ANNUAL REPORT **2020**

HERE

KEEPING UP WITH
THE NEW REALITY

NOW

TBC BANK
Group PLC

2020

TBC BANK Group PLC

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

TBC Bank is listed on the **premium segment of the London Stock Exchange** and is a **FTSE 250** constituent. It is also a member of the **MSCI United Kingdom Small Cap Index.**

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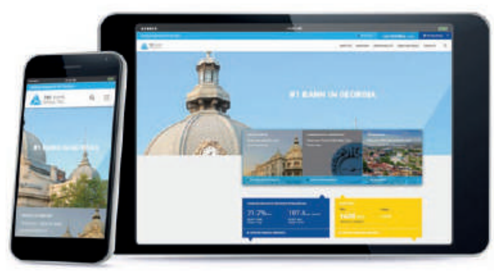


For more information visit our website
www.tbcbankgroup.com

1 TBC Bank Group PLC (the company) is a public limited company registered in England and Wales. It is the parent company of JSC TBC Bank (the Bank) and a group of companies that principally operate in Georgia in the financial sector and other closely related fields, together referred as TBC Bank or the Group. The Group also recently expanded its operations in Uzbekistan.

2 The figures in the strategic report and governance sections are unaudited, except where explicitly indicated as audited

WHO WE ARE ?

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

FULL SUITE OF TRADITIONAL FINANCIAL SERVICES

BEST-IN-CLASS DIGITAL CHANNELS

THE LEADING PROVIDER OF PAYMENT SOLUTIONS IN GEORGIA AND UZBEKISTAN

INTERNATIONAL EXPANSION

HOW WE ARE DIFFERENT ?

CUSTOMER - CENTRIC APPROACH

MARKET LEADING DIGITAL EXPERIENCE

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

OUR MISSION
is to make life easier

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

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

- Award-winning internet and mobile banking applications;
- The innovative and scalable fully digital bank, Space;
- Customer focused digital ecosystems operating in e-commerce; auto and housing sectors.

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

- Next generation digital banking in Uzbekistan serving clients through our Space digital banking platform branded as TBC UZ.

ADVANCED DATA ANALYTICAL CAPABILITIES

COLLABORATIVE AND DYNAMIC CORPORATE CULTURE

STRONG AND HIGHLY TRUSTED BRAND

RESILIENT FINANCIAL PERFORMANCE

SOLID CAPITAL AND LIQUIDITY

BEST-IN-CLASS DIGITAL CHANNELS[1]

OUTSTANDING CUSTOMER EXPERIENCE

HIGH EMPLOYEE SATISFACTION LEVELS

STRONG BRAND[5]

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

₾322.5 mln
- 40.3% YoY
NET PROFIT

11.7%
- 11.2pp YoY
RETURN ON EQUITY

24.7%
- 2.1pp YoY
RETURN ON EQUITY BEFORE EXPECTED CREDIT LOSS ALLOWANCES

1.6%
- 1.6pp YoY
RETURN ON ASSETS

₾15,200.5 mln
+ 20.0% YoY
TOTAL LOANS

₾12,572.7 mln
+ 25.1% YoY
TOTAL DEPOSITS

10.4%
- 1.6pp YoY
CET 1 CAR
MIN. REQUIREMENT 7.4%

17.1%
- 2.0pp YoY
TOTAL CAR
MIN. REQUIREMENT 13.7%

134.2%
+ 24.1pp YoY
LIQUIDITY COVERAGE RATIO
MIN. REQUIREMENT 100%

95%
+ 2pp YoY
RETAIL OFFLOADING RATIO

50%
+ 2pp YoY
INTERNET AND MOBILE BANKING PENETRATION

BEST SERVICE COMPANY IN GEORGIA[2]

68%
ENPS[3]

85%
EMPLOYEE HAPPINESS INDEX[4]

95%
AIDED BRAND AWARENESS AMONG GEORGIAN POPULATION

46%
TOP OF MIND IN BANKING SECTOR

Dear Shareholders,
I am proud of the way the Group has coped with the challenges of 2020 and continued to carry out its duties with great enthusiasm and commitment. As a result, I can see TBC emerging as a stronger and more agile company for the benefit of our stakeholders.

In March 2021, Arne Berggren was appointed as the Chairman of the Board and Chairman of the Supervisory Board, after Nikoloz Enukidze stepped down from these positions. More information can be found in Directors' Governance Statement.

OVERVIEW AND STRATEGY

During 2020, the Group managed to develop its business and make strategic progress despite the economic headwinds caused by the global pandemic. Solid revenue generation, coupled with strong efficiency levels, allowed us to absorb high credit loss provisions related to COVID-19 and at the same time record a return on equity of 11.7%. Our performance demonstrates the resilience of our customer-centric business model, which is based on core principles of sustainable development, digitalization, innovation and efficiency.

In the beginning of the year, we reviewed the appropriateness of our strategic directions in light of the pandemic. The conclusion was to further strengthen our customer-centricity, to accelerate our digital journey, to maximize our data analytical capabilities and to pursue our international expansion strategy. The development and growth of all our business segments has been underpinned by these four pillars, and we are confident that they will be essential for strengthening our competitive position further in the post COVID-19 world. Shaping a strong and agile corporate culture remained at the top of our agenda and we continued to invest in our colleagues' wellbeing, safety, professional development and skills, as we realize that our colleagues are the backbone of our success.

At the same time, we continued to invest in new growth opportunities. By the end of the year, we successfully launched our banking operation in Uzbekistan where our ambition is to become the most innovative digital bank in the country, with a focus on retail and MSME clients. In parallel, we are developing our payments business in Uzbekistan through our Payme subsidiary, which reached 2.9 million users by the end of 2020.

OPERATING ENVIRONMENT

Georgia's small and open, tourism-dependent economy was hit hard by the global pandemic. Tourism inflows, which were growing at around 20% year-on-year at the beginning of 2020 despite the 2019 Russian flight ban, fell close to zero and stayed there throughout the year. The two separate lockdowns introduced during the year resulted in additional downward pressure on economic activity. At the same time, exports, remittances, and, to large extent, FDI inflows have demonstrated resilience. This, coupled with timely fiscal stimulus, predominantly financed externally, to a significant extent has mitigated the negative impact of the pandemic. In addition, the banking system continued to grow despite the challenging operating environment, which, coupled with the central bank's active FX interventions, provided additional, important shock mitigation to support the local currency.

After contracting by 6.1% in 2020, the Georgian economy is expected to start to recover in 2021 and exceed the 2019 level in 2022, according to a consensus of international financial institutions and major research firms. Once the virus is contained, the tourism sector should recover relatively quickly and start contributing to economic growth, as its potential is still untapped. At the same time, the contribution of non-tourism sectors will also be important to create a more diversified economy. Since the Group is gradually increasing its operations in Uzbekistan, it is important to highlight that the country was able to grow by 0.6% in 2020 and that growth is expected to accelerate by 4.3% and 4.5% in 2021 and 2022, respectively, according to the World Bank's projections.

THE BOARD

During 2020, the following changes of the Board composition took place. In July 2020, Mr Abhijit Akerkar was appointed as Independent non-executive Director. Mr. Akerkar is an influential thought leader in artificial intelligence in banking and will bring a wealth of experience in IT technology to the Group. After ten years of dedicated work, our CFO, Giorgi Shagidze, left the Group to pursue other opportunities and consequently resigned from his position of the executive Director of the Board. We are grateful to Mr. Shagidze for the significant contribution he has made to the success of the Group.

Following amendments to the National Bank of Georgia's ("NBG") Corporate Governance Code in February 2021, which are described in detail in Directors' Governance Statement, more changes to the Board's composition will take place during 2021. The Board will continue implementing commitments made to the NBG regarding succession planning and nominate new members who meet the new independence requirements. The Board's composition will be reviewed in order to ensure that it has the right mix of skills, backgrounds and experience to address the challenges facing the Bank and to lead the Group in the right direction.

2020 was a particularly challenging year and I believe that the Board played on important role in steering the company through these turbulent times while maintaining profitability as well as unlocking new opportunities for the post COVID-19 reality. I would like to use this opportunity to thank each Board member for his/her commitment, professionalism and outstanding efforts.

OUR ESG FOCUS

The importance of sustainable business practices has been highlighted once more by the crisis caused by COVID-19. It became obvious that caring for the wellbeing of employees, customers and other partners is central not only for governments but also for companies. Companies with a strong culture of trust, commitment and innovation will manage to adapt to the new reality and continue their operations with relative ease.

We were among the first companies in Georgia to demonstrate support for our colleagues, customers and the community. We did this by moving to remote working practices, by offering grace periods to our customers, by continuing to provide financial support to businesses, and by launching a wide-scale support programme called TBCforyou for the Georgian population to reduce the damage caused by COVID-19. Moreover, we supported the local production of disposable medical masks, medical clothes and disinfectants in order to help to contain the spread of the virus, as well as promote local employment during these challenging times. In addition, in order to help our MSME clients to withstand the crisis, we supported their digitalization journey by offering them various programmes and partnerships, and continued our support programme for start-ups. Full information about our initiatives in this regard is given in the doing business responsibly section on pages 74-101 and in our divisional review section on pages 28-69.

In 2020, we also became the first bank in Georgia to successfully complete the ISO 14001:2015 certification audit remotely and receive the ISO 14001:2015 certification for our environmental management system. The certification is testament to our environmental management system's full compliance with international standards (our full Environment Policy is available at the following link www.tbcbankgroup.com). Furthermore, in 2020, we released the first, full-scale sustainability report prepared in reference to the Global Reporting Initiative (GRI) standards, which can be found at the following link: www.tbcbankgroup.com.

I am also delighted that JSC TBC Bank has received the Best Annual Report and Transparency Award[1] for the second year in a row, showcasing our high reporting standards for both financial and non-financial information, which enables our investors and other stakeholders to gain a holistic view of our performance.

OUTLOOK

Having seen the way the Group has managed to withstand the challenges in 2020 without losing focus on its daily operations and strategic objectives, I am filled with confidence that we are well positioned to achieve our ambitions in the coming years and create sustainable returns for our shareholders and other stakeholders.

Finally, on behalf of the Board, I would like to thank the management team and all our colleagues for their hard work and dedication. We are fortunate to have such a strong team and I am excited to embark with them on the exciting agenda that lies ahead of us in 2021.

Arne Berggren
Chairman
26 April 2021

1 The European Union and World Bank joint project - Georgia Financial Inclusion and Accountability – in partnership with the National Reforms Support Foundation in Accounting, Reporting and Auditing.

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

SUMMARY OF THE YEAR

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

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

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

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

MACROECONOMIC OVERVIEW

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

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

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

RESILIENT FINANCIAL PERFORMANCE

In 2020, our operating income amounted to GEL 1,156 million, up by 2.4% year-on-year basis driven by an increase in net interest income. Over the same period, our income generation was supported by effective cost management. During the year, we also recorded a net modification loss of financial instruments in the amount of GEL 41.0 million to reflect the decrease in the present value of cash flows resulting from the loan repayment grace periods granted to borrowers. As a result, our ROE before expected credit loss allowances amounted to 24.7% compared to 26.8% a year ago. For the full year 2020, our net interest margin was 4.7%, while the cost to income ratio for the group amounted to 38.4%, an improvement of 1.5pp year-on-year, and 32.9% for the standalone bank. In 2020, our provision charges increased significantly to cover the potential impact of the COVID-19 pandemic on our borrowers, which resulted in a total cost of risk for the full year of 2.4% compared to 0.7% in 2019. As a result, we recorded a consolidated net profit of GEL 322.5 million for 2020, while our return on equity and return on assets stood at 11.7% and 1.6%, respectively.

Our loan book increased by 8.7% year-on-year in constant currency terms, which translated into a 39.0% market share. Over the same period, our deposits increased by 13.8% on constant currency terms. As a result, our market share in total deposits amounted to 37.2% as of 31 December 2020.

