gain on available-for-sale securities reclassified to the consolidated income statement		n/a	n/a	(2,060)
– Change in allowance for expected credit losses on investments in debt instruments measured at FVOCI reclassified to the consolidated income statement		337	792	n/a
– Gain (loss) from currency translation differences		9,875	(4,737)	(6,383)
Income tax impact	13	–	(265)	(549)
Net other comprehensive loss from continuing operations to be reclassified to profit or loss in subsequent periods		**(34,484)**	**(2,776)**	**(5,130)**
Other comprehensive (loss) income from continuing operations not to be reclassified to profit or loss in subsequent periods:				
– Revaluation of property and equipment reclassified to investment property		–	1,455	3,483
– Net loss on investments in equity instruments designated at FVOCI		(54)	(2,525)	–
Income tax impact	13	–	–	(779)
Net other comprehensive (loss) income from continuing operations not to be reclassified to profit or loss in subsequent periods		**(54)**	**(1,070)**	**2,704**
Other comprehensive loss for the year from discontinued operations to be reclassified to profit or loss in subsequent periods		–	(10,881)	(3,850)
Other comprehensive loss for the year from discontinued operations not to be reclassified to profit or loss in subsequent periods			–	(4,564)
Other comprehensive loss for the year, net of tax		**(34,538)**	**(14,727)**	**(10,840)**
Total comprehensive income for the year from continuing operations		465,413	377,034	362,235
Total comprehensive income for the year from discontinued operations		–	97,017	90,374
Total comprehensive income for the year		**465,413**	**474,051**	**452,609**
Total comprehensive income attributable to:				
– shareholders of the Group		463,244	453,591	429,916
– non-controlling interests		2,169	20,460	22,693
		465,413	**474,051**	**452,609**
Total comprehensive income from continuing operations attributable to:				
– shareholders of the Group		463,244	374,789	361,280
– non-controlling interests		2,169	2,245	955
		465,413	**377,034**	**362,235**
Total comprehensive income from discontinued operations attributable to:				
– shareholders of the Group		–	78,802	68,636
– non-controlling interests		–	18,215	21,738
		–	**97,017**	**90,374**

The accompanying Notes on pages 190 to 289 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019 (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 2016	**1,154**	**183,872**	**(54)**	**74,399**	**–**	**1,872,496**	**2,131,867**	**256,346**	**2,388,213**
Effect of early adoption of IFRS 15	–	–	–	–		(29,050)	(29,050)	–	(29,050)
1 January 2017	**1,154**	**183,872**	**(54)**	**74,399**	**–**	**1,843,446**	**2,102,817**	**256,346**	**2,359,163**
Profit for the year	–	–	–	–	–	437,615	437,615	25,834	463,449
Other comprehensive loss for the year	–	–	–	(7,868)	–	169	(7,699)	(3,141)	(10,840)
Total comprehensive income for the year	**–**	**–**	**–**	**(7,868)**	**–**	**437,784**	**429,916**	**22,693**	**452,609**
Transfer of property and equipment revaluation reserve, net of tax	–	–	–	(686)	–	686	–	–	–
Discontinued operations	–	–	–	(10,934)	10,934	–	–	–	–
Increase in equity arising from share-based payments	–	59,262	17	–	–	–	59,279	1,495	60,774
Buyback and cancellation of own shares	(3)	(12,183)	–	–	–	–	(12,186)	–	(12,186)
Dividends to shareholders of the Group (Note 19)	–	–	–	–	–	(101,501)	(101,501)	–	(101,501)
Dilution of interests in subsidiaries	–	–	–	331	–	–	331	1,714	2,045
Increase in share capital of subsidiaries	–	–	–	–	–	–	–	14,493	14,493
Sale of interests in existing subsidiaries	–	–	–	70,333	–	–	70,333	38,234	108,567
Acquisition of non-controlling interests in existing subsidiaries	–	–	–	(3,493)	–	–	(3,493)	(58,443)	(61,936)
Non-controlling interests arising on acquisition of subsidiary	–	–	–	–	–	–	–	35,236	35,236
Purchase of treasury shares	–	(124,865)	(29)	–	–	–	(124,894)	–	(124,894)
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

Consolidated Statement of Changes in Equity continued

For the year ended 31 December 2019 (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
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**
Profit for the year	–	–	–	–	–	497,664	497,664	2,287	499,951
Other comprehensive loss 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 arising 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**

* 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 190 to 289 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019 (thousands of Georgian Lari)

	Notes	2019	2018	2017
Cash flows from operating activities				
Interest received		1,407,442	1,294,465	1,123,601
Interest paid		(630,661)	(570,989)	(458,859)
Fees and commissions received		260,968	255,143	187,459
Fees and commissions paid		(104,179)	(75,776)	(61,276)
Net cash inflow (outflow) from real estate		5,594	5,191	3,364
Net realised gain from foreign currencies		100,627	92,223	65,948
Recoveries of loans to customers previously written off	9	35,524	35,306	52,792
Cash paid for derivatives		(11,814)	–	–
Other income received (expense paid)		(9,122)	42,535	(12,857)
Salaries and other employee benefits paid		(186,128)	(165,577)	(152,065)
General and administrative and operating expenses paid		(84,155)	(122,209)	(78,976)
Cash flows from operating activities from continuing operations before changes in operating assets and liabilities		**784,096**	**790,312**	**669,131**
Net (increase) decrease in operating assets				
Amounts due from credit institutions		(198,381)	(50,757)	(222,444)
Loans to customers and finance lease receivables		(2,127,968)	(1,667,624)	(1,471,696)
Prepayments and other assets		(7,893)	(54,563)	(15,566)
Net increase (decrease) in operating liabilities				
Amounts due to credit institutions		820,955	459,813	(436,526)
Debt securities issued		6,519	46,044	590,485
Client deposits and notes		1,435,634	885,666	1,593,540
Other liabilities		18,933	(4,866)	(19,304)
Net cash flows from operating activities from continuing operations before income tax		**731,895**	**404,025**	**687,620**
Income tax paid		(28,226)	(64,578)	(9,775)
Net cash flows from operating activities from continuing operations		**703,669**	**339,447**	**677,845**
Net cash flows from operating activities of discontinued operations		–	260,165	259,305
Net cash flows from operating activities		**703,669**	**599,612**	**937,150**
Cash flows from (used in) investing activities				
Net sales (purchases) of investment securities		184,499	(400,366)	(361,777)
Purchase of investments in associates		(333)	–	–
Proceeds from sale of investment properties and assets held for sale		64,665	72,864	11,067
Proceeds from sale of property and equipment and intangible assets		5,388	2,948	1,868
Purchase of property and equipment and intangible assets		(393,858)	(95,096)	(110,463)
Dividends received		268,370	–	–
Net cash flows from (used in) investing activities from continuing operations		**128,731**	**(419,650)**	**(459,305)**
Net cash flows used in investing activities of discontinued operations		–	(283,621)	(310,099)
Net cash flows from (used in) investing activities		**128,731**	**(703,271)**	**(769,404)**

The accompanying Notes on pages 190 to 289 are an integral part of these financial statements.

Consolidated Statement of Cash Flows continued

For the year ended 31 December 2019 (thousands of Georgian Lari)

	Notes	2019	2018	2017
Cash flows from (used in) financing activities				
Buyback and cancellation of own shares		–	–	(12,186)
Proceeds from Additional Tier 1 debt securities issued		268,160	–	–
Cash payments for the principal portion of the lease liability		(8,302)	–	–
Dividends paid		(124,052)	(121,962)	(101,714)
Purchase of treasury shares		(50,598)	(88,028)	(109,360)
Payments for treasury shares in existing subsidiaries		(107)	–	–
Acquisition of addition shares in existing investments		–	–	(24,244)
Dividends received from discontinued operations		–	–	7,000
Cash disposed as a result of Investment Business distribution		–	(78,180)	–
Demerger-related transaction costs		–	(23,170)	–
Purchase of interests in existing subsidiaries		–	–	(21,701)
Net cash from (used in) financing activities from continuing operations		**85,101**	**(311,340)**	**(262,205)**
Net cash from financing activities of discontinued operations		–	2,335	124,807
Net cash from (used in) financing activities		**85,101**	**(309,005)**	**(137,398)**
Effect of exchange rates changes on cash and cash equivalents		20,331	23,722	925
Effect of expected credit losses on cash and cash equivalents		(7)	(142)	–
Net increase (decrease) in cash and cash equivalents		**937,825**	**(389,084)**	**31,273**
Cash and cash equivalents, beginning of the year	6	**1,215,799**	**1,582,435**	**1,573,610**
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 period		**–**	**–**	**22,448**
Cash and cash equivalents, end of the year	6	**2,153,624**	**1,215,799**	**1,582,435**

The accompanying Notes on pages 190 to 289 are an integral part of these financial statements.

Separate Statement of Financial Position

As at 31 December 2019 (thousands of Georgian Lari)

	Notes	2019	2018	2017
Assets				
Cash and cash equivalents	6	1,845	1,748	–
Investments in subsidiaries	2	4,981,658	4,981,658	–
Other assets		105	10	175
Total assets		**4,983,608**	**4,983,416**	**175**
Liabilities				
Interest-bearing loans and borrowings	16	1,745,954	1,522,165	
Other liabilities		55	179	–
Total liabilities		**1,746,009**	**1,522,344**	**–**
Equity				
Share capital	19	1,618	1,618	172
Additional paid-in capital		599,084	599,084	–
Retained earnings		2,738,398	2,815,409	3
Net profit for the year		(101,501)	44,961	–
Total equity		**3,237,599**	**3,461,072**	**175**
Total liabilities and equity		**4,983,608**	**4,983,416**	**175**

The financial statements on pages 179 to 289 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 190 to 289 are an integral part of these financial statements.

Separate Statement of Changes in Equity

For the year ended 31 December 2019 (thousands of Georgian Lari)

	Share capital	Additional paid-in capital	Retained earnings	Total equity
At incorporation on 5 July 2017	**–**	**–**	**–**	**–**
Total comprehensive income	–	–	3	3
Issue of share capital	172	–	–	172
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**

The accompanying Notes on pages 190 to 289 are an integral part of these financial statements.

Separate Statement of Cash Flows

For the year ended 31 December 2019 (thousands of Georgian Lari)

	Notes	2019	2018	2017
Net cash flows used in operating activities				
Interest income received		101	–	–
Interest paid		(12)	–	–
Fees and commissions paid		(758)	(145)	–
Net cash inflow from real estate		154	–	–
Salaries and other employee benefits paid		(2,855)	(1,296)	–
General and administrative expenses paid		(3,051)	(5,277)	–
Cash flows used in operating activities before changes in operating assets and liabilities		**(6,421)**	**(6,718)**	**–**
Net cash flows used in operating activities		**(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 used in financing activities				
Demerger-related transaction costs		–	(7,046)	–
Dividends paid		(121,972)	(116,780)	–
Net cash flows used in financing activities		**(121,972)**	**(123,826)**	**–**
Effect of exchange rates changes on cash and cash equivalents		(41)	379	–
Net increase in cash and cash equivalents		**97**	**1,748**	**–**
Cash and cash equivalents, beginning of the year		**1,748**	**–**	**–**
Cash and cash equivalents, end of the year		**1,845**	**1,748**	**–**

The accompanying Notes on pages 190 to 289 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 2019, representing the Bank's ultimate parent company. Together with the Bank and other subsidiaries, the Group makes up a group of companies (the "Group") and provides banking, leasing, brokerage and investment management services to corporate and individual customers. The shares of BOGG ("BOGG Shares") are admitted to the premium listing segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange PLC's Main Market for listed securities, effective 21 May 2018. The Bank is the Group's main operating unit and accounts for most of the Group's activities.

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

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and internationally, and exchanges currencies. Its main office is in Tbilisi, Georgia. At 31 December 2019, the Bank has 272 operating outlets in all major cities of Georgia (31 December 2018: 276, 31 December 2017: 286). 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 2019, 31 December 2018 and 31 December 2017, 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 2019	31 December 2018	31 December 2017
JSC Georgia Capital**	19.90%	19.90%	–
Harding Loevner Management LP	4.78%	4.66%	8.32%
JP Morgan Asset Management	3.52%	3.01%	2.34%
Norges Bank Investment Management	2.65%	2.56%	3.11%
Schroder Investment Management	0.32%	2.40%	4.86%
LGM Investments Ltd	2.05%	2.51%	3.28%
Others	66.78%	64.96%	78.09%
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%.

1. Principal activities continued

As at 31 December 2019, the members of the Board of Directors of BOGG owned 209,946 shares or 0.4% (31 December 2018: 115,549 shares or 0.2%, 31 December 2017: 109,573 shares or 0.3%) of BOGG. Interests of the members of the Board of Directors of BOGG were as follows:

Shareholder	31 December 2019, shares held	31 December 2018, shares held	31 December 2017, shares held
Neil Janin	39,880	39,880	39,229
Archil Gachechiladze	140,266	n/a	n/a
Kaha Kiknavelidze*	n/a	45,869	26,337
Al Breach	24,000	24,000	16,400
Tamaz Georgadze	5,000	5,000	–
Hanna Loikkanen	800	800	–
Kim Bradley**	–	–	1,250
David Morrison**	–	–	26,357
Jonathan Muir	–	–	–
Cecil Quillen	–	–	–
Véronique McCarroll	–	–	–
Andreas Wolf***	–	–	–
Total	**209,946**	**115,549**	**109,573**

* Stepped down from Board in 2019.
** Stepped down from the Board as a result of the Demerger.
*** 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 Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued by the International Accounting Standards Board ("IASB") effective for 31 December 2019 reporting, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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

The Board of Directors of BOGG has made an assessment of the Group's ability to continue as a going concern and is satisfied that it has the resources to continue in business for a period of at least 12 months from the date of approval of the financial statements. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern for the foreseeable future. Therefore, the financial statements continue to be prepared on the going concern basis.

Notes to Consolidated Financial Statements continued

Thousands of Georgian Lari

2. Basis of preparation continued

Subsidiaries and associates

The consolidated financial statements as at 31 December 2019, 31 December 2018 and 31 December 2017 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 2019	31 December 2018	31 December 2017					
BGEO Group Limited	100% (e)	100% (e)	–	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%	–	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, Szabadság tér 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	–
Professional Basketball Club Dinamo Tbilisi, LLC	(d)	(d)	100.00%	Georgia	Digomi District, Block III, Lot #38/3, Tbilisi, 0159	Sport	10/1/2011	–
Teaching University of Georgian Bank, LLC	(f)	100.00%	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, №114, Ak. Tsereteli ave., Tbilisi	Leasing	27/1/2012	21/1/2015
JSC BGEO Investments	(c)	(c)	100.00%	Georgia	Kazbegi Str. 3-5, Tbilisi	Investment	7/8/2015	–
JSC m^2 Real Estate	(c)	(c)	100.00%	Georgia	4 Freedom Square, Tbilisi, 0105	Real estate	27/9/2006	–
m^2 Residential, LLC	(c)	(c)	100.00%	Georgia	3-5 Kazbegi st., Tbilisi, 0179	Real estate	17/8/2015	–
Optima ISANI, LLC	(c)	(c)	100.00%	Georgia	16 a Moscow Ave., Tbilisi	Real estate	25/7/2014	–
Tamarashvili 13, LLC	(c)	(c)	100.00%	Georgia	13 Tamarashvili Str., Tbilisi, 0179	Real estate	3/11/2011	–