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

BUSINESS UPDATE

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

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

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

Last year was a significant milestone in terms of our international expansion. In April, we received our banking licence in Uzbekistan, and in October, we launched our services for the wider public under the TBC UZ brand. At the center of our services is our digital banking platform, Space. By the end of January, we attracted 26,520 users, delivered 12,002 debit cards, gained 1,857 deposit customers and launched our initial lending value proposition. We already operate around 20 outlets, which are used for customer onboarding and assisted service support. At present, we are only serving the retail segment, and we plan to extend our offering to MSMEs at a later stage. TBC UZ is run by an experienced management team, comprised of both Uzbek and Georgian professionals. I am impressed by the results of our Uzbek payments subsidiary, Payme, which grew significantly during the year, despite COVID-19, and is the second largest payments provider in the country with its 2.9 million users. Its revenue increased by 94.7% and amounted to GEL 16.6 million, while net profit grew by 89.1% and reached GEL 8.3 million.

OUTLOOK

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

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

I would also like to re-iterate our medium term guidance: ROE of above 20%, a cost to income ratio below 35%, a dividend pay-out ratio of 25-35% and loan book growth of around 10-15%.

The strategic report, as detailed on pages 4 to 145, was approved by the Board and signed on behalf of the Board by:

Vakhtang Butskhrikidze
CEO

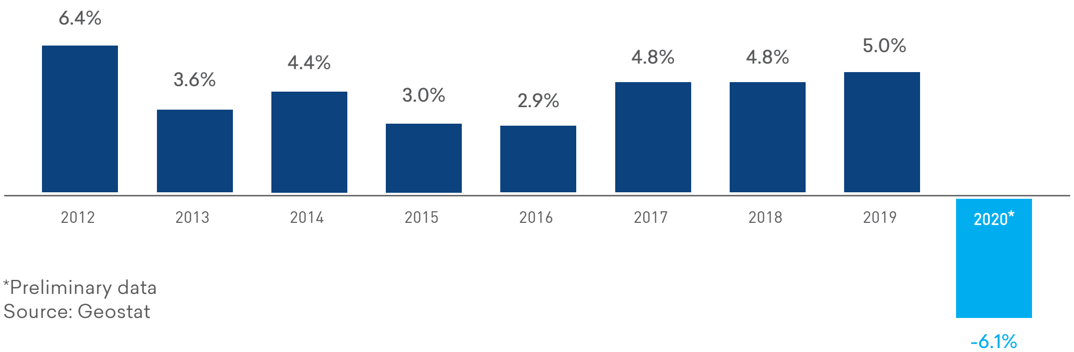
26 April 2021

ECONOMIC OVERVIEW

ECONOMIC GROWTH

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

REAL GDP GROWTH



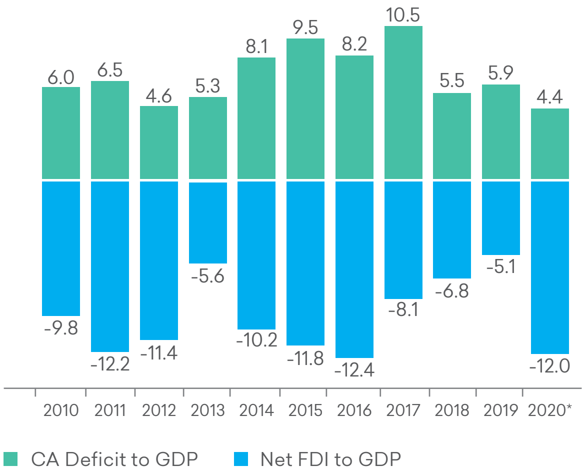
*Preliminary data
Source: Geostat

EXTERNAL SECTOR

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

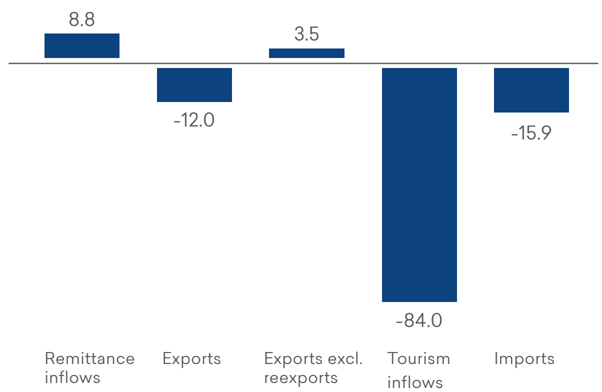
As domestic demand deteriorated further due to the re-introduction of the partial lockdown, the decline in imports of goods dipped to 17.2% YoY in the fourth quarter, compared to an 11.3% decrease in the third quarter. For 2020 as a whole, imports dropped by 15.9% compared to 2019. The decline was partially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

CA DEFICIT AND NET FDI (% OF GDP)



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

YoY GROWTH OF INFLOWS AND IMPORTS (%)

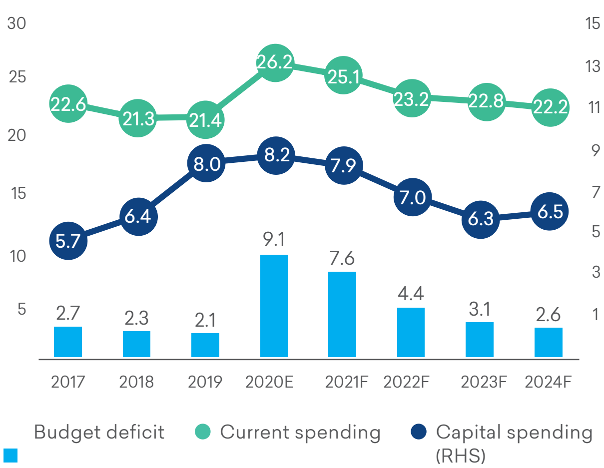


Source: NBG, Geostat

FISCAL STIMULUS

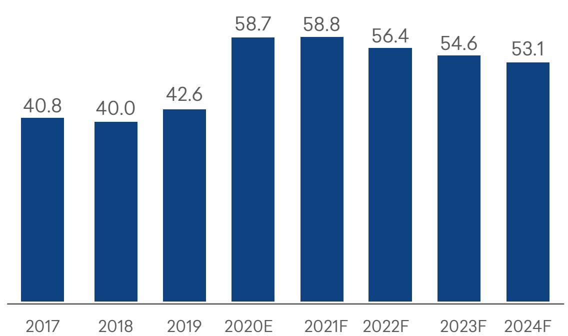
In 2020, the economy was strongly supported by the fiscal stimulus. Fiscal spending, which was mainly financed by government external borrowings, stood at around 9.1% of GDP in 2020. Going forward, the stimulus will remain sizable in 2021 and will start to decrease in the coming years as fiscal consolidation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

FISCAL SPENDING (% OF GDP)



Source: MoF

GROSS GOVERNMENT DEBT (% OF GDP)



Source: IMF, WEO October 2020

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

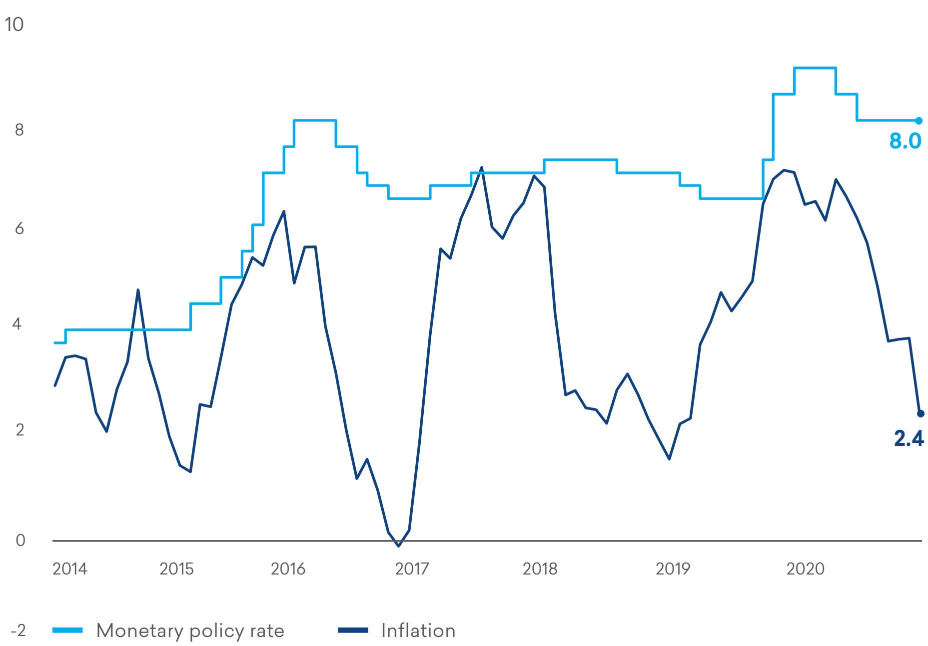
CREDIT GROWTH

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

INFLATION, MONETARY POLICY AND THE EXCHANGE RATE

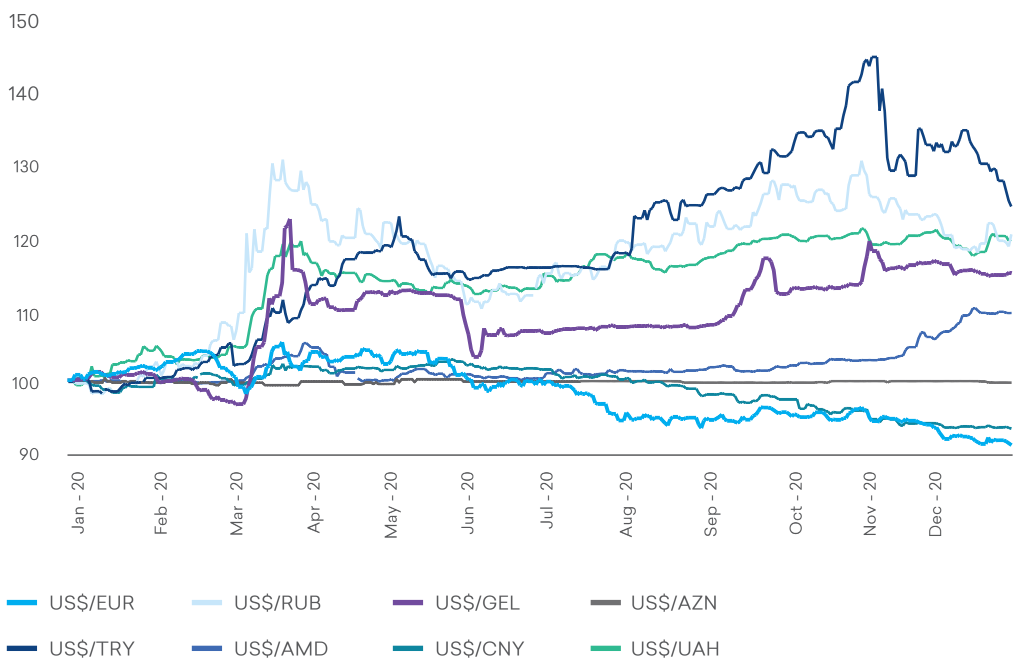
Although the GEL exchange rate depreciation remained an additional challenge in 2020, the response of the central bank has been appropriate, compensating for the external shock through active interventions on the FX market, selling a total of US$ 873.2 million. On the other hand, the National Bank of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

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



Source: NBG, Geostat

SELECTED CURRENCIES AGAINST US$*



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

GOING FORWARD

According to the World Bank's latest Global Economic Prospects[1], the Georgian economy is expected to recover by 4.0% and 6.0% in 2021 and in 2022, respectively. The projection is broadly in line with TBC Capital's baseline scenario, with a 4.2% increase in 2021 and a higher 7.4% rebound the following year. In terms of Uzbekistan economy, the World Bank projects 0.6% growth in 2020, despite the impact of the pandemic. In 2021 and 2022, growth is expected to accelerate to 4.3% and 4.5%, respectively.

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

1 World Bank, Global Economic Prospects, January 2021

HOW WE CREATE VALUE-OUR BUSINESS MODEL

We harness our distinctive competitive advantages…

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

…to make our customers lives easier…

Retail segment

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

MSME segment

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

Corporate and Investment Banking (CIB) segment

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

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

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

- The leading bank in Georgia, holding 39.0% and 37.2% market shares[1] in total loans and total deposits respectively;
- The most advanced omni-channel platform with a strong focus on digital;
- #1 position on the market in the number and volume of POS and e-commerce transactions[1];
- The innovative and scalable fully digital bank, Space that could be easily utilised as a core banking platform for the international expansion;
- First digital ecosystems in the country enabling our customers to access a variety of related products and services, including banking services, on one of our platforms.