2. Basis of preparation continued

Subsidiaries and associates continued

Subsidiaries	Proportion of voting rights and ordinary share capital held			Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
	31 December 2019	31 December 2018	31 December 2017					
m^2 at Hippodrome, LLC	(c)	(c)	100.00%	Georgia	10 Givi Kartozia St., Tbilisi	Real estate	6/7/2015	–
m^2 Skyline, LLC	(c)	(c)	100.00%	Georgia	3 Maro Makashvili St., Tbilisi	Real estate	23/7/2015	–
m^2 at Kazbegi, LLC	(c)	(c)	100.00%	Georgia	25 Kazbegi Ave., Tbilisi, 0160	Real estate	21/5/2013	–
m^2 at Tamarashvili, LLC	(c)	(c)	100.00%	Georgia	6 Tamarashvili St., Tbilisi, 0177	Real estate	21/5/2013	–
m^2 at Nutsubidze, LLC	(c)	(c)	100.00%	Georgia	71 Vaja Pshavela Ave., 0186	Real estate	21/5/2013	–
M Square Park, LLC	(c)	(c)	100.00%	Georgia	1 Marshal Gelovani Ave., Tbilisi	Real estate	15/9/2015	–
Optima Saburtalo, LLC	(c)	(c)	100.00%	Georgia	2 Mikheil Shavishvili St, Tbilisi	Real estate	15/9/2015	–
m^2 at Vake, LLC	(c)	(c)	100.00%	Georgia	50 I. Chavchavadze Ave., Tbilisi	Real estate	3/8/2016	–
m^2 Hospitality, LLC	(c)	(c)	100.00%	Georgia	3-5 Kazbegi St., Tbilisi, 0179	Real estate	17/8/2015	–
m^2, LLC (formerly JSC m2)	(c)	(c)	100.00%	Georgia	#3-5 Kazbegi Street, Tbilisi	Real estate	12/2/2014	–
m^2 Kutaisi, LLC	(c)	(c)	100.00%	Georgia	10 Melikishvili Ave., Tbilisi	Real estate	17/5/2017	–
m^2 at Melikishvili, LLC	(c)	(c)	100.00%	Georgia	10 Melikishvili Ave., Tbilisi	Real estate	17/5/2017	–
Kass 1, LLC	(c)	(c)	60.00%	Georgia	20 Merab Kostava St., Tbilisi	Real estate	16/10/2014	27/12/2017
m^2 at Chavchavadze LLC	(c)	(c)	100.00%	Georgia	50 I. Chavchavadze Ave., Tbilisi	Real estate	5/9/2016	–
m^2 Commercial Properties LLC	(c)	(c)	100.00%	Georgia	77 Zh. Shartava St, Tbilisi	Real estate	1/3/2016	–
Caucasus Autohouse, LLC	(c)	(c)	100.00%	Georgia	80 Aghmashenebeli Ave., Tbilisi, 0102	Real estate	29/3/2011	–
Land, LLC	(c)	(c)	100.00%	Georgia	Between university and Kavtaradze St.,Tbilisi	Real estate	3/10/2014	–
BK Construction, LLC	(c)	(c)	100.00%	Georgia	80 Agmashenebeli Ave., Tbilisi	Real estate	18/5/2017	2/6/2017
JSC Georgian Renewable Power Company	(c)	(c)	65.00%	Georgia	79 David Agmashenebeli Ave, 0102, Tbilisi	Renewable Energy	14/9/2015	–
JSC Geohydro	(c)	(c)	85.00%	Georgia	79, d.Agmashenebeli Ave. Tbilisi 0102	Renewable Energy	11/10/2013	–
JSC Svaneti Hydro	(c)	(c)	100.00%	Georgia	29a, Gagarin Street, Tbilisi 0160	Renewable Energy	6/12/2013	–
JSC Zoti Hydro	(c)	(c)	100.00%	Georgia	79, d.Agmashenebeli Ave. Tbilisi 0102	Renewable Energy	20/8/2015	–
JSC Caucasian Wind Company	(c)	(c)	100.00%	Georgia	79 D.Agmashenebeli Ave, Tbilisi, 0102	Renewable Energy	14/9/2016	–
JSC Caucasian Solar Company	(c)	(c)	100.00%	Georgia	79 D.Agmashenebeli Ave, Tbilisi, 0102	Renewable Energy	27/10/2016	–
JSC Insurance Company Aldagi	(c)	(c)	100.00%	Georgia	#9 Ana Politkovskaya St., Tbilisi	Insurance	31/7/2014	–
JSC Insurance Company Tao	(c)	(c)	100.00%	Georgia	Old Tbilisi, Pushkini St #3, Tbilisi	Insurance	22/8/2007	21/1/2015
Aliance, LLC	(c)	(c)	100.00%	Georgia	1 Sanapiro Street, Tbilisi	Various	3/1/2000	5/1/2012
Green Way, LLC	(c)	(c)	100.00%	Georgia	Village Ratevani, Bolnisi District	Various	9/8/2008	5/1/2012
Premium Residence, LLC	(c)	(c)	100.00%	Georgia	King Parmavaz St. # 48, Batumi	Hotel	9/7/2010	1/5/2012
JSC AMF	(c)	(c)	100.00%	Georgia	20 I. Chavchavadze Ave., Tbilisi	Insurance	17/11/2017	–

Notes to Consolidated Financial Statements continued

Thousands of Georgian Lari

2. Basis of preparation continued

Subsidiaries and associates continued

Subsidiaries	Proportion of voting rights and ordinary share capital held			Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
	31 December 2019	31 December 2018	31 December 2017					
Georgia Healthcare Group PLC (a)	(c)	(c)	57.05%	United Kingdom	84 Brook Street, London, W1K 5EH	Healthcare	27/8/2015	28/8/2015
JSC Georgia Healthcare Group	(c)	(c)	100.00%	Georgia	40 Vazha-Pshavela Ave., Tbilisi	Healthcare	29/4/2015	–
JSC Insurance Company Imedi L (Formerly known as JSC Insurance Company Aldagi BCI)	(c)	(c)	100.00%	Georgia	3-5 Kazbegi Street, Tbilisi	Insurance	22/6/2007	–
Biznes Centri Kazbegze, LLC	(c)	(c)	–	Georgia	44 Al. Kazbegi Ave., Tbilisi, 0177	Various	22/6/2010	10/1/2011
JSC GEPHA (Formerly known as JSC GPC)	(c)	(c)	67.00%	Georgia	Old Tbilisi, Sanapiro St. #6, Tbilisi	Healthcare	19/10/1995	4/5/2016
JSC ABC Pharmacia (Armenia)	(c)	(c)	100.00%	Armenia	Kievnaia St. #2/8, 2/10, Erevan	Pharmaceutical	28/4/2013	6/1/2017
ABC Pharmalogistics, LLC	(c)	(c)	100.00%	Georgia	Sanapiro St.#6, Tbilisi	Pharmaceutical	24/2/2004	6/1/2017
JSC Medical Corporation EVEX	(c)	(c)	100.00%	Georgia	40 Vazha-Pshavela Ave., Tbilisi	Healthcare	31/7/2014	–
JSC Kutaisi County Treatment and Diagnostic Center for Mothers and Children	(c)	(c)	66.70%	Georgia	85 Djavakhishvili Street, Kutaisi, 4600	Medical services	5/5/2003	29/11/2011
Academician Z. Tskhakaia National Center of Intervention Medicine of Western Georgia, LLC	(c)	(c)	66.70%	Georgia	83 A Djavakhishvili Street, Kutaisi	Medical services	15/10/2004	12/9/2011
Tskaltubo Regional Hospital, LLC	(c)	(c)	66.70%	Georgia	16 Eristavi Street, Tskhaltubo	Medical services	29/9/1999	12/9/2011
JSC Kutaisi St. Nicholas Surgical and Oncological Hospital	(c)	(c)	96.87%	Georgia	9 Paolo Iashvili Street, Kutaisi	Medical services	3/11/2000	20/5/2008
Patgeo, LLC	(c)	(c)	100.00%	Georgia	Gldani Nadzaladevi district, Mukhiani, II mcr. District, Building #22, 1a, Tbilisi	Medical services	13/10/2010	27/9/2016
GN KO, LLC	(c)	(c)	50.00%	Georgia	Chavchavadze Ave. N 16, Tbilisi	Medical services	6/4/2001	5/8/2015
High Technology Medical Center, LLC	(c)	(c)	100.00%	Georgia	Tsinandali St. N 9, Tbilisi	Healthcare Service	16/4/1999	5/8/2015
Geolab, LLC	(c)	(c)	50.00%	Georgia	Tsinandali St. N 9, Tbilisi	Healthcare Service	3/5/2011	5/8/2015
Nephrology Development Clinic Center, LLC	(c)	(c)	80.00%	Georgia	Tsinandali St. N 9, Tbilisi	Healthcare Service	28/9/2010	5/8/2015
Catastrophe Medicine Pediatric Center, LLC	(c)	(c)	100.00%	Georgia	U. Chkeidze St. N 10	Medical services	18/6/2013	5/8/2015
JSC Pediatria	(c)	(c)	76.00%	Georgia	U. Chkeidze St. N 10, Tbilisi	Medical services	5/9/2003	5/7/2016
Emergency Service, LLC	(c)	(c)	100.00%	Georgia	#2, D. Uznadze St., Tbilisi	Medical services	28/7/2009	6/1/2016
JSC Poti Central Hospital	(c)	(c)	100.00%	Georgia	Guria St. 171, Poti	Medical services	29/10/2014	1/1/2016
Deka, LLC	(c)	(c)	97.20%	Georgia	Bakhtrioni St. 8B, Tbilisi	Medical services	12/1/2012	11/6/2015
EVEX-Logistics, LLC	(c)	(c)	100.00%	Georgia	Vazha Pshavela Ave. #40, Tbilisi	Medical services	2/2/2015	–
EVEX Collection, LLC	(c)	(c)	100.00%	Georgia	Vazha Pshavela Ave. #40, Tbilisi	Medical services	25/3/2016	–
Unimed Achara, LLC	(c)	(c)	100.00%	Georgia	Vazha Pshavela Ave. #40, Tbilisi	Medical services	29/6/2010	1/5/2012
Unimedi Samtskhe, LLC	(c)	(c)	100.00%	Georgia	Vazha Pshavela Ave. #40, Tbilisi	Medical services	29/6/2010	1/5/2012
Unimedi Kakheti, LLC	(c)	(c)	100.00%	Georgia	20 Chavchvadze Ave. Tbilisi	Medical services	29/6/2010	1/5/2012
M. Iashvili Children's Central Hospital, LLC	(c)	(c)	100.00%	Georgia	2/6 Lubliana Street, Tbilisi	Medical service	3/5/2011	19/2/2014
Institute of Pediatrics, Alergology and Rheumatology Centre, LLC	(c)	(c)	100.00%	Georgia	5 Lubliana Street 5, Tbilisi	Medical service	6/3/2000	19/2/2014
Iv Bokeria Tbilisi Referral Hospital	(c)	(c)	100.00%	Georgia	Kindzmarauli I turn, N1, Isan-Samgori, Tbilisi	Medical service	16/3/2017	–
Referral Centre of Pathology, LLC	(c)	(c)	100.00%	Georgia	40 Vazha-Pshavela Ave., Tbilisi	Medical services	29/12/2014	–
EVEX Learning Center	(c)	(c)	100.00%	Georgia	#83A, Javakhishvili Street, Tbilisi	Education	20/12/2013	–
JSC Mega-Lab	(c)	(c)	100.00%	Georgia	23 Kavtaradze St., Tbilisi	Medical services	6/6/2017	–
New Clinic, LLC	(c)	(c)	100.00%	Georgia	Vazha Pshavela Ave. #40, Tbilisi	Medical services	1/3/2013	26/7/2017
Alliance Medi, LLC	(c)	(c)	100.00%	Georgia	Vazha Pshavela Ave. #40, Tbilisi	Medical services	7/7/2015	26/7/2017
Medical Center Alimedi, LLC	(c)	(c)	100.00%	Georgia	17 R. Tabukashvili St., Tbilisi	Medical services	27/9/2003	8/11/2017
JSC Polyclinic Vere	(c)	(c)	97.80%	Georgia	18-20 Kiacheli St.,Tbilisi	Medical services	22/11/2017	25/12/2017
Georgian Global Utilities, LLC	(c)	(c)	100.00%	British Virgin Islands	33 Porter Road, PO Box 3169 PMB 103, Road Town, Tortola	Utilities	16/08/2007	31/12/2014
Georgian Water and Power, LLC	(c)	(c)	100.00%	Georgia	33, Kostava St. 1st Lane, Tbilisi	Utilities	25/06/1997	31/12/2014
Rustavi Water, LLC	(c)	(c)	100.00%	Georgia	5, St. Nino St., Rustavi	Utilities	31/08/1999	31/12/2014
Gardabani Sewage Treatment, LLC	(c)	(c)	100.00%	Georgia	33, Kostava St. 1st Lane, Tbilisi	Utilities	20/12/1999	31/12/2014
Mtskheta Water, LLC	(c)	(c)	100.00%	Georgia	1, Gvinjilia St., Mtskheta	Utilities	1/9/1999	31/12/2014
Georgian Engineering and Management Company (GEMC), LLC	(c)	(c)	100.00%	Georgia	3, Tkekultura St., Tbilisi	Utilities	20/03/2011	31/12/2014
JSC Saguramo Energy	(c)	(c)	100.00%	Georgia	33, Kostava St. 1st Lane, Tbilisi	Utilities	11/12/2008	31/12/2014
JSC Teliani Valley	(c)	(c)	75.75%	Georgia	3 Tbilisi Highway, Telavi.	Winery	30/6/2000	28/2/2007
Teliani Trading (Georgia), LLC	(c)	(c)	100.00%	Georgia	2 Marshal Gelovani St. Tbilisi	Distribution	10/1/2006	27/3/2007
Teliani Trading (Ukraine), LLC	(c)	(c)	100.00%	Ukraine	18/14 Khvoiki St. Kiev	Distribution	3/10/2006	31/12/2007
Le Caucase, LLC	(c)	(c)	100.00%	Georgia	2 Marshal Gelovani St. Tbilisi	Cognac Production	23/9/2006	20/3/2007

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2. Basis of preparation continued

Subsidiaries and associates continued

Subsidiaries	Proportion of voting rights and ordinary share capital held: 31 December 2019	31 December 2018	31 December 2017	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
Kupa, LLC	(c)	(c)	70.00%	Georgia	3 Tbilisi Highway, Telavi	Oak Barrel Production	12/10/2006	20/3/2007
Global Beer Georgia, LLC	(c)	(c)	100.00%	Georgia	Vazisubani IV M/R, I KV, Building N21, App. N12, Tbilisi	Production and distribution of alcohol and non-alcohol beverages	24/12/2014	–
JSC Liberty Consumer	(c)	(c)	98.28%	Georgia	74a Chavchavadze Ave. Tbilisi, 0162	Investments	24/5/2006	–
JSC Intertour	(c)	(c)	99.94%	Georgia	49a, Chavchavadze Ave. Tbilisi, 0162	Travel agency	29/3/1996	25/4/2006
JSC Prime Fitness	(c)	(c)	100.00%	Georgia	78 Chavchavadze Ave. Tbilisi, 0162	Fitness centre	7/3/2006	–
Global Coffee Georgia, LLC	(c)	(c)	100.00%	Georgia	29a Gagarini Street, Tbilisi	Coffee distribution	26/12/2016	15/2/2017
New Coffee Company, LLC	(c)	(c)	100.00%	Georgia	Tskneti Highway, N16/18, app. 36	Coffee distribution	23/9/2009	15/2/2017
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	–
Galt & 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%	–	Georgia	79 David Agmashenebeli Ave. 0102, Tbilisi, Georgia	Digital	8/6/2018	–
JSC Extra area	95.32%	0.00%	0.00%	Georgia	79 David Agmashenebeli Ave. 0102, Tbilisi, Georgia	Digital	22/5/2019	–
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	99.48%	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)	100.00%	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	–
JSC Georgia Capital	(c)	(c)	100.00%	Georgia	3-5 Kazbegi St.,Tbilisi	Investment	22/12/2017	–

2. Basis of preparation continued

Subsidiaries and associates continued

Associates	Proportion of voting rights and ordinary share capital held: 31 December 2019	31 December 2018	31 December 2017	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
#5 Clinic hospital, LLC	(c)	(c)	35.00%	Georgia	Temka XI M/D, Q.1, Tbilisi, Georgia	Healthcare	16/9/1999	8/2/2016
JSC Tbilisi Stock Exchange	24.04%	21.59%	21.59%	Georgia	72 Vazha-Pshavela Avenue, Tbilisi, Georgia	Financial intermediation	8/5/2015	23/12/2016

(a) Georgia Healthcare Group PLC and its subsidiaries were classified as disposal group held for sale.
(b) Was liquidated in 2019.
(c) Demerger.
(d) JSC Bank of Georgia sold its investment in Professional Basketball Club Dinamo Tbilisi in 2018.
(e) Bank of Georgia Group PLC became the holding company of the Group instead of BGEO Group Limited (former BGEO Group PLC).
(f) JSC Bank of Georgia sold its investment in Teaching University Georgian Bank 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 2019. 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.

Notes to Consolidated Financial Statements continued

Thousands of Georgian Lari

3. Summary of significant accounting policies continued

Basis of consolidation continued

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 re-assesses 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 remeasured 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.

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 remeasured and subsequent settlement is accounted for within equity.

3. Summary of significant accounting policies continued

Business combinations and goodwill continued

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 re-assesses 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 re-assessment 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 remeasured 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.

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.

3. Summary of significant accounting policies continued

Fair value measurement continued

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 re-assessing 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; and
- 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

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 form 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.

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.

3. Summary of significant accounting policies continued

Subsequent measurement of financial instruments continued

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, letter of credits and other financial commitments

Financial guarantees, letter of credits 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.

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.

3. Summary of significant accounting policies continued

Borrowings continued

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.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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, ATM spaces and warehouses. 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 recognises 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.

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.

3. Summary of significant accounting policies continued

Leases (policy applicable as at 1 January 2019) continued

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.

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.

3. Summary of significant accounting policies continued

Staged approach to the determination of expected credit losses continued

- 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.

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 of 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.

3. Summary of significant accounting policies continued

Derecognition of financial assets and liabilities continued

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 re-assess 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.

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.

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 is 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.

3. Summary of significant accounting policies continued

Non-current assets held for sale and discontinued operations continued

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.

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.

3. Summary of significant accounting policies continued

Property and equipment continued

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.

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.

3. Summary of significant accounting policies continued

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.

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.

3. Summary of significant accounting policies continued

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.

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. As a result of the amendments to International Accounting Standard 1: "Presentation of Financial Statements" (IAS 1) following IFRS 9, 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 are 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 program use

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.

3. Summary of significant accounting policies continued

Income and expense recognition continued

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.

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 2019, 31 December 2018 and 31 December 2017 were:

	Lari to GBP	Lari to USD	Lari to EUR	Lari to BYN
31 December 2019	3.7593	2.8677	3.2095	1.3639
31 December 2018	3.3955	2.6766	3.0701	1.2418
31 December 2017	3.5005	2.5922	3.1044	1.3083

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

In these Consolidated Financial Statements, the Group has applied IFRS 16, Leases for the first time. The nature and the effect of these changes as a result of adoption of this new accounting standard are described on page 212. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the Group's Consolidated Financial Statements. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

3. Summary of significant accounting policies continued

Adoption of new or revised standards and interpretations continued

IFRS 16 transition

The Group has adopted IFRS 16, Leases from the mandatory adoption date of 1 January 2019 which replaces IAS 17, Leases, IFRIC 4 Determining whether an arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The Group has applied the new standard using a modified retrospective approach with no initial application effect on retained earnings at 1 January 2019. As a result, the Group did not restate comparative amounts for the year prior to first adoption. The standard was applied to contracts that were previously identified as leases in accordance with IAS 17 and IFRIC 4.

The Group as a lessor

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessor will continue to classify leases as either operating or finance leases using similar principles as under IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group as a lessee

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases that had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, including payments attributable to the value added tax (VAT), discounted using the Group's incremental borrowing rate as at 1 January 2019. During 2019, the Group revisited its initial approach and excluded VAT payments from IFRS 16 balances to align with the global adopted practice. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5%.

Right-of-use assets were measured on transition at an amount equal to the lease liabilities, adjusted by the amount of any prepaid amounts recognised immediately before the date of initial application. As a result, the Group did not recognise any transition effect on its retained earnings on 1 January 2019.

The effect of transition to IFRS 16 on the Group's financial statements as at 1 January 2019 was as follows:

	Effect of transition to IFRS 16
Right-of-use assets	79,359
Prepayments reclassified to right-of-use assets	(12,252)
Lease liability	67,107

The below table shows the reconciliation between the operating lease commitments disclosed by the Group as at 31 December 2018, and the lease liabilities recognised under the new standard as at 1 January 2019.

Reconciliation of operating lease commitments as at 31 December 2018 to lease liabilities recognised as at 1 January 2019

Lease liabilities recognised as at 1 January 2019	67,107
Effect of discounting (using the incremental borrowing rate as at 1 January 2019)	56,055
Recognition exemption for:	
– Short-term leases	729
– Leases of low-value assets	191
Other (VAT expense)	8,410
Operating lease commitment at 31 December 2018 as disclosed in the Group's Consolidated Financial Statements	**132,492**

3. Summary of significant accounting policies continued

No assets have met the definition of investment property. The movements in right-of-use assets during the year ended 31 December 2019 were as follows:

	Measured at cost
Cost	
1 January 2019	**79,359**
Additions	39,534
Disposals	(3,714)
Currency translation differences	41
31 December 2019	**115,220**
Accumulated depreciation	
1 January 2019	**–**
Depreciation charge	19,837
Disposals	(729)
Currency translation differences	17
31 December 2019	**19,125**
Net book value	
1 January 2019	**79,359**
31 December 2019	**96,095**

IFRIC 23 Interpretation 23 Uncertainty over Income Tax Treatment

This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. When there is uncertainty over income tax treatments, this Interpretation addresses:

- whether an entity considers uncertain tax treatments separately;
- the assumptions an entity makes about the examination of tax treatments by taxation authorities;
- how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- how an entity considers changes in facts and circumstances.

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments, and uses the approach that better predicts the resolution of the uncertainty. Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions. The Group determined, based on its tax compliance that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Group.

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. Results of this valuation are presented in Note 10, 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.

4. Significant accounting judgements and estimates continued

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. 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. After 12 consecutive payments, it is transferred to Stage 1 if its credit risk is not significantly higher than at origination date.

Significant increase in credit risk (SICR)

A significant increase in credit risk is not a defined term per IFRS 9, and is determined by management, based on their experience and judgement. In assessing whether the credit risk has significantly increased, the 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.

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%.

Exposure of 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.

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.

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. The Group's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same is it was under IAS 39. 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.

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 National Bank of Georgia for Group companies operating in Georgia, while data used by Belarusky Narodny Bank ("BNB") is provided by a non-governmental research centre operating in Belarus. Macroeconomic variables covered by these forecasts and which the Group incorporated in its ECL assessment model include GDP growth, foreign exchange rate and inflation rate. These forward-looking macroeconomic variables are 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 basecase (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 Group considers these forecasts to represent its best estimate of the possible outcomes, based on reliable available 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 2019 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 2019 2020	2021	2022	As at 31 December 2018 2019	2020	2021	As at 1 January 2018 2018	2019	2020
GDP growth in %											
	Upside	25%	5.50%	6.00%	5.00%	6.00%	5.50%	5.00%	5.50%	6.00%	5.70%
	Base case	50%	4.50%	5.00%	5.00%	5.00%	5.00%	5.00%	4.50%	4.80%	5.00%
	Downside	25%	2.50%	3.50%	4.50%	2.00%	2.50%	3.50%	3.00%	2.00%	3.00%
GE/USD exchange rate %											
	Upside	25%	5.00%	5.00%	0.00%	10.00%	5.00%	-5.00%	5.00%	7.00%	0.00%
	Base case	50%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	Downside	25%	-10.00%	-5.00%	5.00%	-15.00%	-10.00%	5.00%	-10.00%	-15.00%	-10.00%
CPI inflation rate in %											
	Upside	25%	4.50%	3.50%	3.00%	3.40%	3.20%	3.00%	2.50%	2.50%	2.70%
	Base case	50%	4.50%	2.50%	3.00%	2.90%	3.00%	3.00%	3.50%	3.00%	3.00%
	Downside	25%	7.00%	5.00%	3.00%	4.50%	4.00%	3.00%	4.50%	4.30%	3.80%

Belarus

Key drivers	ECL scenario	Assigned weight	As at 31 December 2019 2020Q1	2020Q2	2020Q3	2020Q4	As at 31 December 2018 2019Q1	2019Q2	2019Q3	2019Q4	As at 1 January 2018 2018Q1	2018Q2	2018Q3	2018Q4
GDP growth in %														
	Upside	25%	3.44%	2.94%	3.19%	3.65%	0.87%	1.13%	1.98%	2.82%	3.24%	3.38%	3.56%	3.11%
	Base case	50%	1.56%	0.84%	0.96%	1.16%	0.40%	0.30%	0.75%	1.41%	2.96%	2.61%	2.24%	1.58%
	Downside	25%	-0.31%	-1.26%	-1.27%	-1.32%	-0.07%	-0.53%	-0.47%	0.00%	2.67%	1.85%	1.02%	-0.14%
BYN/USD exchange rate %														
	Upside	25%	-5.12%	-5.40%	-4.66%	-3.30%	8.23%	6.94%	4.25%	2.55%	4.78%	4.97%	5.31%	5.56%
	Base case	50%	-0.60%	0.67%	2.69%	2.78%	10.11%	9.55%	7.61%	5.57%	5.45%	5.91%	6.39%	6.78%
	Downside	25%	3.92%	6.69%	10.04%	8.52%	12.61%	13.50%	12.83%	10.95%	6.12%	6.69%	7.15%	8.17%
CPI inflation rate in %														
	Upside	25%	1.49%	0.42%	-0.27%	0.52%	9.06%	5.70%	0.35%	5.59%	1.87%	4.22%	8.91%	4.74%
	Base case	50%	2.06%	0.99%	0.32%	1.63%	10.90%	7.22%	1.73%	6.80%	5.00%	8.05%	13.21%	9.77%
	Downside	25%	2.62%	1.55%	0.88%	2.74%	12.75%	8.72%	3.09%	7.99%	7.94%	11.06%	16.15%	13.39%

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 US 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 on page 217 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 re-calculated.

4. Significant accounting judgements and estimates continued

Forward-looking information continued

Sensitivity of ECL to forward-looking assumptions

	As at 31 December 2019				
Key drivers	Reported ECL	Reported ECL coverage	ECL coverage by scenarios Upside	Basecase	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 number of overdue days after which the balances are considered to be irrecoverable and are to be written off has been increased from 365 to 1,460 days. 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.

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.

The Group has aggregated the Investment Business segments and presented them as discontinued operations in one single segment.

Notes to Consolidated Financial Statements continued

Thousands of Georgian Lari

5. Segment information continued

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

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

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 on page 219, 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 2019, 2018 or 2017.

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 and 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 (expense) 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 from continuing operations	**318,604**	**188,659**	**14,335**	**(21,647)**	**–**	**499,951**
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)

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 2018:

	Banking Business								
	Retail Banking	Corporate and 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 (loss)	56,358	54,702	16,605	1,772	–	129,437	–	(675)	128,762
Net other income	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) income/gain	(35,110)	(13,630)	(716)	(7,872)	–	(57,328)	–	172	(57,156)
Profit (loss) before income tax expense from continuing operations	**294,550**	**135,965**	**15,003**	**(10,211)**	**–**	**435,307**	**–**	**2,238**	**437,545**
Income tax expense	(36,292)	(16,827)	(3,546)	–	–	(56,665)	–	–	(56,665)
Profit (loss) for the year from continuing operations	**258,258**	**119,138**	**11,457**	**(10,211)**	**–**	**378,642**	**–**	**2,238**	**380,880**
Profit (loss) from discontinued operations	–	–	–	–	–	–	110,136	(2,238)	107,898
Profit (loss) for the year	**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)

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 2017:

	Banking Business								
	Retail Banking	Corporate and Investment Banking	BNB	Other Banking Business	Banking Business Eliminations	Banking Business	Investment Business	Inter-Business Eliminations	Group Total
Net interest income	480,955	156,171	29,397	5,543	34	672,100	–	435	672,535
Net fee and commission income	99,790	22,717	9,336	(369)	–	131,474	–	(1,424)	130,050
Net foreign currency gain (loss)	28,937	46,276	10,852	(5)	–	86,060	–	(6,954)	79,106
Net other income	5,029	14,256	1,774	(2)	(1,356)	19,701	–	(1,056)	18,645
Revenue	**614,711**	**239,420**	**51,359**	**5,167**	**(1,322)**	**909,335**	**–**	**(8,999)**	**900,336**
Operating expenses	(235,152)	(76,658)	(29,665)	(2,783)	1,322	(342,936)	–	4,138	(338,798)
Profit from associates	1,311	–	–	–	–	1,311	–	–	1,311
Operating income (expense) before cost of risk	**380,870**	**162,762**	**21,694**	**2,384**	**–**	**567,710**	**–**	**(4,861)**	**562,849**
Cost of risk	(110,800)	(47,403)	(9,093)	–	–	(167,296)	–	–	(167,296)
Net operating income (loss) before non-recurring items	**270,070**	**115,359**	**12,601**	**2,384**	**–**	**400,414**	**–**	**(4,861)**	**395,553**
Net non-recurring expense/loss	(2,358)	(1,882)	(60)	–	–	(4,300)	–	–	(4,300)
Profit before income tax expense from continuing operations	**267,712**	**113,477**	**12,541**	**2,384**	**–**	**396,114**	**–**	**(4,861)**	**391,253**
Income tax (expense) benefit	(18,046)	(7,584)	(2,257)	1,295	–	(26,592)	–	–	(26,592)
Profit (loss) for the year from continuing operations	**249,666**	**105,893**	**10,284**	**3,679**	**–**	**369,522**	**–**	**(4,861)**	**364,661**
Profit from discontinued operations	–	–	–	–	–	–	93,927	4,861	98,788
Profit (loss) for the year	**249,666**	**105,893**	**10,284**	**3,679**	**–**	**369,522**	**93,927**	**–**	**463,449**
Assets and liabilities									
Total assets	7,788,166	4,585,439	624,835	2,219	(92,981)	12,907,678	2,763,913	(502,922)	15,168,669
Total liabilities	6,927,986	3,974,452	545,315	204	(92,981)	11,354,976	1,584,245	(502,922)	12,436,299
Other segment information									
Property and equipment	45,087	6,473	1,464	100	–	53,124	316,826	–	369,950
Intangible assets	20,217	2,819	999	12	–	24,047	17,547	–	41,594
Capital expenditure	**65,304**	**9,292**	**2,463**	**112**	**–**	**77,171**	**334,373**	**–**	**411,544**
Depreciation, amortisation and impairment	(34,742)	(5,134)	(1,098)	–	–	(40,974)	–	–	(40,974)

6. Cash and cash equivalents

	2019	2018	2017
Cash on hand	663,580	502,060	447,807
Current accounts with central banks, excluding obligatory reserves	405,560	298,788	91,692
Current accounts with credit institutions	463,498	243,622	278,978
Time deposits with credit institutions with maturities of up to 90 days	621,120	171,471	763,958
Cash and cash equivalents	**2,153,758**	**1,215,941**	**1,582,435**
Less – Allowance for expected credit loss	(134)	(142)	–
Cash and cash equivalents	**2,153,624**	**1,215,799**	**1,582,435**

As at 31 December 2019, GEL 845,606 (2018: GEL 316,083, 2017: GEL 932,030) 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 2.20% interest per annum on these deposits (2018: up to 3.00%, 2017: up to 2.00%). 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 2019, cash and cash equivalents held by BOGG of GEL 1,845 (2018: 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

	2019	2018	2017
Obligatory reserves with central banks	1,577,911	1,244,885	1,000,566
Time deposits with maturities of more than 90 days	5,404	43,484	218,831
Deposits pledged as security for open commitments	5,691	–	–
Inter-bank loan receivables	30,413	17,586	6,550
Amounts due from credit institutions	**1,619,419**	**1,305,955**	**1,225,947**
Less – Allowance for expected credit loss	(347)	(739)	–
Amounts due from credit institutions	**1,619,072**	**1,305,216**	**1,225,947**

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 2019 (2018: 1.00%, 2017: 1.00%).

As at 31 December 2019, inter-bank loan receivables include no deposits placed with non-OECD banks (2018: GEL 17,586, 2017: GEL 6,550).

8. Investment securities

	2019	2018	2017
Investment securities measured at FVOCI – debt instruments	1,783,437	2,018,061	n/a
Investment securities designated as at FVOCI – equity investments	3,367	956	n/a
Available-for-sale investment securities	n/a	n/a	1,564,869
Investment securities	**1,786,804**	**2,019,017**	**1,564,869**

	2019	2018	2017
Ministry of Finance of Georgia treasury bonds*	647,886	927,594	n/a
Ministry of Finance of Georgia treasury bills**	120,519	100,111	n/a
Foreign Ministry of Finance treasury bonds	66,961	7,762	n/a
Certificates of deposit of central banks	8,912	63,394	n/a
Other debt instruments***	939,159	919,200	n/a
Investment securities measured at FVOCI – debt instruments	**1,783,437**	**2,018,061**	**n/a**

8. Investment Securities continued

	2019	2018	2017
Ministry of Finance of Georgia treasury bonds*	n/a	n/a	847,839
Ministry of Finance of Georgia treasury bills**	n/a	n/a	77,460
Certificates of deposit of central banks	n/a	n/a	73,415
Other debt instruments***	n/a	n/a	564,801
Corporate shares	n/a	n/a	1,354
Available-for-sale investment securities	**n/a**	**n/a**	**1,564,869**

* GEL 576,017 was pledged for short-term loans from the NBG (2018: GEL 573,517, 2017: GEL 448,558).
** GEL 74,564 was pledged for short-term loans from the NBG (2018:Nil, 2017:Nil).
*** GEL 684,546 was pledged for short-term loans from the NBG (2018: GEL 674,616, 2017: GEL 475,735).

Other debt instruments as at 31 December 2019 mainly comprises bonds issued by the European Bank for Reconstruction and Development of GEL 309,351(2018: GEL 249,659, 2017: GEL 268,057), GEL-denominated bonds issued by The Netherlands Development Finance Company of GEL 156,494 (2018: GEL 163,454, 2017: Nil), GEL-denominated bonds issued by Black Sea Trade and Development Bank of GEL 150,865 (2018: GEL 136,504, 2017: GEL 60,625), GEL-denominated bonds issued by International Finance Corporation of GEL 208,948 (2018: GEL 110,545, 2017: GEL 110,862), GEL-denominated bonds issued by Asian Development Bank of GEL 58,863 (2018: GEL 65,145, 2017: GEL 65,245), and Dollar-denominated bonds issued by an internationally recognised investment bank of Nil (2018: Nil, 2017: GEL 26,666).

During 2019, NBG monetary policy rate, which is one of the key variables while assessing the fair value for financial assets, has increased by 200 bps to 9.0% as at 31 December 2019, as compared with 31 December 2018. This has resulted in a significant movement in net change in fair value on investments in debt instruments measured at FVOCI within other comprehensive income for the year ended 31 December 2019.

9. Loans to customers and finance lease receivables

	2019	2018	2017
Commercial loans	4,101,950	2,956,446	2,594,424
Residential mortgage loans	3,066,683	2,549,453	1,712,515
Micro and SME loans	2,660,220	2,129,215	1,776,044
Consumer loans	2,085,108	1,876,888	1,751,106
Gold – pawn loans	85,540	80,770	67,940
Loans to customers at amortised cost, gross	**11,999,501**	**9,592,772**	**7,902,029**
Less – Allowance for expected credit loss	(225,133)	(311,843)	(276,885)
Loans to customers at amortised cost, net	**11,774,368**	**9,280,929**	**7,625,144**
Finance lease receivables, gross	**159,191**	**110,087**	**67,686**
Less – Allowance for expected credit loss	(2,297)	(1,648)	(2,380)
Finance lease receivables, net	**156,894**	**108,439**	**65,306**
Loans and advances to customers at FVTPL	**–**	**8,379**	**n/a**
Total loans to customers and finance lease receivables	**11,931,262**	**9,397,747**	**7,690,450**

As at 31 December 2019, loans to customers carried at GEL 577,246 (2018: GEL 357,342, 2017: GEL 333,944) 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

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9. Loans to customers and finance lease receivables continued

Expected credit loss continued

gross loan balances includes the effects of changes in accrued interest. Net other measurement of ECL includes the effect of changes in ECL due to changes in PDs and other inputs, as well as the effect from ECL attributable to changes in accrued interest.