…which translates into resilient financial and operating results…

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

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

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

1 Based on NBG data

OUR STRATEGY

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

International expansion into Uzbekistan also remained at the top of our agenda, as we believe that our digitally enabled growth strategy, based on our digital banking platform, Space, has become even more relevant in the light of the pandemic and strengthens our competitive edge.

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

OUR 5 KEY STRATEGIC PRIORITIES

1 Creating a market leading digital experience

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

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

PROGRESS IN 2020

95% + 2pp YoY

RETAIL OFFLOADING RATIO[1]

+8.7% YoY C. 692,000

RETAIL DIGITAL USERS[2]

2 Utilizing our advanced data analytical capabilities

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

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

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

PROGRESS IN 2020

9 projects	GEL 20 mln
COMPLETED IN 2020	EXTRA REVENUE GENERATED

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

3 Delivering superior customer experience

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

PROGRESS IN 2020

THE BEST SERVICE COMPANY IN GEORGIA[1]

CUSTOMER PERSPECTIVE

80% SCORE IN CUSTOMER-CENTRICITY SURVEY[2]

EMPLOYEE PERSPECTIVE

4 Transforming ways of working

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

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

PROGRESS IN 2020

+ 30% YoY

IMPROVED ORGANIZATIONAL AGILITY SCORE[4]

+ 1.4 times YoY

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

68% + 27pp

ENPS SCORE[6]

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

5 International expansion

Despite the COVID-19 related challenges, we continued to pursue our international expansion strategy in Uzbekistan, given our strong focus on digital banking operations. After obtaining a banking licence in April, we successfully launched our banking operations in June. Initially, we operated in pilot mode for friends and family only, while in October, we extended our offerings to the wider Uzbek population. We serve our clients through our digital banking platform, Space, which has been published on PlayMarket and the Appstore, and is branded as TBC UZ in Uzbekistan, while our smart, next generation branches are used primarily for client advising and consulting purposes. Our current value proposition covers the retail segment and includes opening an account, ordering a debit card and making payments and transfers. Next year, we plan to add more products including savings and lending in line with our go-to-market approach. By the end of 2020, our investment into the charter capital of TBC Uzbekistan amounted to US$ 22 million.

At the same time, our Uzbek payments business, Payme, continued its rapid growth through new customer acquisition and diversification of its offerings to existing clients. Payme is a fast growing, profitable payment service provider in Uzbekistan that supplies high-quality payment solutions. It facilitates utility payments, P2P transfers, loan repayments, mPOS for QR-based payments and e-commerce purchases. It also provides a marketplace platform for loans from certain Uzbek banks. In 2020, Payme launched a number of new products including an online wallet, digital cards "visa visual" and USSD (unstructured Supplementary Service Data) menu. Payme will continue to operate separately from the Bank but the two entities will co-operate closely.

In terms of the Azerbaijan venture, the shareholder agreement with Yelo Bank expired at the end of 2020 before the merger between TBC Kredit and Yelo Bank could be implemented. Our Azeri subsidiary, TBC Kredit, will continue to its operations as previously, while for the next 18 months, our international expansion efforts will be focused on Uzbekistan market.

PROGRESS IN 2020

12,200
REGISTERED CUSTOMERS OF TBC UZ

2.9 mln + 63% YoY
REGISTERED USERS OF PAYME

+ 95% YoY GEL 16.6 mln
PAYME REVENUE

+ 89% YoY GEL 8.3 mln
PAYME PROFIT

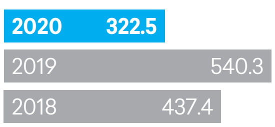
KEY PERFORMANCE INDICATORS

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

FINANCIAL KPIS

NET PROFIT (IN MLN GEL)

322.5



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

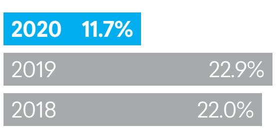
BASIC EARNINGS PER SHARE (IN GEL)

5.8

Basic earnings per share in 2020 decreased in line with our net profit for the year.

RETURN ON EQUITY[1]

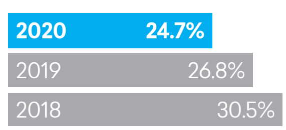
11.7%



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

RETURN ON EQUITY BEFORE EXPECTED CREDIT LOSS ALLOWANCES[1]

24.7%



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

1 Prior to the change in PPE (property, plant and equipment) accounting policy from the revaluation model to the cost method, in 2019 return on equity and return on equity before expected credit loss allowances stood at 22.4% and 26.3%, respectively.

NET INTEREST MARGIN

4.7%

2020	4.7%
2019	5.6%
2018	6.9%

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

COST OF RISK

2.4%

2020	2.4%
2019	0.7%
2018	1.6%

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

COST TO INCOME

38.4%

2020	38.4%
2019	39.9%
2018	37.8%

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

LOAN BOOK MARKET SHARE[1]

39.0%

2020	39.0%
2019	39.5%
2018	38.8%

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

TIER 1 CAR (BASEL III)

13.0%

2020	13.0%
2019	14.6%
2018	12.8%

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

TOTAL CAR (BASEL III)

17.1%

2020	17.1%
2019	19.1%
2018	17.9%

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

LIQUIDITY COVERAGE RATIO

134.2%

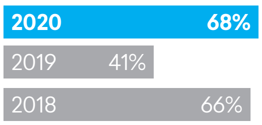
2020	134.2%
2019	110.1%
2018	113.9%

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

OPERATING KPIS

ENPS[2]

68%



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

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

CUSTOMER EXPERIENCE

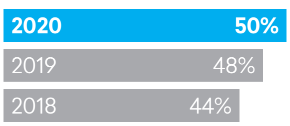
The best service company in Georgia (gap with peer bank)[3]

2.9

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

RETAIL INTERNET AND MOBILE BANKING PENETRATION RATIO[4]

50%



Our retail internet and mobile banking penetration ratio continued its steady growth throughout 2020, driven by an increase in the number of active digital users, which grew by 8.7% on a year-on-year basis.

RETAIL OFFLOADING RATIO[4]

95%

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

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

RETAIL BANKING

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

OVERVIEW

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

In 2020, our gross retail loan book amounted to GEL 5,954 million, up by 8.6% year-on-year on a constant currency basis, mainly driven by an increase in mortgages, which grew by 11.4% without the FX effect. Over the same period, deposit portfolio increased by 13.8% year-on-year on a constant currency basis, reaching GEL 7,255 million. More information about the financial performance of the retail segment is provided in the financial review section on pages 131 to 145.

OUR OMNI-CHANNEL PLATFORM

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

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

1st VOICE BIOMETRICS RECOGNITION SYSTEM IN THE CALL CENTER

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

2020 HIGHLIGHTS

39.4% RETAIL LOAN MARKET SHARE[4]	**39.5%** RETAIL DEPOSITS MARKET SHARE[4]
39.2% RETAIL LOAN SHARE IN TOTAL PORTFOLIO	**57.7%** RETAIL DEPOSIT SHARE IN TOTAL PORTFOLIO
c. 2.6 mln NUMBER OF CUSTOMERS	**95%** RETAIL OFFLOADING RATIO[1]

THE BEST SERVICE PROVIDER IN GEORGIA[5]

As the COVID-19 pandemic broke out, we stood firmly by our customers and implemented a number of actions to support them. First of all, we extended financial support to our retail customers and offered them a three-month grace period for loan principal and interest payments, in two major stages. More information about our initiatives is given in our customers section on pages 74-76.

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

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

OUR STRATEGIC DIRECTIONS IN 2020

Customer-centricity

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

This year, we launched and expanded the following two new projects in the retail segment within the scope of our data analytical roadmap (more information about our roadmap can be found in our strategy section on page 20-24):

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

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

Our advanced digital capabilities

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

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

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

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

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

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

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

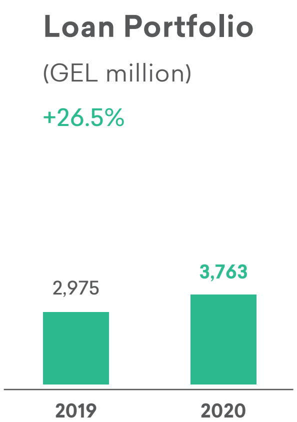
OUR NEW PRIVATE BANKING SERVICE MODEL - TBC CONCEPT

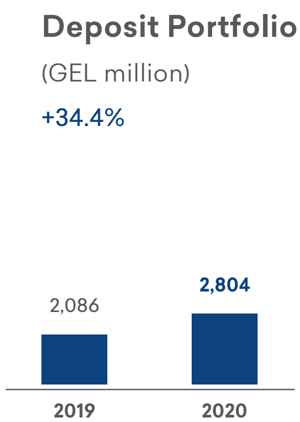
We were the first bank to introduce private banking services in Georgia more than 14 years ago and to establish high standards of service. We strive to be the first choice for private banking customers and are committed to gaining a deep understanding of clients' needs and goals in order to provide them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

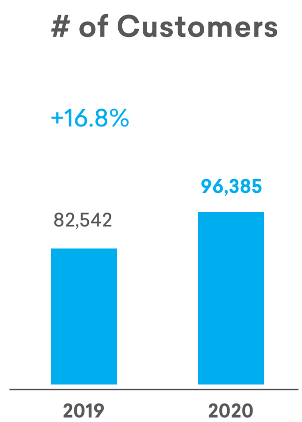
Currently, our private banking offerings comprise a premium banking service package and an innovative digital banking service model. The main differentiator between these two options is the service of our private banker, which is available only to the holders of the former package and is best suited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

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

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







OUR HIGH-NET-WORTH INDIVIDUALS (HNWI)

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

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

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

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


თვითმომსახურება
Self-service
concept

CORPORATE INVESTMENT BANKING

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

George Tkhelidze

OVERVIEW

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

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

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

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

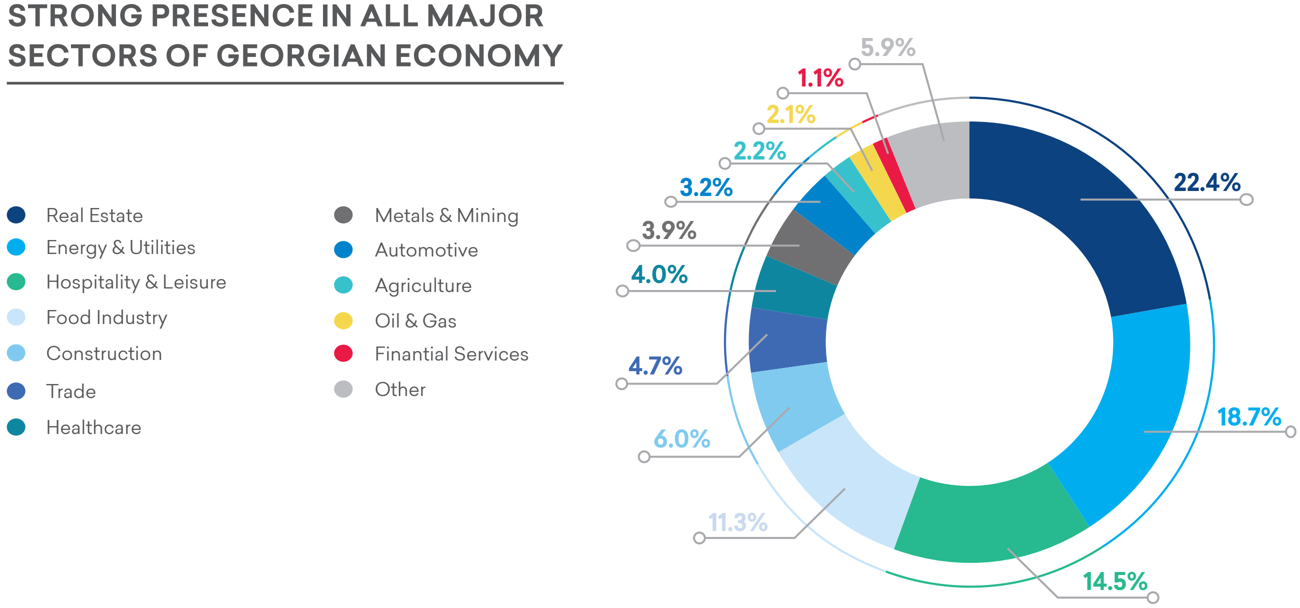
LEADING PARTNER BANK IN GEORGIA
ADB TSCFP Awards 2020

2020 HIGHLIGHTS

38.6% CORPORATE LOAN MARKET SHARE [1]	**34.5%** CORPORATE DEPOSITS MARKET SHARE [1]
37.4% CORPORATE LOAN SHARE IN TOTAL PORTFOLIO	**31.4%** CORPORATE DEPOSIT SHARE IN TOTAL PORTFOLIO
52.4% CORPORATE GUARANTEE AND LETTER OF CREDITS MARKET SHARE [1]	**3,665** NUMBER OF CUSTOMERS

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

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



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

CORPORATE BANKING

FINANCIAL AND OPERATIONAL PERFORMANCE

In 2020, our focus was mainly on supporting our clients and ensuring strong asset quality amid the COVID-19 outbreak. In addition, we attracted several new large corporate borrowers operating in the healthcare industry and manufacturers of medical disposable masks, disinfection solutions as well as medical gowns and uniforms. As a result, our gross loan book amounted to GEL 5,691 million, up by 7.9% year-on-year on a constant currency basis, with the CAGR growth rate at constant currency amounting to 28.2% for the 2016-2019 years, while the deposit portfolio stood at GEL 3,940 million, up by 16.3% year-on-year without the FX effect. Over the same period, corporate guarantees and letter of credit portfolio amounted to GEL 2,109 million, up by 11.2% year-on-year, without the FX effect.