	As at 31 December 2019				
Commercial loans at amortised cost, gross:	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2019	**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**

	As at 31 December 2019				
Commercial loans at amortised cost, ECL:	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2019	**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

	As at 31 December 2019				
Consumer loans at amortised cost, gross:	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2019	**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**

	As at 31 December 2019				
Consumer loans at amortised cost, ECL:	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2019	**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**

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9. Loans to customers and finance lease receivables continued

Expected credit loss continued

	As at 31 December 2019				
Micro and SME loans at amortised cost, gross:	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2019	**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**

	As at 31 December 2019				
Micro and SME loans at amortised cost, ECL:	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2019	**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

	As at 31 December 2019				
Residential mortgage loans at amortised cost, gross:	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2019	**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**

	As at 31 December 2019				
Residential mortgage loans at amortised cost, ECL:	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2019	**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**

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Thousands of Georgian Lari

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Gold – pawn loans at amortised cost, gross:	As at 31 December 2019 Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2019	**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:	As at 31 December 2019 Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2019	**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:	As at 31 December 2018 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:	As at 31 December 2018 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**

9. Loans to customers and finance lease receivables continued
Expected credit loss continued

	As at 31 December 2018				
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**

	As at 31 December 2018				
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

	As at 31 December 2018				
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**

	As at 31 December 2018				
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**

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9. Loans to customers and finance lease receivables continued

Expected credit loss continued

Residential mortgage loans at amortised cost, gross:	As at 31 December 2018 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:	As at 31 December 2018 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

Gold – pawn loans at amortised cost, gross:	As at 31 December 2018 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:	As at 31 December 2018 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**

9. Loans to customers and finance lease receivables continued

Expected credit loss continued

	Commercial loans 2017	Consumer loans 2017	Residential mortgage loans 2017	Micro and SME loans 2017	Total 2017
At 1 January	**159,759**	**58,785**	**3,891**	**30,334**	**252,769**
Charge	40,311	80,607	2,700	31,592	155,210
Recoveries	9,979	23,485	8,151	11,177	52,792
Write-offs	(35,053)	(74,027)	(9,912)	(32,267)	(151,259)
Accrued interest on written-off loans	(10,746)	(16,649)	(768)	(4,141)	(32,304)
Currency translation differences	19	(143)	–	(199)	(323)
At 31 December	**164,269**	**72,058**	**4,062**	**36,496**	**276,885**
Individual impairment	153,522	1,019	2,427	23,621	180,589
Collective impairment	10,747	71,039	1,635	12,875	96,296
Balance at 31 December 2017	**164,269**	**72,058**	**4,062**	**36,496**	**276,885**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**310,308**	**2,178**	**14,671**	**53,117**	**380,274**

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 58,627 (2018: GEL 67,001, 2017: GEL 70,904).

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 162,684 as at 31 December 2019 (2018: GEL 249,514);
- for consumer loans: GEL 85,890 as at 31 December 2019 (2018: GEL 86,622);
- for micro and SME: GEL 104,075 as at 31 December 2019 (2018: GEL 107,980);
- for residential mortgage loans: GEL 101,542 as at 31 December 2019 (2018: GEL 75,073); and
- gold – pawn loans: GEL 2,561 as at 31 December 2019 (2018: GEL 283).

Without taking into account the discounted value of collateral, the allowance for expected credit loss/impairment of loans would be GEL 294,428 higher as at 31 December 2019 (2018: GEL 263,482 higher, 2017: GEL 253,818 higher).

Concentration of loans to customers

As at 31 December 2019, the concentration of loans granted by the Group to the ten largest third-party borrowers comprised GEL 1,199,596 accounting for 10% of the gross loan portfolio of the Group (2018: GEL 952,411 and 10% respectively, 2017: GEL 857,582 and 11% respectively). An allowance of GEL 9,634 (2018: GEL 45,658, 2017: GEL 43,478) was established against these loans.

9. Loans to customers and finance lease receivables continued

Concentration of loans to customers continued

As at 31 December 2019, the concentration of loans granted by the Group to the ten largest third-party group of borrowers comprised GEL 1,771,490 accounting for 15% of the gross loan portfolio of the Group (2018: GEL 1,231,913 and 13% respectively, 2017: GEL 1,072,450 and 14% respectively). An allowance of GEL 10,211 (2018: GEL 43,687, 2017: GEL 75,628) was established against these loans.

As at 31 December 2019, 31 December 2018 and 31 December 2017, loans were principally issued within Georgia, and their distribution by industry sector was as follows:

	2019	2018	2017
Individuals	6,507,095	5,509,279	4,297,215
Manufacturing	1,315,154	1,101,649	935,827
Trade	1,264,111	1,032,155	815,216
Real estate	717,063	436,450	432,352
Construction	572,159	366,009	368,509
Hospitality	399,148	301,415	283,527
Transport & communication	248,210	132,588	114,926
Service	222,179	128,535	182,038
Mining and quarrying	117,801	127,835	104,799
Financial intermediation	85,814	62,180	49,729
Electricity, gas and water supply	50,318	76,574	84,727
Other	500,449	326,482	233,164
Loans to customers, gross	**11,999,501**	**9,601,151**	**7,902,029**
Less – Allowance for expected credit loss	(225,133)	(311,843)	(276,885)
Loans to customers, net	**11,774,368**	**9,289,308**	**7,625,144**

Loans have been extended to the following types of customers:

	2019	2018	2017
Individuals	6,507,095	5,509,279	4,297,215
Private companies	5,477,804	4,089,095	3,604,814
State-owned entities	14,602	2,777	–
Loans to customers, gross	**11,999,501**	**9,601,151**	**7,902,029**
Less – Allowance for expected credit loss	(225,133)	(311,843)	(276,885)
Loans to customers, net	**11,774,368**	**9,289,308**	**7,625,144**

Finance lease receivables

	2019	2018	2017
Minimum lease payments receivable	220,543	155,043	83,008
Less – Unearned finance lease income	(61,352)	(44,956)	(15,322)
	159,191	**110,087**	**67,686**
Less – Allowance for expected credit loss/impairment loss	(2,297)	(1,648)	(2,380)
Finance lease receivables, net	**156,894**	**108,439**	**65,306**

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 2019, finance lease receivables carried at GEL 74,489 were pledged for inter-bank loans received from several credit institutions (2018: GEL 46,867, 2017: nil).

As at 31 December 2019, the concentration of investment in the five largest lease receivables comprised GEL 16,249 or 10% of total finance lease receivables (2018: GEL 9,803 or 9%, 2017: GEL 4,403 or 7%) and finance income received from them for the year ended 31 December 2019 comprised GEL 2,226 or 9% of total finance income from lease (2018: GEL 1,185 or 7%, 2017: GEL 755 or 5%).

Notes to Consolidated Financial Statements continued

Thousands of Georgian Lari

9. Loans to customers and finance lease receivables continued

Finance lease receivables continued

Future minimum lease payments to be received after 31 December 2019, 31 December 2018 and 31 December 2017 are as follows:

	2019	2018	2017
Within 1 year	85,815	62,475	43,782
From 1 to 5 years	130,700	89,781	34,224
More than 5 years	4,028	2,787	5,002
Minimum lease payment receivables	**220,543**	**155,043**	**83,008**

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

	As at 31 December 2019				
Finance lease receivables, gross:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2019	**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**

	As at 31 December 2019				
Finance lease receivables, ECL:	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2019	**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**

9. Loans to customers and finance lease receivables continued

Finance lease receivables continued

	As at 31 December 2018				
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	–	–	–	–	–
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**

	As at 31 December 2018				
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**

	Finance lease receivables 2017
At 1 January	**2,548**
Charge	496
Amounts written off	(611)
Currency translation differences	(53)
At 31 December	**2,380**
Individual impairment	1,152
Collective impairment	1,228
	2,380
Gross amount of finance lease receivables, individually determined to be impaired, before deducting any individually assessed impairment allowance	**2,593**

10. Investment properties

	2019	2018	2017
At 1 January	**151,446**	**353,565**	**288,227**
Additions	109,278	71,785	86,530
Disposals	(39,223)	(74,278)	(11,469)
Net gains (losses) from revaluation of investment property	12,805	(994)	32,020
Demerger	–	(151,031)	–
Net transfers to property and equipment, other assets and assets held for sale*	(11,537)	(47,601)	(39,864)
Currency translation differences	2,304	–	(1,879)
At 31 December	**225,073**	**151,446**	**353,565**

* Comprised GEL 2,894 transfer from property and equipment (2018: transfers from property and equipment GEL 13,564 and 2017: transfers to property and equipment GEL 27,216 respectively), Nil transfer to other assets – inventories (2018: transfer to assets – inventories Nil and 2017: transfer to other assets – inventories GEL 1,158), GEL 29 transfer to finance lease receivables (2018: transfer to finance lease receivables GEL 6,478 and 2017: transfer to finance lease receivables GEL 11,490) and GEL 14,402 transfer to assets held for sale (2018: GEL 54,687, 2017: n/a).

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 2019, 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.

The Group may pledge its investment property as collateral for its borrowings. The carrying amount of investment property pledged as at 31 December 2019 was Nil (2018: Nil, 2017: GEL 113,598).

11. Property and equipment and intangible assets

The movements in property and equipment during the year ended 31 December 2019 were as follows:

	Office buildings & service centres	Furniture & fixtures	Computers and 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
Disposals	(4,101)	(444)	(604)	(980)	–	–	(6,129)
Transfers	13,000	(51,733)	64,467	–	5,463	(31,197)	–
Transfers to investment properties	(3,211)	(3)	–	(47)	–	–	(3,261)
Transfers (to) from other assets	–	(1,994)	(6,359)	–	–	(1,451)	(9,804)
Write-off	(4,601)	(1,599)	(635)	(28)	(1,264)	–	(8,127)
Transfers from (to) assets held for sale	(2,127)	–	–	–	–	–	(2,127)
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
Currency translation differences	364	109	259	17	48	–	797
Transfers	–	(31,200)	31,200	–	–	–	–
Transfers to investment properties	(331)	–	–	(36)	–	–	(367)
Transfers (to) from other assets	–	(1,883)	(3,290)	–	–	–	(5,173)
Transfers from (to) assets held for sale	(437)	–	–	–	–	–	(437)
Write-off	(961)	(81)	(239)	(27)	(1,237)	–	(2,545)
Disposals	(74)	(273)	(414)	(462)	–	–	(1,223)
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**

11. Property and equipment and intangible assets continued

The movements in property and equipment during the year ended 31 December 2018 were as follows:

	Office buildings & service centres	Furniture & fixtures	Computers & equipment	Motor vehicles	Leasehold improvements	Assets under construction	Infrastructure 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
Disposals	(1,679)	(3,069)	(2,706)	(2,700)	(859)	–	–	–	–	(11,013)
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
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
Currency translation differences	(254)	(2)	(62)	2	(24)	–	117	–	(115)	(338)
Transfers	–	235	(235)	–	–	–	–	–	–	–
Transfers to investment properties	(914)	–	–	–	–	–	–	–	–	(914)
Transfers (to) from other assets	–	(14,760)	(1,048)	–	–	–	–	–	–	(15,808)
Revaluation	(32)	–	–	–	–	–	–	–	–	(32)
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)
Disposals	(1,237)	(2,393)	(999)	(2,678)	(801)	–	–	–	–	(8,108)
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**

11. Property and equipment and intangible assets continued

The movements in property and equipment during the year ended 31 December 2017 were as follows:

	Office buildings & service centres	Hospitals & Clinics	Furniture & fixtures	Computers & equipment	Motor vehicles	Leasehold improvements	Assets under construction	Infrastructure assets	Factory & equipment	Other	Total
Cost											
31 December 2016	**331,429**	**401,793**	**194,803**	**249,439**	**19,689**	**26,237**	**89,536**	**199,304**	**–**	**2,136**	**1,514,366**
Additions	1,887	28,716	25,772	67,387	7,417	2,930	191,234	12,619	31,986	2	369,950
Business combination	359	7,909	1,142	3,714	3,745	537	20,364	–	–	–	37,770
Disposals	(1,773)	(440)	(424)	(997)	(789)	(3,802)	(4,038)	(1,976)	(18)	–	(14,257)
Transfers	15,603	(456)	3,390	(1,394)	12,759	7,463	(162,140)	65,720	59,055	–	–
Transfers from investment properties	10,386	–	–	–	–	–	16,777	–	–	–	27,163
Transfers (to) from other assets	40	–	(735)	(1,365)	–	232	144	–	–	–	(1,684)
Revaluation	3,197	(6,958)	–	–	–	–	286	–	–	–	(3,475)
Write-off	–	–	–	(1,321)	–	–	–	–	–	–	(1,321)
Transfer to assets of disposal group held for sale	(14,939)	(430,564)	(18,763)	(198,315)	(5,850)	(12,685)	(325)	–	–	–	(681,441)
Currency translation differences	74	–	(50)	17	155	(41)	2,152	–	–	–	2,307
31 December 2017	**346,263**	**–**	**205,135**	**117,165**	**37,126**	**20,871**	**153,990**	**275,667**	**91,023**	**2,138**	**1,249,378**
Accumulated impairment											
31 December 2016	**2,926**	**–**	**40**	**60**	**7**	**–**	**9**	**–**	**–**	**–**	**3,042**
Currency translation differences	(64)	–	(2)	19	–	–	–	–	–	–	(47)
31 December 2017	**2,862**	**–**	**38**	**79**	**7**	**–**	**9**	**–**	**–**	**–**	**2,995**
Accumulated depreciation											
31 December 2016	**23,725**	**740**	**105,964**	**73,876**	**5,177**	**7,440**	**–**	**5,738**	**–**	**70**	**222,730**
Depreciation charge	3,482	3,800	18,166	29,138	4,049	4,918	–	16,507	4,171	70	84,301
Currency translation differences	8	–	25	(1,088)	25	12	2	999	(284)	–	(301)
Transfers to investment properties	(53)	–	–	–	–	–	–	–	–	–	(53)
Transfers (to) from other assets	(171)	–	(1,239)	(1,242)	–	1	–	–	–	–	(2,651)
Revaluation	–	(2,394)	–	–	–	–	–	–	–	–	(2,394)
Transfer to assets of disposal group held for sale	(327)	(1,951)	(2,958)	(29,771)	(1,532)	(1,826)	–	–	–	–	(38,365)
Disposals	(358)	(195)	(242)	(534)	(381)	(3,450)	–	(160)	–	–	(5,320)
31 December 2017	**26,306**	**–**	**119,716**	**70,379**	**7,338**	**7,095**	**2**	**23,084**	**3,887**	**140**	**257,947**
Net book value:											
31 December 2016	**304,778**	**401,053**	**88,799**	**175,503**	**14,505**	**18,797**	**89,527**	**193,566**	**–**	**2,066**	**1,288,594**
31 December 2017	**317,095**	**–**	**85,381**	**46,707**	**29,781**	**13,776**	**153,979**	**252,583**	**87,136**	**1,998**	**988,436**

The Group may pledge its property as collateral for its borrowings. The carrying amount of the pledged property, excluding that of disposal group held for sale, as at 31 December 2019 was Nil (2018: Nil, including that of disposal group held for sale, 2017: GEL 90,200, including that of disposal group held for sale).

Within the regular cycle of the useful life review for its Property and Equipment, the Group has changed the estimates regarding the remaining useful life of certain groups of assets. The updated useful lives better depict the period over which the assets are expected to be available for use for the Group. The change in accounting estimate was applied from the second half of the year on a prospective basis, resulting in an increase of depreciation expense by GEL 2,598.

11. Property and equipment and intangible assets continued

The movements in intangible assets were as follows:

	Software and license	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 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**

	Software and License	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. Property and equipment and intangible assets continued

	Software and license	Other	Total
Cost			
31 December 2016	**89,410**	**9,537**	**98,947**
Additions	40,739	855	41,594
Disposals	(137)	(47)	(184)
Transfers	6,855	(6,855)	–
Business combination	325	1,120	1,445
Disposal of subsidiary	(33,259)	–	(33,259)
Currency translation differences	(40)	–	(40)
31 December 2017	**103,893**	**4,610**	**108,503**
Accumulated impairment			
31 December 2016	**241**	**–**	**241**
Currency translation differences	(15)	–	(15)
31 December 2017	**226**	**–**	**226**
Accumulated amortisation			
31 December 2016	**37,745**	**2,054**	**39,799**
Amortisation charge	11,784	630	12,414
Disposals	(179)	–	(179)
Transfers	2,062	(2,062)	–
Disposal of subsidiary	(4,793)	–	(4,793)
Currency translation differences	54	2	56
31 December 2017	**46,673**	**624**	**47,297**
Net book value:			
31 December 2016	**51,424**	**7,483**	**58,907**
31 December 2017	**56,994**	**3,986**	**60,980**

12. Goodwill

Movements in goodwill during the years ended 31 December 2019, 31 December 2018 and 31 December 2017, were as follows:

	2019	2018	2017
Cost			
1 January	**57,745**	**83,726**	**135,436**
Business combinations	–	–	60,138
Demerger	–	(25,981)	(111,848)
At 31 December	**57,745**	**57,745**	**83,726**
Accumulated impairment			
1 January	**24,394**	**28,450**	**28,450**
Demerger	–	(4,056)	–
At 31 December	**24,394**	**24,394**	**28,450**
Net book value:			
1 January	**33,351**	**55,276**	**106,986**
At 31 December	**33,351**	**33,351**	**55,276**

12. Goodwill continued

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:

	2019	2018	2017
Retail banking	23,386	23,386	23,386
Corporate banking	9,965	9,965	9,965
P&C Insurance*	–	–	15,454
Teliani*	–	–	6,471
Total	**33,351**	**33,351**	**55,276**

* Discontinued businesses.

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		
	2019, %	2018, %	2017, %	2019, %	2018, %	2017, %
Discount rate	5.0%	4.7%	4.5%	6.7%	6.2%	6.1%

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 2019. Possible change was taken as +/-1% in discount rate and growth rate.

13. Taxation

The corporate income tax credit (expense) comprises:

	2019	2018	2017
Current income expense	(48,341)	(39,169)	(42,396)
Deferred income tax credit (expense)	(8,117)	(18,682)	9,669
Income tax (expense) credit	**(56,458)**	**(57,851)**	**(32,727)**
Income tax (expense) benefit attributable to continuing operations	(56,458)	(56,665)	(26,592)
Income tax expense attributable to a discontinued operation (Note 4)	–	(1,186)	(6,135)
Deferred income tax expense in other comprehensive income	**–**	**(265)**	**(1,328)**

Deferred tax related to items charged or credited to other comprehensive income during the years ended 31 December 2019, 2018 and 2017 was as follows:

	2019	2018	2017
Currency translation differences	–	–	(576)
Net losses on investment securities	–	(265)	27
Revaluation of buildings	–	–	(779)
Income tax expense in other comprehensive income	**–**	**(265)**	**(1,328)**

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% (2018: from 15% to 27%, 2017: 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 remeasured, 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 2019, 31 December 2018 and 31 December 2017, a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows:

	2019	2018	2017
Profit before income tax expense from continuing operations	556,409	437,545	391,253
Net gain before income tax benefit from discontinued operations	–	109,084	104,923
Profit before income tax expense	**556,409**	**546,629**	**496,176**
Average tax rate	15%	15%	15%
Theoretical income tax expense at average tax rate	**(83,461)**	**(81,994)**	**(74,426)**
Non-taxable income	29,515	58,741	38,223
Correction of prior year declarations	–	–	5,940
Non-deductible expenses	(2,218)	(4,752)	(1,220)
Tax at the domestic rates applicable to profits in each country	(540)	(829)	(1,244)
Effects from changes in tax legislation	–	(30,275)	–
Other	246	1,258	–
Income tax (expense) benefit	**(56,458)**	**(57,851)**	**(32,727)**

13. Taxation continued

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.

As at 31 December 2019, 31 December 2018 and 31 December 2017, income tax assets and liabilities consist of the following:

	2019	2018	2017
Current income tax assets	75	19,328	1,155
Deferred income tax assets	207	123	1,138
Income tax assets	**282**	**19,451**	**2,293**
Current income tax liabilities	1,563	701	9,617
Deferred income tax liabilities	36,355	28,154	11,342
Income tax liabilities	**37,918**	**28,855**	**20,959**

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13. Taxation continued

Deferred tax assets and liabilities as at 31 December 2019, 31 December 2018 and 31 December 2017, 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	
	2016	In the income statement	IFRS 15 adoption	In other comprehensive income	2017	In the income statement	IFRS 9 adoption	Demerger	In other comprehensive income	2018	In the income statement	2019
Tax effect of deductible temporary differences:												
Amounts due to credit institutions	–	–	–	–	–	26	77	–	–	103	(40)	63
Investment securities	–	–	–	–	–	–	–	–	–	–	66	66
Investment properties	490	(284)	–	(18)	188	17	–	–	–	205	23	228
Insurance premiums receivables	1,208	(721)	–	–	487	–	–	(487)	–	–	–	–
Allowances for impairment and provisions for other losses	6,491	1,490	–	(205)	7,776	(7,159)	–	–	–	617	(617)	–
Tax losses carried forward	–	–	–	–	–	8	10	–	–	18	(18)	–
Property and equipment	820	87	–	(179)	728	1,249	–	–	–	1,977	150	2,127
Intangible assets	–	–	–	–	–	–	–	–	–	–	199	199
Lease liability	–	–	–	–	–	–	–	–	–	–	8,306	8,306
Accruals and deferred income	–	–	–	–	–	–	–	–	–	–	1,691	1,691
Other assets and liabilities	3,059	1,277	–	(16)	4,320	3,828	(87)	(522)	–	7,539	(4,780)	2,759
Deferred tax assets	**12,068**	**1,849**	**–**	**(418)**	**13,499**	**(2,031)**	**–**	**(1,009)**	**–**	**10,459**	**4,980**	**15,439**
Tax effect of taxable temporary differences:												
Amounts due to credit institutions	1,230	(469)	–	–	761	1,824	–	–	–	2,585	(635)	1,950
Debt securities issued	–	–	–	–	–	2,722	–	–	–	2,722	(411)	2,311
Cash and cash equivalents	–	–	–	–	–	2,669	–	–	–	2,669	(599)	2,070
Investment securities	–	–	–	–	–	(26)	83	–	265	322	(114)	208
Loans to customers and finance lease receivables	18,466	(4,423)	–	(262)	13,781	3,464	(1,974)	–	–	15,271	10,425	25,696
Client deposits and notes	–	–	–	–	–	–	–	–	–	–	35	35
Property and equipment	6,579	(2,829)	–	1,201	4,951	5,469	–	–	–	10,420	(1,269)	9,151
Right-of-use assets	–	–	–	–	–	–	–	–	–	–	8,465	8,465
Investment properties	–	–	–	–	–	584	–	–	–	584	(356)	228
Intangible assets	452	(435)	–	(1)	16	(4)	–	–	–	12	9	21
Assets held for sale	–	–	–	–	–	–	–	–	–	–	1,227	1,227
Accruals and deferred income	–	–	–	–	–	–	–	–	–	–	225	225
Other assets and liabilities	5,797	336	(1,911)	(28)	4,194	(51)	(238)	–	–	3,905	(3,905)	–
Deferred tax liabilities	**32,524**	**(7,820)**	**(1,911)**	**910**	**23,703**	**16,651**	**(2,129)**	**–**	**265**	**38,490**	**13,097**	**51,587**
Net deferred tax liabilities	**(20,456)**	**9,669**	**1,911**	**(1,328)**	**(10,204)**	**(18,682)**	**2,129**	**(1,009)**	**(265)**	**(28,031)**	**(8,117)**	**(36,148)**

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14. Other assets and other liabilities

Other assets comprise:

	2019	2018	2017
Derivative financial assets	34,559	35,557	12,392
Receivables from remittance operations	33,955	8,906	12,932
Assets purchased for finance lease purposes	22,984	15,393	10,037
Investments in associates	14,273	13,189	11,850
Other receivables	13,204	19,758	10,715
Operating tax assets	10,473	5,099	35,403
Trading securities owned	7,493	4,652	3,191
Foreclosed assets	7,164	4,374	52,095
Settlements on operations	144	134	928
Defined contribution pension assets	–	–	18,536
Reinsurance assets	–	–	20,671
Other	7,642	24,987	20,899
	151,891	**132,049**	**209,649**
Less – Allowance for impairment of other assets	(8,737)	(6,041)	(20,917)
Other assets	**143,154**	**126,008**	**188,732**

Other liabilities comprise:

	2019	2018	2017
Creditors	23,355	9,010	19,129
Derivatives margin	12,532	–	–
Other taxes payable	12,369	6,976	18,676
Derivative financial liabilities	10,836	11,569	3,948
Provisions	6,154	4,582	5,915
Advances received	5,072	8,279	2,761
Accounts payable	4,081	1,817	48,011
Dividends payable to non-controlling shareholders	1,611	1,337	1,100
Defined contribution pension obligations	–	–	18,536
Other insurance liabilities	–	–	11,008
Amounts payable for share acquisitions	–	–	413
Other	26,652	21,396	12,636
Other liabilities	**102,662**	**64,966**	**142,133**

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.

	2019		
		Fair value	
	Notional amount	Asset	Liability
Foreign exchange contracts			
Forwards and Swaps – domestic	797,784	5,620	1,242
Forwards and Swaps – foreign	5,482,178	26,373	7,680
Interest rate contracts			
Options – foreign (IR)	8,351	2,566	1,914
Total derivative assets/liabilities	**6,288,313**	**34,559**	**10,836**

14. Other assets and other liabilities continued

	2018			2017		
		Fair value			Fair value	
	Notional amount	Asset	Liability	Notional amount	Asset	Liability
Foreign exchange contracts						
Forwards and Swaps – domestic	721,906	3,110	981	352,738	1,817	1,958
Forwards and Swaps – foreign	1,920,039	19,811	4,228	227,585	1,706	534
Interest rate contracts						
Forwards and Swaps – foreign	1,109,990	12,636	6,360	777,660	7,368	–
Options – foreign (IR)	–	–	–	10,183	1,501	1,456
Total derivative assets/liabilities	**3,751,935**	**35,557**	**11,569**	**1,368,166**	**12,392**	**3,948**

15. Client deposits and notes

The amounts due to customers include the following:

	2019	2018	2017
Time deposits	5,042,851	4,061,604	3,321,953
Current accounts	5,033,884	4,072,249	3,316,064
Promissory notes issued	–	–	74,465
Client deposits and notes	**10,076,735**	**8,133,853**	**6,712,482**
Held as security against letters of credit and guarantees (Note 18)	**90,346**	**125,393**	**98,399**

As at 31 December 2017, promissory notes issued by the Group comprise the notes privately held by financial institutions effectively being equivalents of certificates of deposits with fixed maturity and fixed interest rate.

At 31 December 2019, amounts due to customers of GEL 828,952 (8%) were due to the ten largest customers (2018: GEL 962,322 (12%), 2017: GEL 880,957 (13%)).

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

	2019	2018	2017
Individuals	6,460,756	4,832,966	3,883,940
Private enterprises	3,253,970	2,760,667	2,364,255
State and state-owned entities	362,009	540,220	464,287
Client deposits and notes	**10,076,735**	**8,133,853**	**6,712,482**

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

	2019	2018	2017
Individuals	6,460,756	4,832,966	3,883,940
Trade	533,483	536,619	576,524
Construction	632,389	572,628	257,799
Financial intermediation	502,513	397,638	314,081
Government services	320,470	508,410	438,492
Transport & communication	427,529	342,745	257,818
Service	287,975	300,671	297,393
Manufacturing	269,684	178,619	224,230
Real estate	125,719	101,020	103,800
Hospitality	62,084	40,216	44,241
Electricity, gas and water supply	93,757	95,987	93,097
Other	360,376	226,334	221,067
Client deposits and notes	**10,076,735**	**8,133,853**	**6,712,482**

16. Amounts owed to credit institutions

Amounts due to credit institutions comprise:

	2019	2018	2017
Borrowings from international credit institutions	1,387,318	989,740	1,423,840
Short-term loans from National Bank of Georgia	1,551,953	1,118,957	793,528
Time deposits and inter-bank loans	234,962	214,479	305,287
Correspondent accounts	263,974	118,692	204,512
Other borrowings*	34,423	133,830	–
	3,472,630	**2,575,698**	**2,727,167**
Non-convertible subordinated debt	461,493	419,181	428,672
Amounts due to credit institutions	**3,934,123**	**2,994,879**	**3,155,839**

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

During the year ended 31 December 2019, the Group paid up to 6.50% on US$ borrowings from international credit institutions (2018: up to 6.10%, 2017: up to 6.27%). During the year ended 31 December 2019, the Group paid up to 11.13% on Dollar subordinated debt (2018: up to 10.00% and 2017: up to 8.92%).

Some long-term borrowings from international credit institutions are received upon certain conditions (the "Lender Covenants") that the Group maintains different limits for capital adequacy, liquidity, currency positions, credit exposures, leverage and others. At 31 December 2019, 31 December 2018 and 31 December 2017, 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.

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:

	2019	2018	2017
Eurobonds and notes issued	1,406,200	1,349,853	1,344,334
Additional Tier 1 capital notes issued	282,407	–	–
Local bonds	87,921	57,389	96,266
Certificates of deposit	343,536	323,172	268,552
Debt securities issued	**2,120,064**	**1,730,414**	**1,709,152**

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.

17. Debt securities issued continued

Changes in liabilities arising from financing activities

	Debt securities issued
Carrying amount at 31 December 2017	**–**
Carrying amount at 31 December 2018	**–**
Proceeds from Additional Tier 1 debt securities issued	268,160
Other movements	14,247
Carrying amount at 31 December 2019	**282,407**

18. Commitments and contingencies

Legal

Sai-invest

As at 31 December 2019, the Bank was engaged in a litigation proceeding 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.

Rustavi Azoti

At 31 December 2019, the Bank was engaged in litigation proceedings in Tbilisi City Court with East-West United Bank S.A., Agrochim S.A. and Systema Holding Limited (claimants) in relation to foreclosure on security (movable and immovable property and intangible assets) through auction on a defaulted loan of Rustavi Azoti LLC. Claimants request reinstatement of the title to the property owned by Rustavi Azoti LLC and compensation of damages in the amount of around USD 93.6m. No provision has been made as the Bank's management believes that the claim is groundless, and it is extremely unlikely that any significant loss will eventuate from this claim.

At 31 December 2019, BGEO Group Limited (former BGEO Group PLC), was engaged in litigation proceedings in the High Court of Justice of England and Wales (Commercial Court) with Roman Pipia (claimant), who asserts that BGEO Group Limited is liable to the claimant under Georgian law in relation to the loss of the Rustavi Azoti plant, which he alleges he formerly beneficially owned. The Bank had initiated the sale of collateral pledged by Rustavi Azoti LLC and its parent company to secure loans granted by the Bank following default by the borrowers in 2016. Based on the revised claim submitted in December 2018, the claimed amount is around USD 286.5m (alternatively USD 291m). No provision has been made as the Group believes that the claim is groundless, and it is extremely unlikely that any significant loss will eventuate from this claim.

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

Financial commitments and contingencies

As at 31 December 2019, 31 December 2018 and 31 December 2017, the Group's financial commitments and contingencies comprised the following:

	2019	2018	2017
Credit-related commitments			
Guarantees issued	1,347,841	1,015,566	621,267
Undrawn loan facilities	281,615	278,254	261,397
Letters of credit	54,815	42,009	40,350
	1,684,271	**1,335,829**	**923,014**
Less – Cash held as security against letters of credit and guarantees (Note 15)	(90,346)	(125,393)	(98,399)
Less – Provisions (Note 14)	(6,154)	(4,582)	(5,915)
Operating lease commitments			
Not later than 1 year	2,294	29,397	22,731
Later than 1 year but not later than 5 years	2,117	74,341	54,620
Later than 5 years	146	28,754	25,671
	4,557	**132,492**	**103,022**
Capital expenditure commitments	**4,279**	**6,616**	**2,538**

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19. Equity

Share capital

As at 31 December 2019, issued share capital comprised 49,169,428 common shares of BOGG (2018: 49,169,428 of BOGG, 2017: 39,384,712 of BGEO), 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 2019 are described below:

	Number of ordinary shares	Amount of ordinary shares
31 December 2016	**39,500,320**	**1,154**
Share buyback and cancellation	(115,608)	(3)
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**

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**

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 2019, comprised 1,958,552 (31 December 2018: 1,543,281, 31 December 2017: 2,268,313), with nominal amount of GEL 64 (31 December 2018: GEL 51, 31 December 2017: GEL 66).

19. Equity continued

Dividends

Shareholders are entitled to dividends in Pounds Sterling.

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

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 date was set at 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 final dividends was received by shareholders on 27 July 2018.

On 1 June 2017, the shareholders of the BGEO Group PLC declared a final dividend for 2016 of Georgian Lari 2.6 per share. The currency conversion date was set at 26 June 2017, with the official GEL: GBP exchange rate of 3.0690, resulting in a GBP-denominated final dividend of 0.8472 per share. Payment of the total GEL 101,501 final dividends was received by shareholders on 7 July 2017.

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 2019, 31 December 2018 and 31 December 2017, are presented in the statements of other comprehensive income.