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

More information about the financial performance of the corporate segment is provided in the financial review section on pages 131-145.

OUR STRATEGIC DIRECTIONS IN 2020

Achieving commercial excellence

This year, we launched a wide-scale Commercial Excellence Transformation project within our corporate banking, which is a strategic response to the key challenges in daily work of CIB bankers and aims to further strengthen our leading market position across all major products, enhance our customer relationship and achieve outstanding profitability, as well as increase the happiness of the CIB employees. The project is part of our 3 year data analytical roadmap (more information about our roadmap can be found in our strategy section on pages 20-24).

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

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

Delivering for our customers

Standing by our customers and supporting their growth is the cornerstone of our business. During the pandemic outbreak we mobilized our resources efficiently and established a special dedicated unit for vulnerable customers to take care of all their needs and assist them in managing their business. We provided our customers with strong support, which included provision of necessary funding for the most affected sectors such as HORECA and real estate, proactively offering loan holidays to the customers in need, performing daily banking operations without any disruption, as well as informing them in timely manner about the macroeconomic and sectoral developments. We also signed a long-term partnership memorandum with Business Technologies University (BTU) and Caucasus University (CU), which envisages providing financial support for their current and future projects, as well as includes various educational projects. In addition, we actively participated in government support programmes aimed at assisting sectors that has been most affected by pandemic. We contributed to implementation of the government's mortgage subsidy programme, which proved to be very effective and allowed real estate developers to continue their operations. Overall, starting from July 2020 we have issued total of GEL 235 million mortgages under this programme, which is 38% of our total mortgage issuance. More information about the government support programmes is given in our customers section on pages 74-76.

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

HERE. NOW

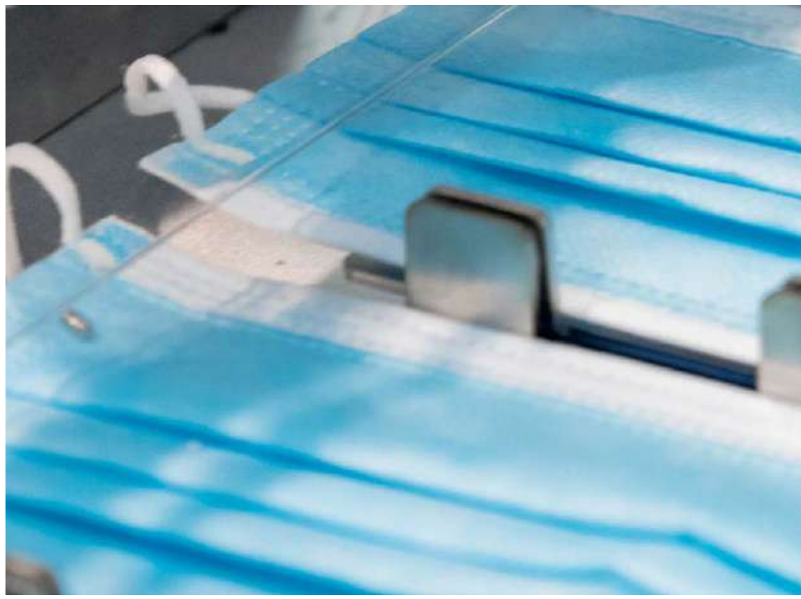
SUPPORTING LOCAL ENTERPRISES DURING THE PANDEMIC

Nova

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

HERE. NOW

SUPPORTING COVID-19 RESPONSE ACTIVITIES



Eco Bohemia

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

Doctor Goods

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

Mediapharma / New technologies Impex

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

INVESTMENT BANKING

THE BEST INVESTMENT BANK IN GEORGIA IN 2021
by Global Finance

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

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

GGU

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

JULY 2020
CO-MANAGER

TBC LEASING

GEL 58,400,000
3-YEAR
PUBLIC PLACEMENT

MARCH 2020
PLACEMENT AGENT

PRIVATE PLACEMENT FROM BANKING INDUSTRY

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

MAY 2020
PLACEMENT AGENT

PRIVATE PLACEMENT FROM BANKING INDUSTRY

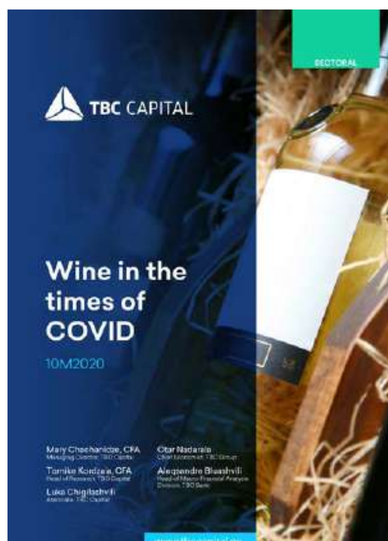
US$ 10,000,000
3-YEAR
PRIVATE PLACEMENT

MARCH 2020
PLACEMENT AGENT

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

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

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



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

MSME

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

OVERVIEW

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

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

In 2020, our growth was significantly affected by the pandemic and our major focus was to support the financial stability of our clients. As a result, our MSME gross loan book increased by 9.9% year-on-year on a constant currency basis and stood at GEL 3,556 million. Over the same period, deposit book increased by 7.5% on a constant currency basis, reaching GEL 1,378 million. More information about the financial performance of the MSME segment is provided in the financial review section on pages 131-145.

In terms of customer support, in order to alleviate the negative impacts of the COVID-19 on MSMEs, we introduced three-month grace periods in two major stages, as well as partnered with the government to support the most vulnerable businesses. Detailed information on these initiatives are given in our customers section on pages 74-76.

2020 HIGHLIGHTS

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

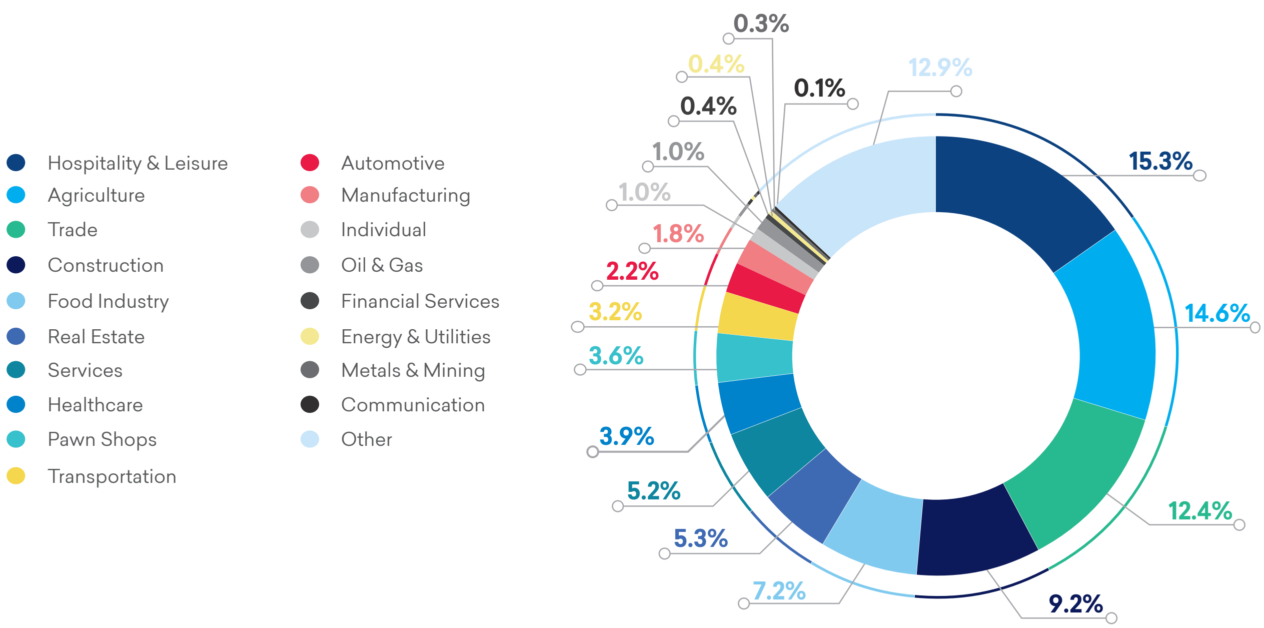
160,311
CUSTOMERS

23.4%
MSME SHARE IN TOTAL LOAN BOOK

11.0%
MSME SHARE IN TOTAL DEPOSIT PORTFOLIO

96%
OFFLOADING RATIO OF MSME[2]

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



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

OUR STRATEGIC DIRECTIONS IN 2020

Fine-tuning our digital channels

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

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

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

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

Creating customer value

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

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

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

- We have introduced a total quality management approach in the MSME department. The approach includes receiving regular feedback from our clients as well as continuous analysis of our internal processes. As a result, we are able to effectively address any issues our clients may experience and provide them with a superior service;
- We also further fine-tuned our automotive loan approval platform, which was launched last year and allows us to approve loans based on advanced scoring model. This platform processes loan applications automatically and calculates the credit limits for each customer in a matter of minutes as well as simplifies and speeds up "time to yes" and "time to money". In 2020, loans up to GEL 100,000 could be approved fully automatically using this platform and moving forward, our goal is to increase the limit to GEL 250,000.


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

SUPPORTING GEORGIAN BUSINESS COMMUNITY

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

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

- Creation of 200 online shops free of charge in partnership with Visa;
- Reduced commission fees for use of our e-commerce ecosystem platform –Vendoo;
- Creation of a dedicated online marketplace for startups – MyStartup.ge; and
- Design of the digital marketing strategy for 100 MSMEs free of charge in partnership with Georgian creative agency Windfor's, and with the support of EFSE.

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

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

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

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

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

ADDITIONAL SUPPORT FOR STARTUPS AND RURAL ENTERPRISES

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

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

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

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

PAYMENTS BUSINESS

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

Our payments business is represented in two countries. In Georgia, we are represented by four companies: TBC Bank - the largest financial institution in the country, TBC Pay - the leading provider of payments gateway services, UFC - the largest processing center in the country, as well as invoice.ge - the innovative online invoice management subscription service. In Uzbekistan, we own the leading payments service provider, Payme, and just recently launched the banking operations, branded as TBC UZ.