Earnings per share

	2019	2018	2017
Basic earnings per share			
Profit for the year attributable to ordinary shareholders of the Group	497,664	468,996	437,615
Profit for the year from continuing operations attributable to ordinary shareholders of the Group	497,664	379,313	362,971
Profit for the year from discontinued operations attributable to ordinary shareholders of the Group	–	89,683	74,644
Weighted average number of ordinary shares outstanding during the year	47,642,789	43,512,857	37,697,497
Basic earnings per share	10.4457	10.7783	11.6086
Earnings per share from continuing operations	10.4457	8.7173	9.6285
Earnings per share from discontinued operations	–	2.0610	1.9801

	2019	2018	2017
Diluted earnings per share			
Effect of dilution on weighted average number of ordinary shares:			
Dilutive unvested share options	100,222	267,419	1,825,434
Weighted average number of ordinary shares adjusted for the effect of dilution	47,743,011	43,780,276	39,522,931
Diluted earnings per share	10.4238	10.7125	11.0724
Diluted earnings per share from continuing operations	10.4238	8.6640	9.1838
Diluted earnings per share from discontinued operations	–	2.0485	1.8886

Notes to Consolidated Financial Statements continued

Thousands of Georgian Lari

20. Net interest income

	2019	2018	2017
Interest income calculated using EIR method	**1,411,359**	**1,302,906**	**1,117,770**
From loans to customers	1,252,945	1,143,123	989,652
From investment securities	140,581	134,952	110,991
From amounts due from credit institutions	27,193	28,738	17,127
Net loss on modification of financial assets	(9,360)	(3,907)	–
Other interest income	**25,802**	**19,391**	**14,144**
From finance lease receivable	25,610	17,947	14,144
From loans and advances to customers measured at FVTPL	192	1,444	–
Interest income	**1,437,161**	**1,322,297**	**1,131,914**
On client deposits and notes	(289,668)	(250,302)	(209,374)
On amounts owed to credit institutions	(222,567)	(206,104)	(170,076)
On debt securities issued	(165,336)	(118,183)	(79,929)
Interest element of cross-currency swaps	43,048	–	–
On lease liability	(4,921)	–	–
Interest expense	**(639,444)**	**(574,589)**	**(459,379)**
Deposit insurance fees	(8,298)	(5,955)	–
Net interest income	**789,419**	**741,753**	**672,535**

21. Net fee and commission income

	2019	2018	2017
Settlements operations	218,112	185,118	153,529
Guarantees and letters of credit	25,793	18,852	17,378
Cash operations	17,077	13,032	13,238
Currency conversion operations	10,874	1,690	446
Brokerage service fees	3,398	2,639	1,766
Advisory	4,119	3,628	–
Other	4,820	3,810	4,035
Fee and commission income	**284,193**	**228,769**	**190,392**
Settlements operations	(85,476)	(62,923)	(48,103)
Cash operations	(8,852)	(5,145)	(5,156)
Guarantees and letters of credit	(1,670)	(1,630)	(2,192)
Insurance brokerage service fees	(2,651)	(3,667)	(3,148)
Currency conversion operations	(1,948)	(446)	(27)
Advisory	(24)	(55)	–
Other	(3,558)	(2,241)	(1,716)
Fee and commission expense	**(104,179)**	**(76,107)**	**(60,342)**
Net fee and commission income	**180,014**	**152,662**	**130,050**

Revenue from customers

The Group has recognised the following amounts relating to revenue from contracts with customers in the income statement, including fee and commission as well as net other income:

	2019	2018	2017
Total revenue from contracts with customers from continuing operations	295,320	244,884	197,882
Total revenue from contracts with customers from discontinued operations	–	–	942,212
Total revenue from contracts with customers	**295,320**	**244,884**	**1,140,094**

21. Net fee and commission income continued

Contract assets and liabilities

The Group has recognised the following revenue-related contract assets and liabilities:

	31-Dec-19	31-Dec-18	31-Dec-17
Accruals and deferred income	29,567	24,200	89,052
Accounts receivable and other loans*	–	–	116,669

* Includes GEL 82,169 as at 31 December 2017, presented in disposal group held for sale.

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.

The Group recognised GEL 7,222 revenue from continuing operations in the current reporting period (2018: GEL 6,873, 2017: GEL 5,531) 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 the year ending 31 December 2020	In the year ending 31 December 2021	In the year ending 31 December 2022	In 3 to 5 years	In 5 to 10 years	Total
Revenue expected to be recognised on active contracts with customers from continuing operations	31,811	18,113	12,499	8,875	2,690	**73,988**

	In the year ending 31 December 2019	In the year ending 31 December 2020	In the year ending 31 December 2021	In 3 to 5 years	In 5 to 10 years	Total
Revenue expected to be recognised on active contracts with customers from continuing operations	21,677	9,427	5,533	2,169	152	**38,958**

	In the year ending 31 December 2018	In the year ending 31 December 2019	In the year ending 31 December 2020	In 3 to 5 years	In 5 to 10 years	Total
Revenue expected to be recognised on active contracts with customers from continuing operations	16,534	7,336	3,204	3,618	495	**31,187**
Revenue expected to be recognised on active contracts with customers from discontinued operations	52,029	13,195	4,061	9,841	7,990	**87,116**

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.

Notes to Consolidated Financial Statements continued

Thousands of Georgian Lari

22. Salaries and other employee benefits, and general and administrative expenses

Salaries and other employee benefits

	2019	2018	2017
Salaries and bonuses	(236,175)	(210,227)	(192,124)
Social security costs	(4,919)	(3,725)	(3,034)
Pension costs	(2,761)	(809)	(836)
Salaries and other employee benefits	**(243,855)**	**(214,761)**	**(195,994)**

The average number of staff employed by the Group for the years ended 31 December 2019, 31 December 2018 and 31 December 2017, comprised:

	2019	2018	2017
The Bank	5,806	5,651	5,248
BNB	621	699	655
Other	961	885	819
Average total number of staff employed	**7,388**	**7,235**	**6,722**

Salaries and bonuses include GEL 58,117, GEL 46,619 and GEL 48,823 of the Equity Compensation Plan costs for the years ended 31 December 2019, 31 December 2018 and 31 December 2017, respectively, associated with the existing share-based compensation scheme approved in the Group (Notes 25 and 29).

General and administrative expenses

	2019	2018	2017
Marketing and advertising	(17,310)	(15,198)	(14,112)
Legal and other professional services	(16,953)	(13,613)	(9,763)
Repairs and maintenance	(14,150)	(13,422)	(12,888)
Operating taxes	(11,330)	(8,360)	(7,404)
Corporate hospitality and entertainment	(9,725)	(5,883)	(5,263)
Occupancy and rent	(8,306)	(27,000)	(23,569)
Office supplies	(6,376)	(6,275)	(6,017)
Communication	(6,195)	(5,611)	(5,565)
Travel expenses	(4,095)	(1,887)	(1,791)
Personnel training and recruitment	(3,234)	(5,974)	(3,418)
Insurance	(3,166)	(2,716)	(3,262)
Security	(1,684)	(2,872)	(2,237)
Other	(3,633)	(3,843)	(3,083)
General and administrative expenses	**(106,157)**	**(112,654)**	**(98,372)**

22. Salaries and other employee benefits, and general and administrative expenses continued

Auditor remuneration

Auditor remuneration is included within legal and other professional services expenses above and comprises:

	2019	2018	2017
Fees payable for the audit of the Company's current year Annual Report	502	442	529
Fees payable for other services:			
Audit of the Company's subsidiaries	849	862	2,807
Total audit fees	**1,351**	**1,304**	**3,336**
Audit related assurance services			
Review of the Company's and subsidiaries' interim accounts	293	268	711
Other assurance services	315	25	513
Total audit related fees	**608**	**293**	**1,224**
Non-audit services			
Other assurance services	–	4,153	–
Corporate finance services	–	–	54
Other non-audit services	–	–	36
Total other services fees	**–**	**4,153**	**90**
Total fees	**1,959**	**5,750**	**4,650**

The figures shown in the above table relate to fees paid to Ernst & Young LLP ("EY") and its associates. Fees paid to other auditors not associated with EY in respect of the audit of the Parent and Group's subsidiaries were GEL 554 (2018: GEL 24, 2017: GEL 58), and in respect of other services of the Group were GEL 181 (2018:GEL 349, 2017:GEL 447).

23. Expected credit loss

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

	As at 31 December 2019							
	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)**

	As at 31 December 2018							
	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)**

23. Expected credit loss continued

The following is a reconciliation of the individual and collective allowances for impairment losses on loans to customers for the year ended 31 December 2017:

	2017		
	Individual impairment 2017	Collective impairment 2017	Total 2017
At 1 January	**171,446**	**81,323**	**252,769**
Charge for the year	58,821	96,389	155,210
Recoveries	10,948	41,844	52,792
Write-offs	(49,554)	(101,705)	(151,259)
Interest accrued on impaired loans to customers	(10,768)	(21,536)	(32,304)
Currency translation differences	(304)	(19)	(323)
At 31 December	**180,589**	**96,296**	**276,885**

24. Net non-recurring items

	2019	2018	2017
Legal fees	(9,474)	(2,826)	–
Termination benefits	(3,985)	(4,401)	(1,394)
Loss from sale of subsidiary	(224)	(1,414)	–
Demerger-related expenses*	–	(30,284)	–
Corporate social responsibility expense**	–	(13,462)	–
Other	(1,025)	(4,769)	(2,906)
Net non-recurring expense/loss	**(14,708)**	**(57,156)**	**(4,300)**

* 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.

** Corporate social responsibility comprises the one-off project to support the fibre-optic broadband infrastructure development in rural Georgia.

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 2019, the Trustee has repurchased 299,643 shares (2018: 784,084 shares and 2017: 768,953 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 2019, the Trustee has repurchased 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 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.

25. Share-based payments continued

Executives' Equity Compensation Plan ("EECP") and Employees' Equity Compensation Plan ("EECP") continued

In February 2017, BGEO's Remuneration Committee resolved to award 323,950 ordinary shares of BGEO Group PLC to the members of the Management Board and 73,550 ordinary shares of BGEO to the Group's 20 executives. Shares awarded to the Management Board and the other 20 executives are subject to two or three-year vesting for Management Board and three-year vesting for executives, with continuous employment being the only vesting condition for both awards. The Group considers 28 February 2017 as the grant date. The Group estimates that the fair value of the shares awarded on 28 February 2017 was Georgian Lari 90.01 per share.

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 Jan 2019, 1 May 2019 and 3 May 2019 were Georgian Lari 52.04, 60.57 and 60.14, respectively.

In 2018, the Management Board members signed new three-year fixed contingent share-based compensation agreements with the total of 82,000 ordinary shares of BGEO Group PLC and 115,000 ordinary shares of BOGG. The total amount of shares fixed to each executive will be awarded in three equal instalments during the three consecutive years starting January 2019, of which each award will be subject to a four-year vesting period. The 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.

At the end of 2016 and during 2017, the new Management Board members signed new three-year fixed contingent share-based compensation agreements with the total of 141,000 ordinary shares of BGEO Group PLC. The total amount of shares fixed to each executive will be awarded in three equal instalments during the three consecutive years starting January 2018, of which each award will be subject to a four-year vesting period. The Group considers 11 and 18 October 2016 and 1 March 2017 as the grant dates for the awards. The Group estimates that the fair value of the shares on 11 and 18 October 2016 and 1 March 2017 were Georgian Lari 86.4, 87.6 and 92.2, respectively.

The Bank grants share compensation to its non-executive employees. In March 2019, February 2018 and February 2017, the Supervisory Board of the Bank resolved to award respectively 273,536, 158,960 and 131,710 ordinary shares 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 10 March 2019, 14 February 2018 and 28 February 2017 as the grant dates of these awards, respectively. The Group estimates that the fair values of the shares awarded on 10 March 2019, 14 February 2018 and 28 February 2017 were Georgian Lari 56.51, 114.56 and 90.01 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 56.36 per share in year ended 31 December 2019 (31 December 2018: Georgian Lari 106.90 per share, 31 December 2017: Georgian Lari 89.81).

The Group's total share-based payment expenses for the year ended 31 December 2019 comprised GEL 62,102 (31 December 2018: GEL 99,335, 31 December 2017: GEL 56,649) and are included in "salaries and other employee benefits", as "salaries and bonuses".

Notes to Consolidated Financial Statements continued

Thousands of Georgian Lari

25. Share-based payments continued

Summary continued

Below is the summary of the share-based payments-related data:

	2019	2018	2017
Total number of equity instruments awarded	1,718,206	713,058	670,210
– Among them, to key management	1,259,000	474,548	464,950
Weighted average value at grant date, per share (GEL in full amount)	56.36	106.90	89.81
Value at grant date, total (GEL)	**96,832**	**76,225**	**60,194**
Total expense recognised during the year (GEL)*	**(62,102)**	**(99,335)**	**(56,649)**

* 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 2019, BOGG Directors did not exercise any shares. During 2018, BOGG Directors exercised GEL 131,648 shares (2017: 126,000) with fair value of GEL 15,339 (2017: GEL 12,049). Weighted average share price comprised GEL 116.52 per share (2017: GEL 95.63).

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

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.

26. Risk management continued

Introduction continued

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 risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, and the head of each business division. The reports include aggregate credit exposures and their limits, exceptions to those limits, liquidity ratios and liquidity limits, market risk ratios and their limits, and changes to the risk profile. Senior management assesses the appropriateness of the expected credit loss on a monthly basis. The Management Board receives a comprehensive credit risk report and ALCO report. These reports are designed to provide all the necessary information to assess and conclude on the risks of the 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.

26. Risk management continued

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.

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 portfolio, 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.

26. Risk management continued

Credit risk continued

The table below shows internal and external grades used in ECL calculating.

Internal Rating Description*	Internal Rating Grades		External Rating Grades: Credit Bureau	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.

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	As at 31 December 2019 Stage 1	Total
High grade	924,688	924,688
Standard grade	369,730	369,730
Low grade	848	848
Not rated	194,912	194,912
Balance at 31 December 2019	**1,490,178**	**1,490,178**

Amounts due from credit institutions	As at 31 December 2019 Stage 1	Total
High grade	30,958	30,958
Standard grade	1,570,268	1,570,268
Not rated	18,193	18,193
Balance at 31 December 2019	**1,619,419**	**1,619,419**

26. Risk management continued
Credit risk continued

Investment securities measured at FVOCI – debt instruments	As at 31 December 2019 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**

	As at 31 December 2019				
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**

	As at 31 December 2019				
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**

	As at 31 December 2019				
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**

	As at 31 December 2019				
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**

26. Risk management continued
Credit risk continued

	As at 31 December 2019			
Gold – pawn loans at amortised cost	Stage 1	Stage 2	Stage 3	Total
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**

	As at 31 December 2019			
Finance lease receivables	Stage 1	Stage 2	Stage 3	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	As at 31 December 2019 Stage 1	Total
Not rated	3,489	3,489
Balance at 31 December 2019	**3,489**	**3,489**

	As at 31 December 2019			
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**

	As at 31 December 2019		
Letters of credit	Stage 1	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
Defaulted			
Other	–	612	612
Balance at 31 December 2019	**54,203**	**612**	**54,815**

	As at 31 December 2019			
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**

26. Risk management continued
Credit risk continued

	As at 31 December 2018	
Cash and cash equivalents, excluding cash on hand	Stage 1	Total
High grade	315,788	315,788
Standard grade	302,981	302,981
Low grade	765	765
Not rated	94,347	94,347
Balance at 31 December 2018	**713,881**	**713,881**

	As at 31 December 2018	
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**

	As at 31 December 2018	
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**

	As at 31 December 2018				
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**

	As at 31 December 2018				
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**

26. Risk management continued
Credit risk continued

	As at 31 December 2018				
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**

	As at 31 December 2018				
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**

	As at 31 December 2018			
Gold – pawn loans at amortised cost	Stage 1	Stage 2	Stage 3	Total
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**

	As at 31 December 2018			
Finance lease receivables	Stage 1	Stage 2	Stage 3	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**

	As at 31 December 2018	
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**

	As at 31 December 2018	
Accounts receivable	Stage 1	Total
Not rated	2,849	2,849
Balance at 31 December 2018	**2,849**	**2,849**

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
	As at 31 December 2018			
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	Total
	As at 31 December 2018		
High grade	31,381	2,553	33,934
Standard grade	4,844	–	4,844
Low grade	–	2,355	2,355
Not rated	876	–	876
Balance at 31 December 2018	**37,101**	**4,908**	**42,009**

Undrawn loan facilities	Stage 1	Stage 2	Stage 3	Total
	As at 31 December 2018			
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**

The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position as at 31 December 2017, based on the Group's credit rating system.

31 December 2017	Notes	Neither past due nor impaired: High grade	Standard grade	Sub-standard grade	Past due or individually impaired	Total
Amounts due from credit institutions	7	1,225,829	118	–	–	1,225,947
Debt investment securities						
available-for-sale	8	1,563,515	–	–	–	1,563,515
Loans to customers:	9					
Commercial loans		1,766,329	511,296	6,193	310,606	2,594,424
Consumer loans		1,580,503	37,612	31,915	101,076	1,751,106
Micro and SME loans		1,547,233	105,302	30,019	93,490	1,776,044
Residential mortgage loans		1,619,638	28,961	19,783	44,133	1,712,515
Gold – pawn loans		65,865	–	–	2,075	67,940
		6,579,568	**683,171**	**87,910**	**551,380**	**7,902,029**
Finance lease receivables	9	48,069	12,161	2,063	5,393	67,686
Total		**9,416,981**	**695,450**	**89,973**	**556,773**	**10,759,177**

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 2019, up to 72.86% of the collateral held has been revalued within the last two years. 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 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**

Prior to the transition to IFRS 9, the credit risk assessment policy for non-past due and individually non-impaired financial assets was determined by the Group as follows:

- A financial asset that is neither past due nor impaired at the reporting date, but historically used to be past due no more than 30 days, is assessed as a financial asset with High Grade.
- A financial asset that is neither past due nor impaired at the reporting date, but historically used to be past due more than 30 but less than 60 days, is assessed as a financial asset with Standard Grade.
- A financial asset that is neither past due nor impaired at the reporting date, but historically used to be past due more than 60 days, or the borrower of this loan has at least an additional borrowing in past due more than 60 days as at the reporting date is assessed as a financial asset with Sub-Standard Grade.

Ageing analysis of past due but not impaired loans per class of financial assets

31 December 2017	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Loans to customers:					
Consumer loans	42,625	15,044	12,321	28,907	98,897
Micro and SME loans	7,486	8,822	4,777	19,288	40,373
Residential mortgage loans	14,446	4,969	2,144	7,903	29,462
Commercial loans	1,487	452	208	227	2,374
Finance lease receivables	2,499	227	–	74	2,800
Total	**68,543**	**29,514**	**19,450**	**56,399**	**173,906**

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 2019:	Amortised cost before modification	Net loss arising from modification
Commercial loans	35,186	(229)
Consumer loans	33,470	(3,332)
Micro and SME loans	77,075	(4,038)
Residential mortgage loans	51,776	(1,761)
Gold – pawn loans	–	–
	197,507	**(9,360)**

Financial assets modified during 2018:	Amortised cost before modification	Net loss arising from modification
Commercial loans	9,529	–
Consumer loans	19,144	(2,065)
Micro and SME loans	21,852	(1,152)
Residential mortgage loans	5,883	(690)
Gold – pawn loans	–	–
	56,408	**(3,907)**

The table below shows the carrying amount for renegotiated financial assets, by class as at 31 December 2017:

	2017
Loans to customers:	
Commercial loans	103,365
Micro and SME loans	47,539
Residential mortgage loans	44,058
Consumer loans	39,318
Finance lease receivables	5,508
Total	**239,788**

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 2019:	Gross Carrying Amount	Corresponding ECL
Micro and SME loans	27	–
Residential mortgage loans	8	–
	35	**–**

26. Risk management continued

Credit risk continued

The geographical concentration of the Group's assets and liabilities is set out below:

	2019			
	Georgia	OECD	CIS and other foreign countries	Total
Assets:				
Cash and cash equivalents	1,011,614	845,606	296,404	2,153,624
Amounts due from credit institutions	1,575,895	30,433	12,744	1,619,072
Investment securities	803,086	843,282	140,436	1,786,804
Loans to customers and finance lease receivables	11,350,386	–	580,876	11,931,262
All other assets	988,660	37,080	52,995	1,078,735
	15,729,641	**1,756,401**	**1,083,455**	**18,569,497**
Liabilities:				
Client deposits and notes	7,410,991	812,529	1,853,215	10,076,735
Amounts owed to credit institutions	1,889,624	1,969,269	75,230	3,934,123
Debt securities issued	87,692	1,962,934	69,438	2,120,064
Lease Liability	89,480	–	5,136	94,616
All other liabilities	176,098	11,034	5,919	193,051
	9,653,885	**4,755,766**	**2,008,938**	**16,418,589**
Net balance sheet position	**6,075,756**	**(2,999,365)**	**(925,483)**	**2,150,908**

	2018				2017			
	Georgia	OECD	CIS and other foreign countries	Total	Georgia	OECD	CIS and other foreign countries	Total
Assets:								
Cash and cash equivalents	783,453	316,083	116,263	1,215,799	552,723	932,030	97,682	1,582,435
Amounts due from credit institutions	1,258,569	26,982	19,665	1,305,216	1,032,749	182,699	10,499	1,225,947
Investment securities	1,098,645	784,444	135,928	2,019,017	931,986	559,468	73,415	1,564,869
Loans to customers and finance lease receivables	8,965,090	–	432,657	9,397,747	7,290,710	–	399,740	7,690,450
All other assets	769,460	(45,101)	45,963	860,524	2,980,244	40,722	84,002	3,104,968
	12,875,217	**1,172,610**	**750,476**	**14,798,303**	**12,788,412**	**1,714,919**	**665,338**	**15,168,669**
Liabilities:								
Client deposits and notes	6,008,121	656,964	1,468,768	8,133,853	4,954,215	655,034	1,103,233	6,712,482
Amounts owed to credit institutions	1,452,229	1,454,219	88,431	2,994,879	1,235,669	1,844,350	75,820	3,155,839
Debt securities issued	56,322	1,635,929	38,163	1,730,414	346,941	1,333,699	28,512	1,709,152
All other liabilities	125,513	9,921	5,450	140,884	823,725	28,801	6,300	858,826
	7,642,185	**3,757,033**	**1,600,812**	**13,000,030**	**7,360,550**	**3,861,884**	**1,213,865**	**12,436,299**
Net balance sheet position	**5,233,032**	**(2,584,423)**	**(850,336)**	**1,798,273**	**5,427,862**	**(2,146,965)**	**(548,527)**	**2,732,370**

26. Risk management continued

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. Minimum NBG requirement for average monthly liquidity ratio is 30%, calculated as average liquid assets during the month (as defined by the NBG) divided by average liabilities for the same month (with certain exceptions established by the NBG). For the years ended 31 December 2019, 31 December 2018 and 31 December 2017, these ratios were as follows:

	2019, %	2018, %	2017, %
Average annual liquidity ratio*	35.7%	33.3%	39.8%
Maximum average monthly liquidity ratio*	38.5%	36.8%	44.8%
Minimum average monthly liquidity ratio*	31.1%	30.2%	34.4%

* Calculated according to NBG requirements.

The average liquidity ratio is calculated on a standalone basis for JSC Bank of Georgia as the annual average (arithmetic mean) of daily liquidity ratios, computed as the ratio of liquid assets to liabilities determined by National Bank of Georgia as follows:

Liquid assets comprise cash, cash equivalents and other assets that are immediately convertible into cash. Those assets include investment securities issued by the Georgian Government plus Certificates of Deposit issued by NBG and do not include amounts due from credit institutions, other than inter-bank deposits, and/or debt securities of Governments and Central Banks of non-OECD countries, amounts in nostro accounts which are under lien, impaired inter-bank deposits and amounts on obligatory reserve with NBG that are pledged due to borrowings from NBG.

Liabilities comprise the total balance sheet liabilities, less amounts due to credit institutions that are to be exercised or settled later than six months from the reporting date, plus off-balance sheet commitments with residual maturity subsequent to the reporting date of less than six months. Off-balance sheet commitments include all commitments except financial guarantees and letters of credit that are fully collateralised by customer deposits placed in the Bank, and commitments due to dealing operations with foreign currencies. The maximum and minimum liquidity ratios are taken from historical data of the appropriate reporting years.

In addition, on 15 May 2017, NBG issued an Order on Liquidity Coverage Ratio for Commercial Banks, which became effective from 1 September 2017. Pursuant to that order, 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 2019 was 136.7% (2018: 120.1%).

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.

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 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	45,422	18,510	–	–	63,932
Total undiscounted financial liabilities	**4,570,691**	**5,055,642**	**3,811,016**	**381,487**	**13,818,836**

Financial liabilities As at 31 December 2017	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Client deposits and notes	2,566,259	3,571,233	624,661	65,597	6,827,750
Amounts owed to credit institutions	1,319,622	566,406	1,084,701	756,014	3,726,743
Debt securities issued	42,908	173,476	1,058,146	951,146	2,225,676
Derivative financial liabilities	3,139	809	–	–	3,948
Other liabilities	47,263	35,177	41,528	16	123,984
Total undiscounted financial liabilities	**3,979,191**	**4,347,101**	**2,809,036**	**1,772,773**	**12,908,101**

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 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
31 December 2017	396,907	194,430	326,812	110,425	1,028,574

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.

Additional Tier 1 capital notes are presented in "Over 5 years" bucket given the first call option date being no earlier than five years since issuance.

26. Risk management continued

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The 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.

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 2019. 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 2019, 2018 and 2017, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

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)

Currency	Increase in basis points 2017	Sensitivity of net interest income 2017	Sensitivity of other comprehensive income 2017
GEL	13	443	(1,159)
EUR	1	22	–
USD	3	(73)	–

26. Risk management continued

Market risk continued

Currency	Decrease in basis points 2017	Sensitivity of net interest income 2017	Sensitivity of other comprehensive income 2017
GEL	13	(443)	1,159
EUR	1	(22)	–
USD	3	73	–

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 2019 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 (due to the fair value of currency sensitive non-trading monetary assets and liabilities). 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 2019, year ended 31 December 2018 and year ended 31 December 2017, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

	2019		2018		2017	
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	7.9%	(297)	9.9%	85	12.0%	(2,487)
USD	6.4%	(2,944)	7.1%	14,343	8.9%	5,758

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 2019, 31 December 2018 and 31 December 2017, is as follows:

	Effect on net interest income
2019	(40,014)
2018	(73,870)
2017	(46,527)

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.

Emerging risks

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

The coronavirus (COVID-19) has been identified as an emerging risk, and the Group is monitoring its impact on our business, customers and employees. The Group has put in place a business continuity plan to mitigate the impact. There is 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 global shutdown a significant negative impact on tourism in Georgia is expected. This may also impact other areas of the Georgian economy, such as real estate. It is too early to fully understand the impact this may have on the Group's business.

The Group recognises the challenges posed by climate change. In 2020, the Group will be expanding the Bank's consideration of climate change issues and risks, and will consider suitable next steps for the Group. The Group also intends to engage with policy makers on the risks presented by climate change and solutions that the Group can further implement to manage climate-related risks.

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 expect for cash and short-term deposits for which fair value approximates to their carrying value:

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

At 31 December 2017	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Total investment properties	–	–	353,565	353,565
Land	–	–	122,394	122,394
Residential properties	–	–	66,206	66,206
Non-residential properties	–	–	164,965	164,965
Investment securities	–	1,563,531	1,338	1,564,869
Other assets – derivative financial assets	–	12,392	–	12,392
Other assets – trading securities owned	3,191	–	–	3,191
Total revalued property	–	–	252,583	252,583
Infrastructure assets	–	–	252,583	252,583
Assets for which fair values are disclosed				
Amounts due from credit institutions	–	1,225,947	–	1,225,947
Loans to customers and finance lease receivables	–	–	7,822,351	7,822,351
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	–	3,948	–	3,948
Liabilities for which fair values are disclosed				
Client deposits and notes	–	6,716,763	–	6,716,763
Amounts owed to credit institutions	–	2,625,385	530,454	3,155,839
Debt securities issued	–	1,355,930	364,818	1,720,748

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.

27. Fair value measurements continued

Fair value hierarchy continued

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 2016	Sale of investment securities	At 31 December 2017	Sale of investment securities	At 31 December 2018	Purchase of securities	At 31 December 2019
Level 3 financial assets							
Equity investment securities	2,397	(1,059)	1,338	(943)	395	578	973

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 10.

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:

	2019		2018		2017	
	Carrying amount	Effect of reasonably possible alternative assumptions	Carrying amount	Effect of reasonably possible alternative assumptions	Carrying amount	Effect of reasonably possible alternative assumptions
Level 3 financial assets						
Equity investment securities	973	+/– 145	395	+/– 59	1,338	+/– 200

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.

27. Fair value measurements continued

Fair value hierarchy continued

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 and revalued properties and equipment:

	2019	Valuation technique	Significant unobservable inputs	Range (weighted average)*	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Investment property	**225,073**						
Land	56,909	Market approach	Price per square metre	6 – 4,282 (493)	Square metres, land	23 – 18,000 (9,775)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Residential properties	75,328	Market approach	Price per square metre	97 – 3,682 (1,219)	Square metres, building	18 – 372 (106)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Non-residential properties	92,836						
	65,036	Market approach	Price	2 – 1,852,910 (79,950)	Square metres, land	20 – 73,575 (964)	Increase (decrease) in the price would result in increase (decrease) in fair value
					Square metres, building	1 – 3,590 (503)	
			Rent per square metre	2 – 62 (11)	Square metres, building	18 – 3,313 (1,763)	Increase (decrease) in the rent price would result in increase (decrease) in fair value
	24,122	Income approach	Occupancy rate	15% – 100% (79%)			Increase (decrease) in the occupancy rate would result in increase (decrease) in fair value
			Average daily rate	47 – 47 (47)			Increase (decrease) in the average daily rate would result in increase (decrease) in fair value
			Land price per square metre	1 – 727 (25)	Square metres, land	77 – 81,139 (9,832)	Increase (decrease) in the land price per square metre would result in increase (decrease) in fair value
	3,678	Cost approach	Depreciated Replacement cost per square metre	64 – 791 (185)	Square metres, building	55 – 7,565 (1,324)	Increase (decrease) in the depreciated replacement cost per square metre would result in increase (decrease) in fair value

* 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 2019, 31 December 2018 and 31 December 2017:

	At 31 December 2019		
	Amortised cost	Fair value through OCI	Fair value through profit or loss
Financial assets			
Amounts due from credit institutions	1,619,072	–	–
Loans to customers and finance lease receivables	11,931,262	–	–
Accounts receivable and other loans	3,489	–	–
Equity instruments	–	3,367	–
Debt instruments	–	1,783,437	–
Interest rate contracts	–	–	2,566
Foreign currency derivative financial instruments	–	–	31,993
Total:	**13,553,823**	**1,786,804**	**34,559**
Financial liabilities			
Client deposits and notes	10,076,735	–	–
Amounts owed to credit institutions	3,934,123	–	–
Debt securities issued	2,120,064	–	–
Trade and other payables (in other liabilities)	94,616	–	–
Interest rate contracts	–	–	1,914
Foreign currency derivative financial instruments	–	–	8,922
Total:	**16,225,538**	**–**	**10,836**

	At 31 December 2018			At 31 December 2017		
	Loans and receivables	Available-for-sale	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	1,305,216	–	–	1,225,947	–	–
Loans to customers and finance lease receivables	9,389,368	–	8,379	7,690,450	–	–
Accounts receivable and other loans	2,849	–	–	38,944	–	–
Equity instruments	–	956	–	–	1,354	384
Debt instruments	–	2,018,061	–	–	1,563,515	2,807
Interest rate contracts	–	–	12,636	–	–	8,869
Foreign currency derivative financial instruments	–	–	22,921	–	–	3,523
Total	**10,697,433**	**2,019,017**	**43,936**	**8,955,341**	**1,564,869**	**15,583**
Financial liabilities						
Client deposits and notes	8,133,853	–	–	6,712,482	–	–
Amounts owed to credit institutions	2,994,879	–	–	3,155,839	–	–
Debt securities issued	1,730,414	–	–	1,709,152	–	–
Trade and other payables (in other liabilities)	19,140	–	–	615,003	–	–
Interest rate contracts	–	–	6,360	–	–	1,456
Foreign currency derivative financial instruments	–	–	5,209	–	–	2,492
Total	**12,878,286**	**–**	**11,569**	**12,192,476**	**–**	**3,948**

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 on-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 2019	Fair value 2019	Unrecognised gain (loss) 2019
Financial assets			
Amounts due from credit institutions	1,619,072	1,619,072	–
Loans to customers and finance lease receivables	11,931,262	12,082,385	151,123
Financial liabilities			
Client deposits and notes	10,076,735	10,077,542	(807)
Amounts owed to credit institutions	3,934,123	3,934,123	–
Debt securities issued	2,120,064	2,178,348	(58,284)
Lease liability	94,616	95,487	(871)
Total unrecognised change in unrealised fair value			**91,161**

	Carrying value 2018	Fair value 2018	Unrecognised gain (loss) 2018	Carrying value 2017	Fair value 2017	Unrecognised gain (loss) 2017
Financial assets						
Amounts due from credit institutions	1,305,216	1,305,216	–	1,225,947	1,225,947	–
Loans to customers and finance lease receivables	9,397,747	9,368,237	(29,510)	7,690,450	7,822,351	131,901
Financial liabilities						
Client deposits and notes	8,133,853	8,129,794	4,059	6,712,482	6,716,763	(4,281)
Amounts owed to credit institutions	2,994,879	2,994,879	–	3,155,839	3,155,839	–
Debt securities issued	1,730,414	1,753,936	(23,522)	1,709,152	1,720,748	(11,596)
Total unrecognised change in unrealised fair value			**(48,973)**			**116,024**

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.

Notes to Consolidated Financial Statements continued

Thousands of Georgian Lari

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 as described below. See Note 26 "Risk Management" for the Group's contractual undiscounted repayment obligations.