+18.8% YoY
396 mln
NUMBER OF TRANSACTIONS IN 2020[1]

+7.5% YoY
GEL 118 bln
VOLUME OF TRANSACTIONS IN 2020[1]

+3.6% YoY
GEL 114 mln
PAYMENTS REVENUE IN 2020[1]

GEORGIA

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

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

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

1 Including TBC Bank's payment business, TBC Pay, UFC, Invoice.ge (LLC Billing Solution), TBC UZ and Payme figures

TBC PAYMENTS MAP

GEORGIA

TBC PAY
TBC BANK
UFC
invoice.ge

UZBEKISTAN

TBC BANK
First digital bank in Uzbekistan
Payme

RETAIL SEGMENT

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

- **Payments from local cards & wallets;**
- **Traditional payments** - mobile top-ups, utility, budget, fines payments, loan repayments, international quick money transfers;
- **Innovative payments** - card to card transfers, QR payments, payments using invoice, request payment; and
- **Automatic payments.**

BUSINESS SEGMENT

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

- **Payment acceptance online** – web, e-mail, sms, mobile payments;
- **Payment acceptance in physical store** – using QR;
- **Innovative payments** – using Telegram Bot;
- **Automatic payments;** and
- **Business payments aggregation service.**

ISSUING BUSINESS

1.6 mln
CARDS ISSUED

92%
OF OUR CARD PAYMENTS ARE CONTACTLESS

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

ACQUIRING BUSINESS

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

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

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

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

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

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

TRANSACTIONAL PRODUCTS AND CASH PAYMENTS

24/7

INSTANT TRANSFERS BETWEEN CLIENT ACCOUNTS INSIDE TBC

50%

OF ATM CASH WITHDRAWALS ARE CONTACTLESS

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

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

OUR PAYMENTS SUBSIDIARIES

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

TBC PAY

2020 HIGHLIGHTS

3,905

NUMBER OF ACTIVE SELF-SERVICE TERMINALS

+24.8% YoY GEL 4,034 mln

PAYMENT TRANSACTIONS VOLUME DURING 2020[3]

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

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

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

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

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

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

During 2020, the volume of transactions in self-service terminals increased by 23% year-on-year to reach GEL 2,719 million, while the number of transactions in self-service terminals decreased by 8% year-on-year to 41.2 million. The decrease in the number of transactions is related to the fact that more and more customers are switching to internet and mobile banking applications for their utility payments. As of the year-end, TBC Pay has 3,905 self-service terminals in operation compared to 3,671 a year ago. Over the same period, the number of transactions in our web platform and mobile app increased by 61% year-on-year to 1.8 million,

while the volume of these transactions went up by 63% year-on-year to reach GEL 80 million. In terms of our cash management business, we observed an increase in the number and volume of transactions per terminal. The volume of cash management transactions amounted to GEL 1,244 million in 2020, up by 26% year on-year, while the number of such terminals increased by 18% from 454 to 534.

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

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

GOING FORWARD

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

UFC

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

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

invoice.ge

Invoice.ge[2] is our subsidiary, which has launched an online invoice management subscription service for MSMEs in September 2020. By the end of the year, the company has attracted around 700 companies. The platform provides diverse customization options as well as several templates for quick layouts. Furthermore, to make the invoicing process even faster, users can make entries of their customers and products and when creating a new invoice, users can simply pick them from the pre-made list. In addition to creating and sending customized invoices, this platform also allows users to analyze revenues, overdue amounts and other statistical data with an analytical dashboard by integrating this platform with our internet banking. The platform is also integrated with Revenue Service (RS.ge) making it even more convenient to use. In order to access the services of the platform, clients are welcome to start a 14-day trial and later subscribe to one of the three available options, depending on their needs.

For our payments business in Uzbekistan please refer to our international strategy section on the next pages.

1 Region – Azerbaijan, Armenia, Georgia
2 In December 2019, we acquired a 51% share of the invoice.ge platform (LLC Billing Solutions), for a consideration of GEL 176,000

OVERVIEW OF OUR INTERNATIONAL STRATEGY

"Since 2018, international expansion has become one of our strategic priorities. Our business model envisages an asset-light, gradual capital investment approach and is primarily focused on digital and partnership-driven channels, aimed at retail and MSME customers.

An important part of our international banking strategy is Space, digital banking platform. Space is a cloud based digital banking products technology stack that can be remotely deployed in various locations through integration with the local technology infrastructure. The platform offers Retail and MSME banking product solutions and a mobile banking app. The Space app was initially launched in Georgia in 2018 and in October 2020 it was successfully introduced in Uzbekistan. The Platform already successfully serves around 247,000 registered customers in the two countries.

Space's centralized team of more than 100 technology employees is based in Georgia and uses its own cloud-based IT system, which was built in order to resolve the complexity of integration with traditional legacy systems. Its flexible IT architecture makes it possible to launch new products much faster than in traditional banking and makes it easily scalable and replicable in other markets, thus ensuring product standardization and efficiency.

TBC BANK | FIRST DIGITAL BANK IN UZBEKISTAN

2020 HIGHLIGHTS

13,000
DOWNLOADS OF TBC UZ APP

12,200
REGISTERED CUSTOMERS

Uzbekistan is a very attractive market with a large and growing population of 33 million and is characterized by low banking penetration with mortgage and consumer loans standing at around 7.0% of GDP[1] as of the end of 2020. The country has been to implementing various market-oriented economic reforms since 2017, turning it into the attractive country for investment. On average, the economy grew by 5.2%[2] from 2017 to 2019 and, according to the World Banks estimates, managed to maintain positive GDP growth of 0.6%[2] in 2020, despite the COVID-19 related challenges. Per the same source, the economy is expected to revive in 2021 with estimated growth of 4.3%, supported by future liberalization of the economy.

After obtaining the banking license in April 2020, we launched our banking operations in the country in June 2020. Initially, we operated in pilot mode for "friends and family", while in October 2020 we successfully rolled out offerings to broader population. In line with our next-generation banking strategy, we are serving our customers through our online banking platform, while our smart, next-generation branches are used primarily for client advising and consulting purposes. By the end of the year, we opened two branches and 18 outlets in Tashkent. Our online banking platform is based on the Space, digital banking platform and is branded as TBC UZ in Uzbekistan. Since October, it has been available on Play Store and the Appstore. In December, we started active marketing activities. As a result, by the end of the year, the number of downloads amounted to 13,000 and the number of registered customers reached 12,200. Currently, we are serving retail customers, who can perform the following operations: open an account and place deposit, order a debit card and make payments and transfers. Our service proposition will be gradually enriched by lending and other products in line with our go-to-market approach.

TBC PLC has already invested US$ 22 million into the charter capital of the Bank and has secured interest from our potential partners: EBRD, IFC and the Uzbek-Oman Investment Company. Our plans foresee a minimum 51% shareholding.

We are also actively developing our payment business in Uzbekistan, through our subsidiary, Payme, which is the second largest payments provider in the country by number of users[3]. We acquired 51% stake in Payme in April 2019 for US$ 5.5 million.

Payme

2020 HIGHLIGHTS

+74.5% YoY 66.4 mln

NUMBER OF TRANSACTIONS

+143.7% YoY GEL 2,580.5 mln

VOLUME OF TRANSACTIONS

2.9 mln

REGISTERED CUSTOMERS

Payme supplies high-quality payment solutions to its customers through facilitating utility payments, P2P transfers, loan repayments, mPOS for QR-based payments and e-commerce purchases. This year, we fine-tuned our Payme mobile application by adding new features, as well as introducing the following new products:

- An online wallet;
- Payments for international wallets (QIWI, Yandex Money, Web money etc.);
- A USSD (Unstructured Supplementary Service Data) Menu;
- Uzcard Humo transfers (local processing cards);
- My home service, which provides aggregation of utility payments; and
- International money transfers of “Zolotaya Korona”.

Despite the pandemic, Payme continued its rapid growth. Over the course of 2020, it increased its revenue by 95% year-on-year, up to GEL 16.6 million, while net profit amounted to GEL 8.3 million up by 89% year-on-year. Over the same period, the number of users grew by 63%, up to 2.9 million. Payme will continue to operate separately from the bank, but the two entities will co-operate closely.

GOING FORWARD

Our aspiration is to establish our presence in Uzbekistan as the most innovative bank in a country and transform the traditional daily banking approach to a seamless digital experience, thus making the lives of our customers easier.

1 Source: Central Bank of Uzbekistan
2 Source: World Bank Data
3 Based on internal estimates

In 2020, we successfully introduced Space app in **Uzbekistan**, which is our digital banking platform, that can be remotely deployed in various locations through integration with the local technology infrastructure.


SALOM
9:41
TBC
1
2
3
4
5
6
7
8
9
0
Sign out
300.000
UZS
TBC

MAJOR SUBSIDIARIES

TBC INSURANCE

2020 HIGHLIGHTS

37.3%[1]
NON-HEALTH INSURANCE RETAIL MARKET SHARE

21.1%[1]
NON-HEALTH INSURANCE MARKET SHARE

260,000+
NUMBER OF CUSTOMERS

GEL 86.4mln
GROSS WRITTEN PREMIUM (GWP)

OVERVIEW

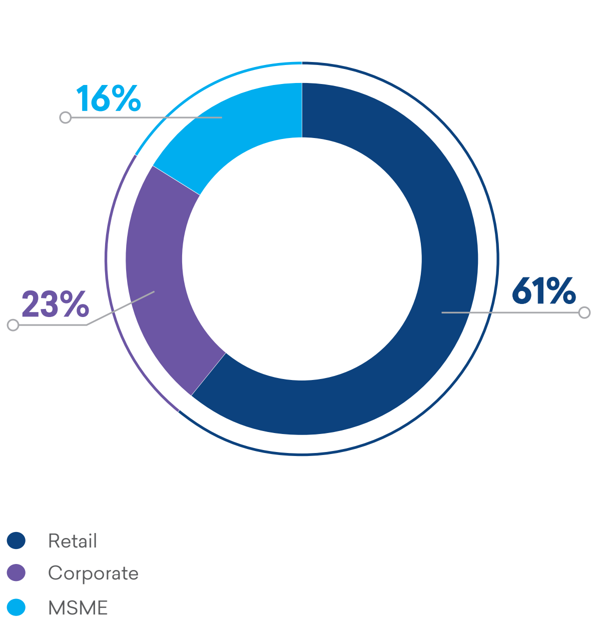
TBC Insurance, a wholly owned subsidiary of TBC Bank, is one of the leading players on the Georgian non-health insurance market. The company was acquired by the Group back in October 2016 and has grown significantly since then. It is also the bank's main bancassurance partner, with respective share of around 42.4% in its total gross written premium (GWP) as of 31 December 2020.

In 2019, we entered the health insurance market, with a strategy to target premium segment by providing superior customer experience coupled with the most innovative approach to products and services. From 2021, we are planning to expand our value proposition to the mid-premium segment, having accumulated sufficient market knowledge and claims statistics.

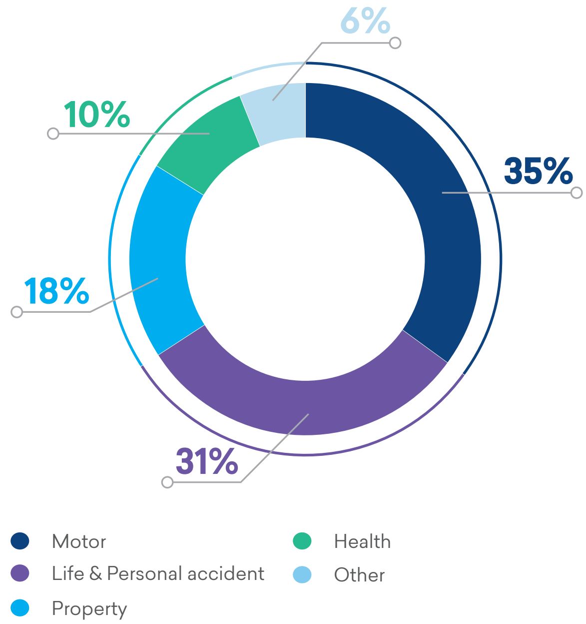
We distinguish ourselves by our own advanced digital channels, which is comprised of aa web-channel, health insurance mobile app and chat-bot available through Facebook messenger, and the bank's strong digital network. Our digital channels are very simple to use and all processes from onboarding to claims management are straightforward and free from any unnecessary bureaucratic procedures.

TBC Insurance offers a wide-range of insurances products to its retail, MSME and corporate customers.