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**	

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**	

28. Maturity analysis of financial assets and liabilities continued

At 31 December 2017	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	824,629	757,806	–	–	–	–	–	1,582,435
Amounts due from credit institutions	1,003,214	185,572	3,410	21,493	–	1,759	10,499	1,225,947
Investment securities	788,692	641,380	3,061	49,962	21,012	58,916	1,846	1,564,869
Loans to customers and finance lease receivables	–	1,233,630	609,491	1,397,004	2,012,016	1,156,137	1,282,172	7,690,450
Total	**2,616,535**	**2,818,388**	**615,962**	**1,468,459**	**2,033,028**	**1,216,812**	**1,294,517**	**12,063,701**
Financial liabilities								
Client deposits and notes	1,297,682	1,253,845	608,234	2,942,822	538,399	39,351	32,149	6,712,482
Amounts owed to credit institutions	205,019	1,105,365	146,260	343,653	545,558	326,458	483,526	3,155,839
Debt securities issued	–	42,030	122,895	130,982	719,725	693,520	–	1,709,152
Total	**1,502,701**	**2,401,240**	**877,389**	**3,417,457**	**1,803,682**	**1,059,329**	**515,675**	**11,577,473**
Net	**1,113,834**	**417,148**	**(261,427)**	**(1,948,998)**	**229,346**	**157,483**	**778,842**	**486,228**
Accumulated gap	**1,113,834**	**1,530,982**	**1,269,555**	**(679,443)**	**(450,097)**	**(292,614)**	**486,228**	

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.

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 2019, client deposits and notes amounted to GEL 10,076,735 (2018: GEL 8,133,853, 2017: GEL 6,712,482) and represented 61% (2018: 63%, 2017: 54%) 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 2019, amounts owed to credit institutions amounted to GEL 3,934,123 (2018: GEL 2,994,879, 2017: GEL 3,155,839) and represented 24% (2018: 23%, 2017: 25%) of total liabilities. As at 31 December 2019, debt securities issued amounted to GEL 2,120,064 (2018: GEL 1,730,414, 2017: GEL 1,709,152) and represented 13% (2018: 13%, 2017: 14%) of total liabilities.

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

Notes to Consolidated Financial Statements continued

Thousands of Georgian Lari

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 2019		
	Less than 1 year	More than 1 year	Total
Cash and cash equivalents	2,153,624	–	2,153,624
Amounts due from credit institutions	1,602,953	16,119	1,619,072
Investment securities	1,544,709	242,095	1,786,804
Loans to customers and finance lease receivables	4,054,528	7,876,734	11,931,262
Accounts receivable and other loans	3,489	–	3,489
Prepayments	40,906	1,726	42,632
Inventories	12,297	–	12,297
Investment properties	–	225,073	225,073
Right-of-use assets	–	96,095	96,095
Property and equipment	–	379,788	379,788
Goodwill	–	33,351	33,351
Intangible assets	–	106,290	106,290
Income tax assets	75	207	282
Other assets	128,267	14,887	143,154
Assets held for sale	36,284	–	36,284
Total assets	**9,577,132**	**8,992,365**	**18,569,497**
Client deposits and notes	9,111,323	965,412	10,076,735
Amounts owed to credit institutions	2,569,817	1,364,306	3,934,123
Debt securities issued	812,770	1,307,294	2,120,064
Lease liability	22,098	72,518	94,616
Accruals and deferred income	42,223	10,248	52,471
Insurance contracts liabilities	–	–	–
Income tax liabilities	1,563	36,355	37,918
Other liabilities	102,662	–	102,662
Total liabilities	**12,662,456**	**3,756,133**	**16,418,589**
Net	**(3,085,324)**	**5,236,232**	**2,150,908**

28. Maturity analysis of financial assets and liabilities continued

	At 31 December 2018			At 31 December 2017		
	Less than 1 year	More than 1 year	Total	Less than 1 year	More than 1 year	Total
Cash and cash equivalents	1,215,799	–	1,215,799	1,582,435	–	1,582,435
Amounts due from credit institutions	1,293,425	11,791	1,305,216	1,213,689	12,258	1,225,947
Investment securities	1,774,813	244,204	2,019,017	1,483,095	81,774	1,564,869
Loans to customers and finance lease receivables	3,456,012	5,941,735	9,397,747	3,240,125	4,450,325	7,690,450
Accounts receivable and other loans	2,849	–	2,849	38,810	134	38,944
Insurance premiums receivable	–	–	–	30,538	35	30,573
Prepayments	27,170	17,124	44,294	112,122	37,436	149,558
Inventories	12,818	474	13,292	92,158	8,036	100,194
Investment properties	–	151,446	151,446	–	353,565	353,565
Property and equipment	–	344,059	344,059	–	988,436	988,436
Goodwill	–	33,351	33,351	–	55,276	55,276
Intangible assets	–	83,366	83,366	–	60,980	60,980
Income tax assets	19,328	123	19,451	1,155	1,138	2,293
Other assets	107,562	18,446	126,008	111,972	76,760	188,732
Assets of disposal group held for sale	42,408	–	42,408	1,136,417	–	1,136,417
Total assets	**7,952,184**	**6,846,119**	**14,798,303**	**9,042,516**	**6,126,153**	**15,168,669**
Client deposits and notes	7,387,971	745,882	8,133,853	6,102,583	609,899	6,712,482
Amounts owed to credit institutions	1,668,267	1,326,612	2,994,879	1,800,297	1,355,542	3,155,839
Debt securities issued	410,683	1,319,731	1,730,414	295,907	1,413,245	1,709,152
Accruals and deferred income	41,287	5,776	47,063	104,290	28,379	132,669
Insurance contracts liabilities	–	–	–	39,349	7,053	46,402
Income tax liabilities	1,009	27,846	28,855	9,617	11,342	20,959
Other liabilities	64,966	–	64,966	112,328	29,805	142,133
Liabilities of disposal group held for sale	–	–	–	516,663	–	516,663
Total liabilities	**9,574,183**	**3,425,847**	**13,000,030**	**8,981,034**	**3,455,265**	**12,436,299**
Net	**(1,621,999)**	**3,420,272**	**1,798,273**	**61,482**	**2,670,888**	**2,732,370**

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 2019		At 31 December 2018		At 31 December 2017	
	Associates	Key management personnel*	Associates	Key management personnel*	Associates	Key management personnel*
Loans outstanding at 1 January, gross	**–**	**1,756**	**17,053**	**2,913**	**15,247**	**2,006**
Loans issued during the year	–	6,347	–	3,390	15,831	5,536
Loan repayments during the year	–	(3,500)	–	(3,118)	(15,655)	(5,983)
Other movements**	–	2,115	(17,053)	(1,429)	1,630	1,354
Loans outstanding at 31 December, gross	**–**	**6,718**	**–**	**1,756**	**17,053**	**2,913**
Less: allowance for impairment at 31 December	–	(12)	–	(1)	–	–
Loans outstanding at 31 December, net	**–**	**6,706**	**–**	**1,755**	**17,053**	**2,913**
Interest income on loans	–	304	–	78	1,329	161
Expected credit loss	–	(30)	–	–	–	–
Deposits at 1 January	**809**	**14,748**	**2,005**	**38,842**	**1,241**	**28,419**
Deposits received during the year	–	21,222	–	10,304	50	32,082
Deposits repaid during the year	(103)	(14,402)	(1,177)	(1,535)	(535)	(11,826)
Other movements**	(703)	8,907	(19)	(32,863)	1,249	(9,833)
Deposits at 31 December	**3**	**30,475**	**809**	**14,748**	**2,005**	**38,842**
Interest expense on deposits	–	(1,117)	–	(405)	(2)	(446)
Other income	–	–	–	–	–	98
Deferred income	–	–	–	–	–	1,740
Real estate revenue	–	–	–	–	–	1,924

* Key management personnel includes members of BOGG's Board of Directors and key executives of the Group.
** In 2018, other movements mainly relate to the Demerger. In 2019, other movements for the key management personnel accounts mainly relate to the net effect of the change of the key management members.

Details of Directors' emoluments are included in the Remuneration Report on pages 146 to 161. Compensation of key management personnel comprised the following:

	2019	2018	2017
Salaries and other benefits	15,896	7,486	10,595
Share-based payments compensation*	39,553	73,092	43,334
Long-term benefits	–	–	2,243
Social security costs	–	69	82
Total key management compensation	**55,449**	**80,647**	**56,254**

* In 2019, share-based compensation included an amount of GEL 3,985 (2018: 17,958, 2017: nil) 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 2019 was 22 (31 December 2018: 16, 31 December 2017: 21).

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 2019, 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. As at 31 December 2019, 31 December 2018 and 31 December 2017, the Bank's capital adequacy ratio on this basis was as follows:

	2019	2018	2017
Tier 1 capital	1,887,571	1,379,953	1,141,845
Tier 2 capital	616,113	502,355	501,689
Total capital	**2,503,684**	**1,882,308**	**1,643,534**
Risk-weighted assets	**13,868,169**	**11,338,660**	**9,192,078**
Tier 1 capital ratio	**13.6%**	**12.2%**	**12.4%**
Total capital ratio	**18.1%**	**16.6%**	**17.9%**
Min. requirement for Tier 1 capital ratio	**12.2%**	**11.4%**	**9.9%**
Min. requirement for Total capital ratio	**17.1%**	**15.9%**	**12.4%**

NBG (Basel II/III) capital adequacy ratio

Effective 30 June 2014, the NBG required banks to maintain a minimum total capital adequacy ratio of 10.5% of risk-weighted assets, calculated based on the Bank's standalone special-purpose financial statements prepared in accordance with NBG regulations and pronouncements, based on Basel II/III requirements. As at 31 December 2017, the Bank's capital adequacy ratio on this basis was as follows:

	2017
Tier 1 capital	1,141,845
Tier 2 capital	501,689
Total capital	**1,643,534**
Risk-weighted assets	**11,115,315**
Total capital ratio	**14.8%**

Tier 1 capital comprises share capital, additional paid-in capital and retained earnings, less investments in subsidiaries, intangible assets and goodwill. Tier 2 capital includes subordinated long-term debt and general loss provisions. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the NBG.

Notes to Consolidated Financial Statements continued

Thousands of Georgian Lari

30. Capital adequacy continued

NBG capital adequacy ratio

The NBG required banks to maintain a minimum capital adequacy ratio of 9.6% of risk-weighted assets, calculated based on the Bank's standalone special-purpose financial statements prepared in accordance with NBG regulations and pronouncements. As at 31 December 2017, the Bank's capital adequacy ratio on this basis was as follows:

	2017
Core capital	787,225
Supplementary capital	787,225
Less: Deductions from capital	(116,716)
Total regulatory capital	**1,457,734**
Risk-weighted assets	**11,004,699**
Total capital adequacy ratio	**13.2%**

Core capital comprises share capital, additional paid-in capital and retained earnings (without current period profits), less intangible assets and goodwill. Supplementary capital includes subordinated long-term debt, current period profits and general loss provisions. Deductions from the capital include investments in subsidiaries. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the NBG.

31. Events after the reporting period

As result of global pandemic in relation to COVID-19, the Group has introduced a number of resilience protocols and a comprehensive business continuity plan aimed at protecting the health and safety of all of its staff and customers. These have been introduced in conjunction with the Government of Georgia and the National Bank of Georgia, the Bank's banking regulator. On 16 March 2020, the Company announced as below:

Bank of Georgia has implemented its Business Continuity Plan (the "BCP") aimed at the protection of both its employees and customers. All of the Bank's 93 main branches will remain fully open, but two-week shifts have been introduced for branch staff, to ensure ongoing availability of team members. Express metro and 24/7 branches will remain fully open however, with immediate effect, the Bank has initiated the temporary closure of the customer service support areas of a number of express branches, with only the self-service terminals and ATM areas remaining open.

Banking services will, where possible, be conducted exclusively via call centres, and the Bank is also reducing the physical presence of bankers in the Bank's service centres. Two-week shifts have also been introduced in front offices in other service areas throughout the business. In the Bank's back office environments, the majority of staff are now being encouraged to work from home, with others working, where appropriate, from split locations. These changes have been implemented to reduce physical interaction and prevent the spread of Coronavirus, whilst maintaining the full banking capability required to support and assist the Bank's customers.

On 13 March 2020, the Government of Georgia announced a series of support measures designed to mitigate the potential economic impact of the global spread of the Coronavirus, COVID-19. These measures are expected to create additional financial resources within the economy of GEL 1 billion, and include:

- At the Bank's suggestion, a three-month grace period on principal and interest payments on all retail loans has been agreed with most banks. Interest will continue to accrue. This will significantly reduce the requirement for customers to physically visit Bank branches.
- Potential restructuring opportunities for corporate customers and all legal entities operating in the tourism industry which has already slowed significantly across the world. Specific sectors will include the hotels, as well as restaurants, travel agencies, and passenger transportation companies, amongst others. Interest will continue to accrue.
- These companies will also have their property and personal income taxes deferred by the Government for an initial four-month period. In addition, the Government will subsidise interest payments for six months, for small and medium sized hotels with less than 50 rooms.
- The Government will double the volume of VAT refunds to companies, from an expected GEL 600 million, to an anticipated GEL 1.2 billion this year.
- The Government will increase its proposed capital expenditure by GEL 300 million this year.

These initiatives are aimed at alleviating challenges created by the global COVID-19 crisis, which are expected to reduce the GDP growth rate, particularly in relation to the tourism industry which has already started to experience a high level of cancellations. Bank of Georgia's lending exposure to the hotels and associated tourism-related sectors, such as restaurants, is currently approximately GEL 800 million, predominantly all of which is fully secured.

When the Group announced its 2019 preliminary results on 13 February 2020, it reiterated its strategic targets based on at least 20% return on average equity, and c.15% growth of its loan book. In addition, the Board of Directors announced its intention to recommend, at the 2020 Annual General Meeting, an annual dividend for 2019 of GEL 2.67 per share payable in British Pounds Sterling at the prevailing rate. Given the current 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 will keep these issues under review in the light of developments over the next few months. In the meantime, the Board of Directors has decided not to recommend a dividend to shareholders at the 2020 Annual General Meeting, at this stage. When the full economic impact of the COVID-19 pandemic is better understood, the Board will consider the appropriate level. The Group will provide a further update with the announcement of the Group's first quarter of 2020 results in May.

During the first few months of 2020, the Group's performance has been consistent with, or slightly better than, its existing guidance and strategic targets. Asset quality metrics have continued to be very robust, and the Bank's capital adequacy ratios, funding and liquidity positions have been strong, remaining comfortably ahead of the minimum regulatory requirements.

The Group is very well-positioned with strong capital, funding and liquidity resources, and it aims to ensure that this remains the case. The Group will also continue to work with the Government of Georgia and the National Bank of Georgia to take the appropriate actions to pro-actively manage this process.

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
C2C	Consumer-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
CSAT	Customer satisfaction
CSR	Corporate social responsibility
DCFTA	Deep and Comprehensive Free Trade Agreement
DEG	Deutsche Investitions – und Entwicklungsgesellschaft – German Investment and Development Corporation
DFI	Development finance institution
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
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
FGCRMC	Financial and Governmental Counterparty Risk Management Committee
FMO	Financierings-Maatschappij voor Ontwikkelingslanden: The Netherlands Development Bank
FRC	Financial Reporting Council

Abbreviations continued

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
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
LTV	Loan-to-value ratio
ML/FT	Money laundering or financing of terrorism
MOF	Ministry of Finance of Georgia
MSME	Micro, small and medium size 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
NPLs	Non-performing loans
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
ROAA	Return on average assets
ROAE	Return on average equity
RB	Retail Banking
SME	Small and medium size enterprises
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
Supervisory Board	Supervisory Board of the Bank
Management Board/Executive Management	Management Board of the Bank (CEO and Deputy CEOs)
CFO or Chief Finance Officer	Chief Finance Officer of the Bank
CRO or Chief Risk Officer	Chief Risk Officer of the Bank
We/Our/Us	References to "we", "our" or "us" are primarily references to the 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, and "we", "our" or "us" in the context of Georgian capital markets and investment banking activities refer to JSC Galt & Taggart, 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 period from operations attributable to shareholders of the Group divided by the weighted average number of outstanding ordinary shares over the same period;

Book value per share Total equity attributable to shareholders of the Group divided by ordinary shares outstanding at period end; net ordinary shares outstanding equals total number of ordinary shares outstanding at period end less number of treasury shares at period end;

Constant currency basis Changes assuming constant exchange rate;

Cost of funds Interest expense of the period divided by monthly average interest-bearing liabilities;

Cost of credit risk Expected loss/impairment charge for loans to customers and finance lease receivables for the period divided by monthly average gross loans to customers and finance lease receivables over the same period;

Cost to income ratio Operating expenses divided by operating income;

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 due 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 liquidity ratio Daily average liquid assets (as defined by NBG) during the month divided by daily average liabilities (as defined by NBG) during the month;

NBG (Basel III) Common Equity Tier I capital adequacy ratio Common Equity Tier I capital divided by total risk-weighted assets, both calculated in accordance with the requirements of the National Bank of Georgia instructions;

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

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

Net interest margin (NIM) Net interest income of the period divided by monthly average interest earning assets excluding cash for the same period;

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/impairment loss;

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/impairment loss of loans and finance lease receivables divided by NPLs;

NPL coverage ratio (adjusted for discounted value of collateral) Allowance for expected credit loss/impairment loss of loans and finance lease receivables divided by NPLs (discounted value of collateral is added back to allowance for expected credit loss/impairment loss);

Operating leverage Percentage change in operating income less percentage change in operating expenses;

Return on average total assets (ROAA) Profit for the period divided by monthly average total assets for the same period;

Return on average total equity (ROAE) Profit for the period attributable to shareholders of BOGG divided by monthly average equity attributable to shareholders of BOGG for the same period;

Weighted average number of ordinary shares Average of daily outstanding number of shares less daily outstanding number of treasury shares;

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 period.

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 the 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

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 72 to 79. 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

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