TOTAL GWP IN 2020 BY SEGMENTS



TOTAL GWP IN 2020 BY PRODUCTS



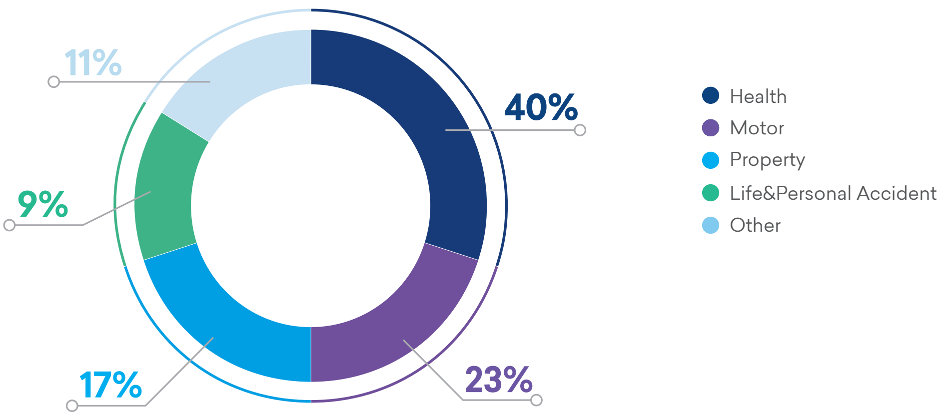
MARKET OVERVIEW

The insurance market in Georgia is highly underpenetrated compared to the CEE region with total GWP to GDP ratio[2] amounting to 1.3% in 2020. Non-health insurance market represents around 60% of the total market with a CAGR growth rate of around 17.4% for the 2017—2020 years, while the health insurance market grew by 10.4% over the same period. Over the course of 2020, the non-health insurance market remained broadly stable due to low economic activity related to COVID-19 outbreak, while the health insurance market grew by around 14% year-on-year as a result of increased government spending on health insurance policies.

Regulator	The Insurance State Supervision Service of Georgia
Number of insurance companies	18
GWP to GDP in Georgia[2]	1.3%
GWP to GDP in CEE [3]	2.45%
GWP per capita in Georgia [2]	EUR 52.5
GWP per capita in CEE[3]	EUR 380.0

1 Market share without mandatory border MTPL. With mandatory border MTPL, retail and total non-health insurance market shares were 33.4% and 20.1% respectively. Starting from March 1, 2018 border MTPL has been introduced and GWP was divided evenly between 18 insurance companies, therefore it has decreased our market share. Source: insurance.gov.ge
2 Source: Geostat and insurance.gov.ge
3 Source: https://www.insuranceeurope.eu

GWP OF GEORGIAN INSURANCE MARKET SHARE BY PRODUCTS IN 2020



Going forward, we expect the non-health insurance market to grow by 15% over the medium-term on the back of increasing penetration levels. Additionally, the compulsory motor third party liability insurance (MTPL), which was expected to come into force in 2021 and was postponed until 2022, is expected to create an additional market of GEL 150 million for non-health insurance. We expect the similar growth in health insurance business of around 15% year-on-year, mainly driven by increasing trend in average monthly premiums.

In terms of non-health insurance market share, we are a number one in retail market, with a share of 37.3%, followed by Aldagi and GPIH with market shares of 29.0% and 12.9% respectively. After Aldagi we are the second largest player in total non-health insurance market holding 29.7% and 21.1% share respectively, followed by GPIH with a market share of 14.0%.

As for health insurance business, our major competitor is Ardi, as their priority is to provide superior customer experience to the more affluent segment, similar to us. The other players are mainly focused on the mass retail segment.

MAIN ACHIEVEMENTS AND STRATEGY

Our main focus for 2020 was to strengthen our market position via digital channels to make it easier for our customers to obtain our products, as well as get reimbursements online with maximum comfort.

Non-health insurance business

In the light of the COVID-19 outbreak, our digital strategy proved to be more relevant than ever and we significantly increased the share of our digital sales in retail segment, as well as the share of remote claims in the motor insurance business. As a result, the digital sales offloading ratio[1] reached 68.8% compared to 48.3% a year ago, while our remote motor claims offloading ratio[2] stood at 69.4% in December 2020, up by 18.2 pp on a year-on-year basis. In addition, we observed a positive trend in the number of digitally renewed motor policies, which reached 60.1% of the total renewed policies during the year, compared to 26.5% in 2019.

For our MSME clients, we have introduced a fully digital platform Logista, intended for cargo carriers, through which an insurance policy for goods in transit is issued in less than a minute instead of a standard two-hour process. In terms of the corporate segment, we attracted several large companies operating in the energy and construction sectors.

Health insurance business

Creating a comfortable and seamless digital experience is a key component of our value proposition in the health insurance business. In addition to our existing webpage, in August 2020, we introduced an insurance app for health insurance customers, which allows our customers to book appointments with doctors and also request reimbursements for health claims on the go. Our app was well received by our customers with the number of registered customers and downloads reaching 3,223 and 6,595 by the end of the year.

Overall, during 2020, we attracted 23 large companies, which resulted in growth of our insured retail customer base by 181.4% to 15,000. We also achieved strong results in terms of increasing the claims reimbursement offloading[3] ratio, which amounted to 74.3% in 2020 compared to 26.6% in 2019.

In addition, in response to COVID-19, we introduced a special health insurance product that covers all costs related to complicated COVID-19 cases and also created a fund in the amount of GEL 300,000, in order to help medical staff to fight against the pandemic.

FINANCIAL OVERVIEW

In 2020, the gross written premium of our non-health insurance business remained broadly flat and amounted to GEL 77.7 million, while net earned premium increased by 23.2% year-on-year and stood at GEL 64.0 million. The former is attributable to a slowdown of economic activity related to the COVID-19 pandemic, while the latter increase is related to structural changes in the reinsurance system. Starting from the July 2019, we stopped re-insuring motor portfolio, which led to decrease in re-insurance costs. On the other hand, this change led to increase in net claims. Overall, the impact on the net profit was marginally positive due to our well-diversified portfolio and prudent risk management.

Over the same period, the gross written premium of our health insurance business increased by 148.5% and stood at GEL 8.7 million, while net earned premium increased and amounted to GEL 7.4 million. The growth was driven mainly by an increase in our customer base which more than tripled compared to 2019 and reached 15,000.

Over the same period, our total net combined ratio[4] stood at 86.8% as of December 2020, up by 4.0 pp year-on-year, while respective ratio without health insurance business stood at 82.5%, up by 3.4 pp year-on-year. The latter increase was related to structural changes in the reinsurance system, as mentioned above. Overall, our net profit increased by 17.2% and amounted to GEL 10.0 million in 2020. The growth was driven by drop in motor and health insurance claims during the lock-down period related to the COVID-19 pandemic, as well as increase in interest income.

GOING FORWARD

Our main goal is to further strengthen our position in the non-health insurance business by providing relevant and innovative digital offerings to our clients, as well as by entering underpenetrated segments including voluntary life insurance. In regards to the health insurance business, we aspire to establish ourselves as a premium health insurance service provider and to increase our client base by providing superior product offerings with strong focus on digital channels.

1 The number of policies sold via digital channels divided by the total number of voluntary retail policies
2 The number of motor claims regulated distantly (by web & call center) divided by the total number of motor claims
3 The number of health insurance claims regulated distantly (by web & call center) divided by the total number of health insurance claims
4 Net insurance claims plus acquisition costs and administrative expenses divided by net earned premium

TBC LEASING

2020 HIGHLIGHTS

72%
MARKET SHARE[1]

GEL 280 mln
LEASING PORTFOLIO

2,846
NUMBER OF CUSTOMERS

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

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

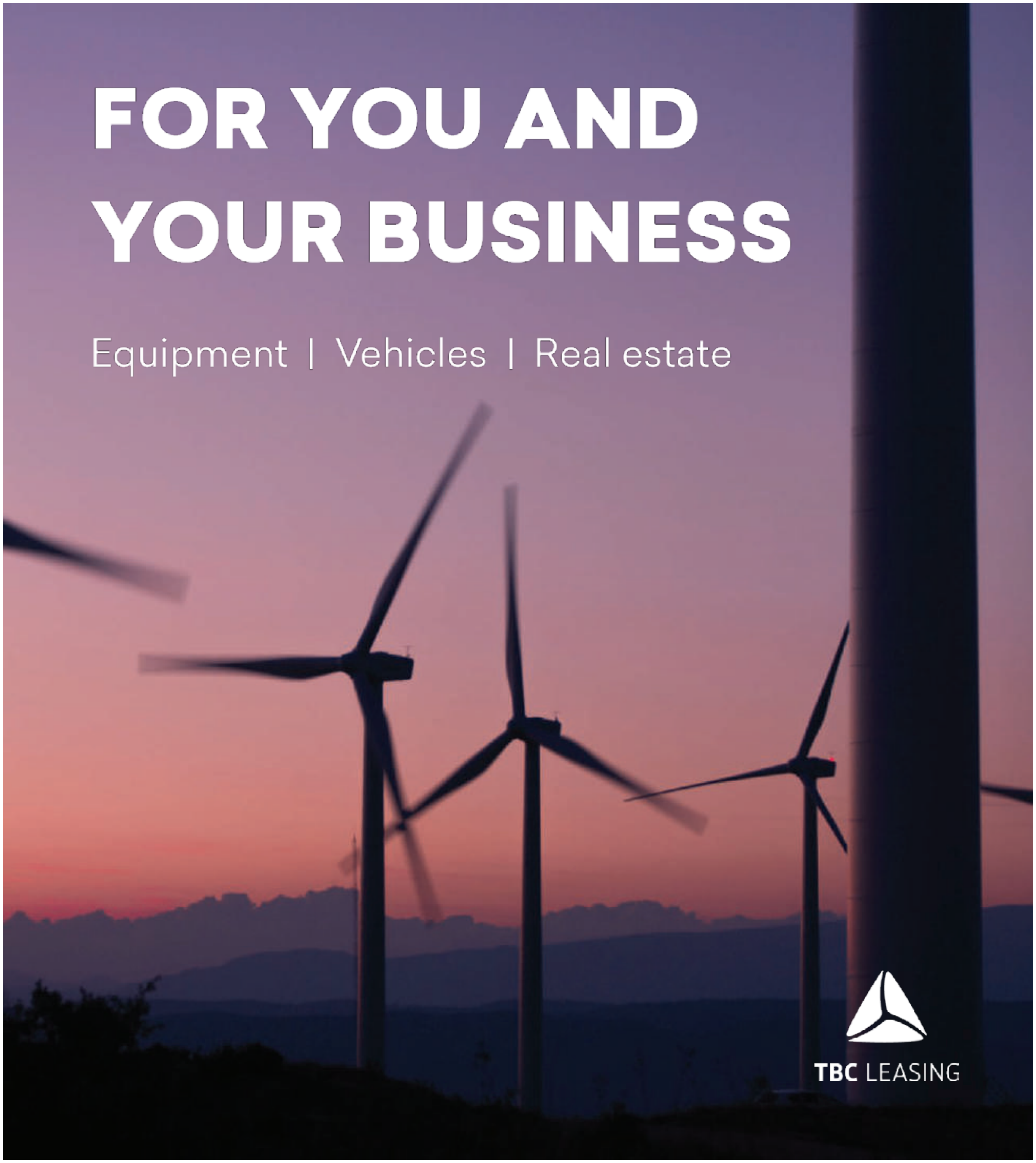
In 2020, leasing portfolio growth was moderate due to the pandemic and amounted to GEL 280 million. We maintained strong positions in the construction, agriculture, medicine and telecommunication sectors. Our main focus for the year was to ensure sound asset quality and help our clients withstand the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

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

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

GOING FORWARD

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



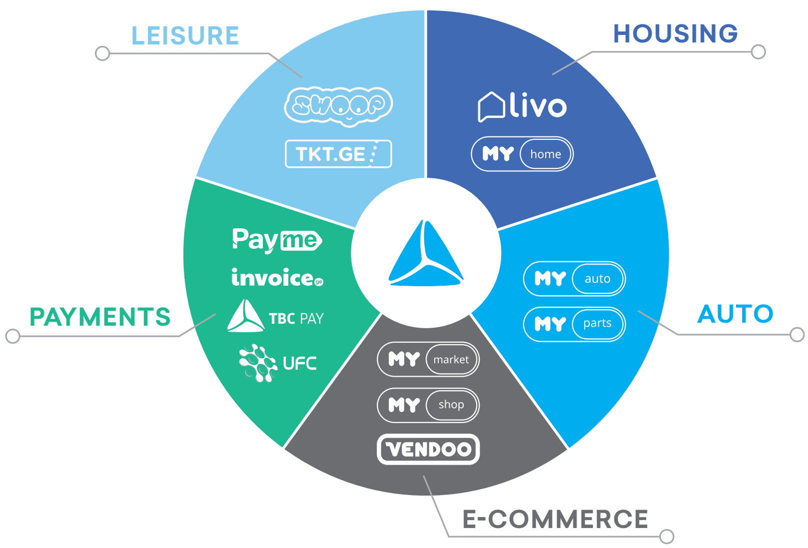
1 Based on internal estimates

OUR ECOSYSTEMS

> Since 2018, we have been entering various online marketplace verticals in order to build the first customer-centric digital ecosystems in Georgia closely integrated with our payments and financial offerings.

Our ecosystems will help us to strengthen and broaden our relationships with our users by increasing touchpoints with them and integrating our services into their daily lives. In this regard, we have entered the following digital ecosystems: payments, housing, e-commerce, auto and leisure, which combine all the key services needed by our users on daily basis. Our ecosystems are open platforms enabling our users to choose for themselves which banking service they prefer to use, whether a loan, insurance or payments method.

Going forward, our goal is to enrich our ecosystems with more innovative products and services, including lead generations and artificial intelligence tools.



PAYMENTS

We are a leading payments provider in Georgia and Uzbekistan, enabling our customers to use a wide range of payment solutions tailored to their needs. Our value proposition includes traditional channels such as POS terminals, ATMs, e-commerce and self-service terminals, as well as innovative payment methods comprising Apple Pay, QR payments, digital card and e-wallet.

In 2020, despite the implications of the pandemic, our payments business in Georgia demonstrated a resilient year-on-year growth of 12% in the number of payments transactions, while the respective volume increased by 6% year-on-year.

Our Uzbek payments subsidiary, Payme, which is the second largest payment company in the country according to number of users[1], demonstrated strong growth. The number and volume of transactions grew by 74.5% and 143.7% respectively.

For more information about our payments business please refer to pages 52-57.

Housing

Our housing ecosystem platform consists of Livo.ge[2] and Myhome.ge[3], which together hold an estimated total digital traffic of 36% in the housing market in Georgia, based on the number of visitors. In December 2020, the number of the unique visitors reached 292,000 for Livo and 402,000 for Myhome.

Livo.ge is a newly established data driven platform, which offers a wide range of traditional as well as innovative services. This year, Livo.ge introduced an AI module for real estate price estimation, as well as added real estate measuring and registration services. In addition, the company reached an agreement with two Georgian banks to conduct real-estate valuation services for them.

Myhome.ge is a leading classified digital platform in Georgia for real estate purchase and renting, which has offered its services since 2011. In 2020, MyHome.ge launched an online real estate rental services and added real estate valuation and insurance services to the platform.

Our aspiration is to further strengthen our position on the market by offering a complete suite of services needed for real estate owners or potential buyers.

E-commerce

Our e-commerce ecosystem consists of three platforms: Vendoo.ge, Myshop.ge[3] and Mymarket.ge[3].

Vendoo is a newly established online marketplace with the number of unique visitors reaching 321,000 in December 2020, while Mymarket and Myshop are well-established hybrid platforms on the Georgian market, unifying classified listing services with an online marketplace. The latters host an estimated total digital traffic of 28% of comparable e-commerce, based on the number of visitors, which reached 1,279,500 by the year end.

This year, our e-commerce platforms focused on fine-tuning their internal processes and upgrading their digital capabilities. Mymarket.ge began switching its focus towards becoming an online marketplace by integrating online payments for C2C sales, while Vendoo.ge updated its website and added two Georgian banks for online installment purposes.

We aspire to create a better customer journey by adding more sophisticated features to our digital platforms, as well as enriching our product range.

Automotive

Our automotive ecosystem consists of Myauto.ge[3] and Myparts.ge[3], offering new and used cars as well as car parts. These are the leading platforms in Georgia, with an estimated total digital traffic of 73% of comparable e-commerce, based on the number of visitors. In December 2020, the number of the unique visitors reached 1,452,000.

This year, Myauto.ge introduced a number of innovations, including the first online auto auction in Georgia, which facilitated the sale of around 50 cars during the year and a new mobile app, with the number of downloads reaching 218,000 by the end of December 2020.

We plan to further enrich our value proposition with all necessary auto-related services to offer our clients maximum comfort.

Entertainment

Our entertainment ecosystem includes Swoop.ge[4] and TKT.ge[5].

Swoop.ge is one of the major Georgian couponing platforms, offering discount coupons for various activities including sports, hotels, beauty salons and entertainment centers. In December 2020, the number of the unique visitors reached 88,000.

TKT.ge is a leading Georgian online ticketing platform, which allows people to buy tickets for various events such as cinema, theatre or concerts as well as transport tickets. It hosts an estimated total digital traffic of 81% of comparable e-commerce, based on the number of visitors. In December 2020, the number of unique visitors reached 25,000.

We expect strong growth in the entertainment industry following the recovery of the economy and plan to make the most out of it.

1 based on internal estimates
2 In January 2019, we acquired a 90% share of the real estate platform Allproperty.ge, a local real estate listing company, for US$ 225,000. This platform was used to launch Livo.ge.
3 In August 2019, for a consideration of GEL 19.45 million, TBC Bank acquired a 65% stake in LLC My.ge, the leading classified e-commerce player in Georgia, trading under the My.ge Group (“My Group”) name. My Group operates in three online marketplace verticals: automotive & automotive spare parts (Myauto.ge and Myparts.ge), consumer-to-consumer goods (Myshop.ge and Mymarket.ge) and housing (Myhome.ge).
4 In August 2018, we acquired Swoop, a well-known Georgian online discount and sales company, for a consideration of US$ 70,000.
5 In May 2019, we increased our share in our associated company TKT.ge from 26% to 55% for the total sum of GEL 1.7 million.

STAKEHOLDER ENGAGEMENT

	OUR ENGAGEMENT
OUR CUSTOMERS Our customers are at the heart of everything we do and we aspire to make their lives easier by creating the most seamless banking experience for them.	We actively interact with our customers in various ways, which include face-to-face communication in branches and VIP service areas, as well as via the call center, digital channels and social media. For a deeper dive, we commission different customer satisfaction surveys from independent research companies on a regular basis. The customer feedback is thoroughly analyzed and incorporated into our future strategic decisions. We also closely monitor the customer complaints that come through our customer complaints department and make sure that every case is addressed properly.
OUR COLLEAGUES Our colleagues are the driving force of our success and we strive to create the best working environment for them, which helps them to realize their potential, feel motivated, valued and safe.	We maintain close communication with our employees in order to incorporate their perspectives and insights into our decision-making, as well as to keep them informed about the company's achievements and future goals. We have various communication channels, which include face-to-face meetings with the senior management as well as online communication via emails, intranet, Facebook group and Zoom meetings. In addition, we run annual employee feedback surveys. During 2020, interaction via digital channels substantially increased and replaced meetings, which were usually held in person. Digital communication has allowed our senior management to interact more frequently with the wider work-force via "town-hall" style meetings and ad-hoc digital conferences. This frequent interaction has received very positive feedback from staff and we expect to continue to use this digital communication between senior management and the wider work-force in future. We have also appointed a designated "staff ambassador", independent non-executive Director, Tsira Kemularia, who is responsible for facilitating communication with wide range of employees from different departments and capturing their views. She reports her findings to the Board. By the end of the year, key themes were identified and together with the CEO and Head of HR, these topics were discussed and the action plan was implemented to address them. Afterwards, CEO and Head of HR communicated the outcome to people involved through online meetings and shared the key take-aways and action plan to address the specific matters (e.g. virtual on -boarding, structured development, strategy and vision sessions).

"As we aim to create value for all our stakeholders, we actively engage with them in order to incorporate their needs and expectations into our strategy, purpose and values.

WHAT THEY TOLD US	OUR RESPONSE AND IMPACT ON BOARD DECISIONS
This year, due to the COVID-19 pandemic, our customers were principally concerned with their financial well-being and their ability to service their debts. In addition, the demand for digital products and services increased significantly. The customer surveys conducted at the end of the year showed high satisfaction levels across all major customer groups.	In order to support our customers and help them withstand the crisis, the Board approved several important initiatives, including offering a three-month grace period to our customers on interest and principal payments in two major stages, and participated in various government support programmes. We also ensured that all our banking products and services were available without any interruption. In addition, we strengthened our digital presence and provided additional incentives to our customers for using these channels. For more information please refer to our customers section on pages 74-76.
In the beginning of the year, our employees were experiencing increased stress levels due to the pandemic. They did not feel secure about their jobs and financial well-being. Some employees also struggled to get used to remote working practices and lacked social interaction. The employee opinion surveys conducted in the second half of the year demonstrated strong engagement and high happiness levels.	The Board demonstrated strong support to our employees by announcing from the early days of pandemic that we would retain all our staff in 2020 and that there would be no lay-offs. Also, no decrease in fixed salary was implemented for any employee, while executive Directors and top management of JSC TBC Bank did not receive any annual bonus and share awards under long-term incentive plan (LTIP) for the 2020 performance period. We were quick to adapt to the new reality by transferring our back office employees to remote working practices and equipping our front office with all the necessary protection measures. Furthermore, as already mentioned in our engagement section, we introduced online meetings with top management in order to keep our employees up-to-date about the company's resilient financial position and results as well as address any concerns that they might have. For more information please refer to our colleagues section on pages 78-87.

	OUR ENGAGEMENT
OUR INVESTORS We strive to generate long-term sustainable returns for our diverse shareholder base, as well as build long- term, mutually beneficial relationships with our debt investors.	We run an extensive investor relations programme to enable investors to engage with senior management via quarterly financial results calls and post-results roadshow meetings, regular participation in investor conferences, an annual Capital Markets Day and hosting on-site visits. Due to the pandemic, from March onwards all our investor interaction in 2020 took place online. However, the format proved successful, and allowed us to maintain investor engagement at normal levels. The AGM gives all shareholders the opportunity to engage with Directors and discuss any issues that they might have as well as provide feedback concerning the running of their company. We also have a dedicated investor relations website (www.tbcbankgroup.com), which contains detailed information about the company's strategic objectives, governance, financial position and performance as well as environmental and social issues.
OUR COMMUNITY AND ENVIRONMENT We aspire to have a positive impact on Georgian society by investing in areas that will stimulate sustainable economic growth and prosperity in our community as well as preserve the environment in which we operate.	We engage with our community in a number of ways, including conducting surveys on regular basis among the Georgian population in order to improve our understanding about current social conditions, as well as interact with various public and private organizations regarding education, business support, art and culture. We also maintain active communication with businesses, including MSMEs and start-ups, in order to better structure our business support programmes and create maxium value for them. For more information, please refer to pages 48-49. We also cooperate with international financial institutions and local companies in order to raise awareness about the importance of environmental issues and encourage businesses to raise their standards in this regard.

SECTION 172 STATEMENT BY THE BOARD

As part of the Directors' responsibilities to promote the success of the Company in accordance with section 172 of the Companies Act, the Board ensures that the Group engages with its stakeholders through many different channels to understand their needs and concerns, build trusted relationships and make decisions that are fair and balanced for all stakeholders.

During 2020, the Board continued to undertake a stakeholder impact analysis for each proposal brought to the Board, identifying the impact on each of the stakeholder groups shown below. This analysis assists the Directors in performing their duties under section 172 of the Companies Act 2006 and confirms to the Board that the management is considering the impact of business plans on all stakeholders when developing initiatives for Board approval.

Throughout most of 2020, the Board has considered the impact of COVID-19 on its operations and on its various stakeholder groups. A more detailed analysis of the differing impacts on each group is shown in the corporate governance statement on pages 150-151.

WHAT THEY TOLD US	OUR RESPONSE AND IMPACT ON BOARD DECISIONS
This year, our investors were mainly concerned with how the country is dealing with COVID-19 and economic implications of the pandemic. In terms of the company's performance, the questions mainly revolved around our asset quality, capital and liquidity positions. Dividends was another important topic, as a significant majority of our shareholders inquired about the prospects of resuming paying dividends for the year 2020 in 2021.	In order to reassure our investors that we are managing the COVID-19 challenges effectively, the Board engaged proactively with all major investors and the CEO & CFO held online calls about about the impact of the pandemic on our business and our response to it. We also held an extended financial results conference call in May and, together with the quarterly results, provided an in-depth analysis of the macroeconomic situation in the country and our risk management. The call was also attended by the Vice Governor of the National Bank of Georgia, who presented a wider perspective on the Georgian economy. We continue to closely monitor the economic situation in Georgia and hold active discussions with regulatory bodies about the possibility of resuming paying dividends.
For the majority of the Georgian population, the key concern this year was the availability of timely medical support in light of the COVID-19 outbreak as well as maintaining financial solvency amid the economic lockdown and strict restrictions. Many financially vulnerable families also struggled to ensure proper conditions for remote education for their children since they did not have access to internet or the necessary technical equipment. Likewise, it was a rather challenging year for businesses, especially MSMEs, and many of them found it difficult to stay afloat.	This year, the Board approved the launch of a wide-scale programme called #TBCforyou to support the Georgian population, which unites various social programmes and initiatives in this regard, including supporting the elderly, youth and businesses. We also strived to extend financial support to those companies, that could create positive social impact through their activities. Please refer to pages 40-41 for some case studies. In addition, we continued to roll-out our long-lasting projects aimed at supporting the young generation, art and culture and MSMEs. We also obtained an ISO 14001:2015 certificate for our environmental management system, which is evidence that our environmental management system complies with the highest international standards. For more information please refer to our community section on pages 90-93.

Throughout the year, senior management attended the Group's Board meetings to present key development and investment projects. All presentations made to the Board consider both the benefit of the proposal to shareholders and the impact on other key stakeholders, including employees.

One non-executive Director, Tsira Kemularia has been appointed as a "Staff Ambassador" responsible for staff engagement on behalf of the Board. Due to the impact of the pandemic, face-to-face meetings have not been considered appropriate, but various online forums have been put in place. It was intended that this role would be rotated periodically, and a change from the current incumbent will be actioned during 2021, so that more Board members can undertake this key and fulfilling role.

Our goal is to develop a strategy which is mutually beneficial to all our stakeholders and helps them achieve their aspirations. Our senior management's KPIs are linked to both our corporate objectives and their individual responsibilities to contribute to the overall Group strategy targets. The Remuneration Committee reviews the overall remuneration policy of the Group and its application at each level of job category (for more information about our performance assessment and award system please refer to page 83).

OUR CUSTOMERS

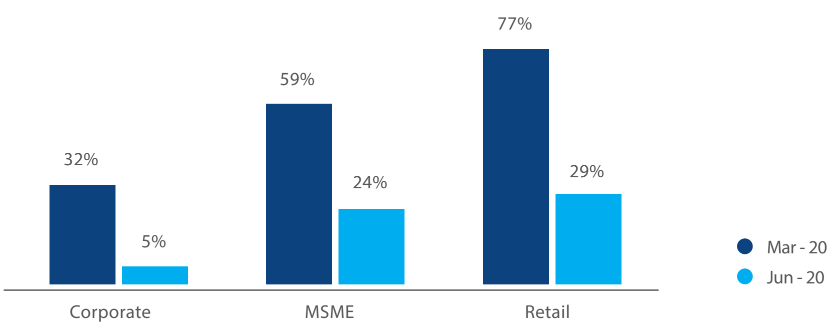
"As customers lie at the heart of everything we do, we are committed to providing reliable support to our clients to ensure their financial wellbeing and safety in a Post COVID-19 reality.

POST COVID-19 FINANCIAL SUPPORT

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

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

GRACE PERIOD TAKE-UP RATES[1]



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

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

POST COVID-19 DIGITAL SUPPORT

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

In order to further enhance our digital banking value proposition, this year, we introduced several new products and services for both individuals and businesses. On retail side, the most important was the launch of the innovative online lending platforms for mortgages and installments, as well as the introduction of the first fully digital card in Georgia, which is a digital equivalent of a physical debit card. For our business customers, we launched the dedicated business mobile banking app. More information on these products is given in divisional overview section on pages 28-69.

As a result of strict regulations related to the pandemic, the only option for many MSMEs and startups to stay in business was to focus on e-commerce and increase their online presence. To assist them with the digital transition, we have offered our business customers various programmes and offers including setting up online shops for free and offering special favorable terms to place their products on our multiple e-commerce platforms. Detailed information on these projects is given in MSME section on pages 44-49.

CUSTOMER EXPERIENCE AND SATISFACTION

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

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

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

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

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

CUSTOMER PRIVACY AND DATA SECURITY

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

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

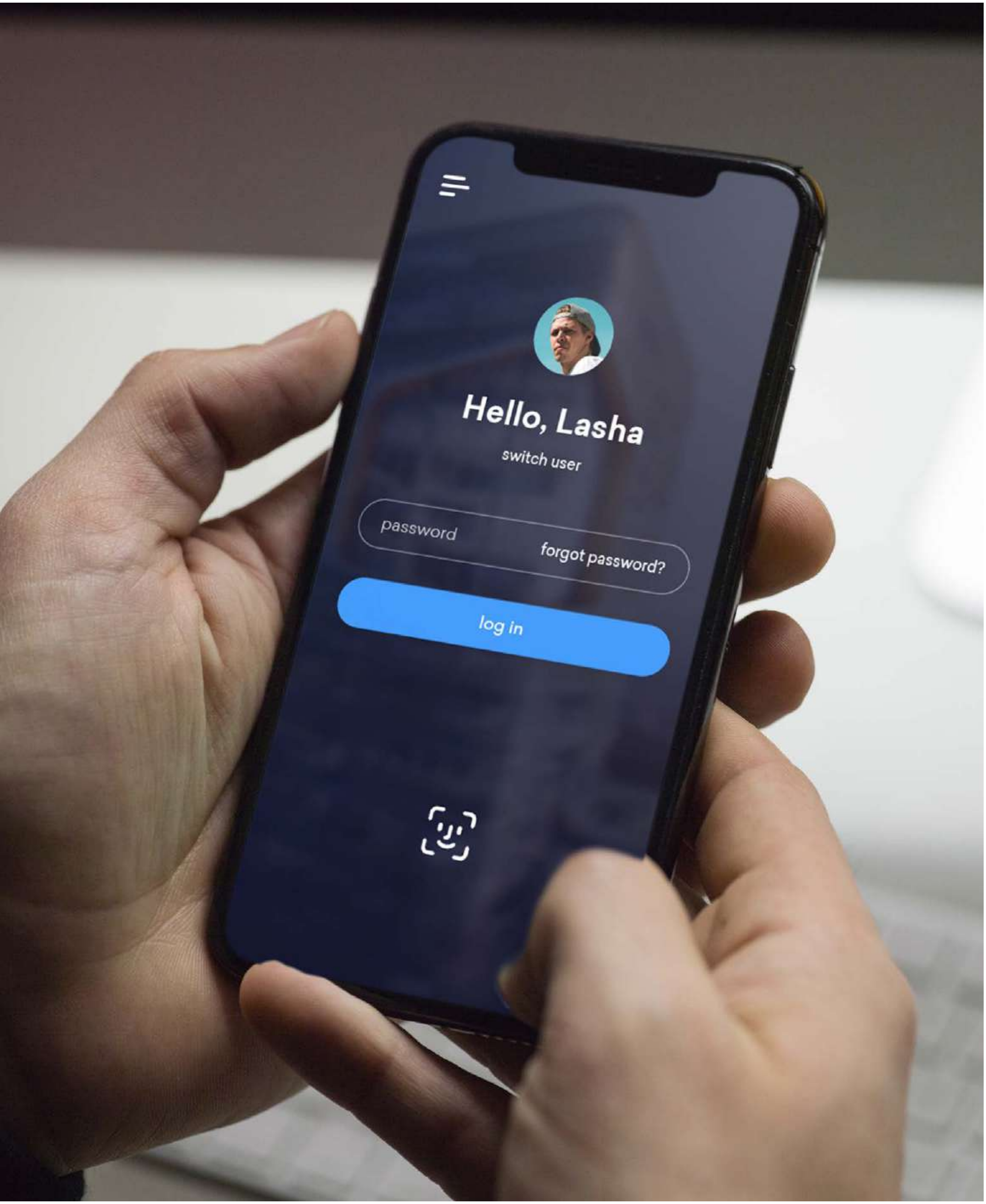
Furthermore, the Information Security Steering Committee governs information concerning cyber security to ensure that relevant risks are within acceptable level and management processes are improved continually.

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

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

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

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


Hello, Lasha
switch user
password
forgot password?
log in

OUR COLLEAGUES

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

68%[1]
ENPS

91%[2]
ENGAGEMENT INDEX

85%[3]
EMPLOYEE HAPPINESS INDEX

CARING COMES FIRST

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

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

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

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

OUR PROGRESS ON AGILE TRANSFORMATION

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

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

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

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

ATTRACTING NEW TALENT

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

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

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

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

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

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


work **from where**
you want.

EMPLOYEE ENGAGEMENT AND MOTIVATION

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

In this regard, we are carrying out several initiatives:

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

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

LEARNING AND DEVELOPMENT

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

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

PERFORMANCE ASSESSMENT AND REWARD

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

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

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

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

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

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

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

In 2021, the total number of shares awarded as bonus shares, in relation to 2020 peformance, to such employees amounted to 45,534 (Detailed information regarding the Directors' remuneration system can be found in the Remuneration Committee Report on pages 177 to 213.)

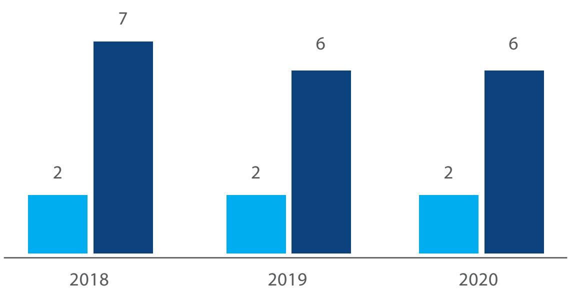
EQUALITY AND DIVERSITY

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

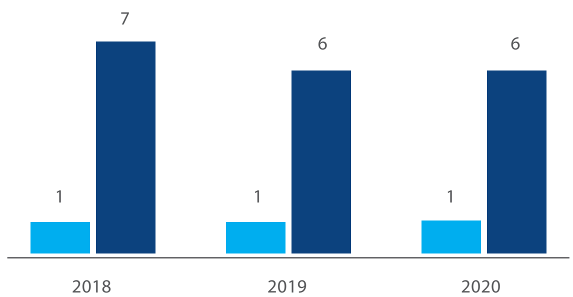
We remain committed to having a gender-balanced workforce through a workplace environment and culture that supports and empowers women. As a result, 64% of employees at TBC Bank are women while the share of women in senior roles is 33%. We plan to further improve the gender balance across managerial positions.

GENDER DIVERSITY STATISTIC

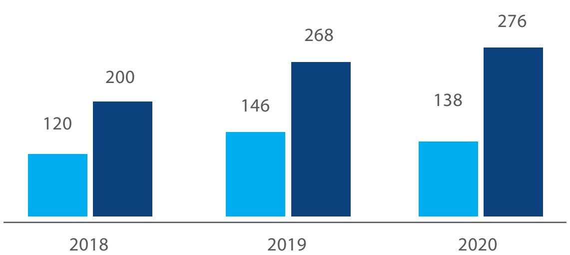
BOARD OF DIRECTORS



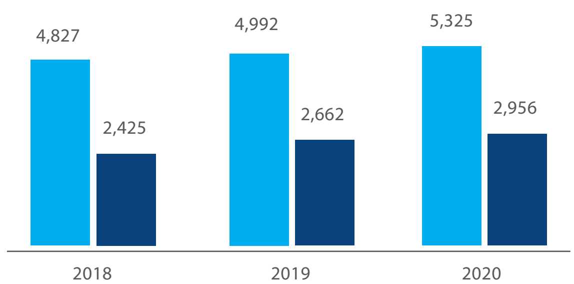
SENIOR MANAGEMENT



MIDDLE MANAGEMENT*



ALL EMPLOYEES

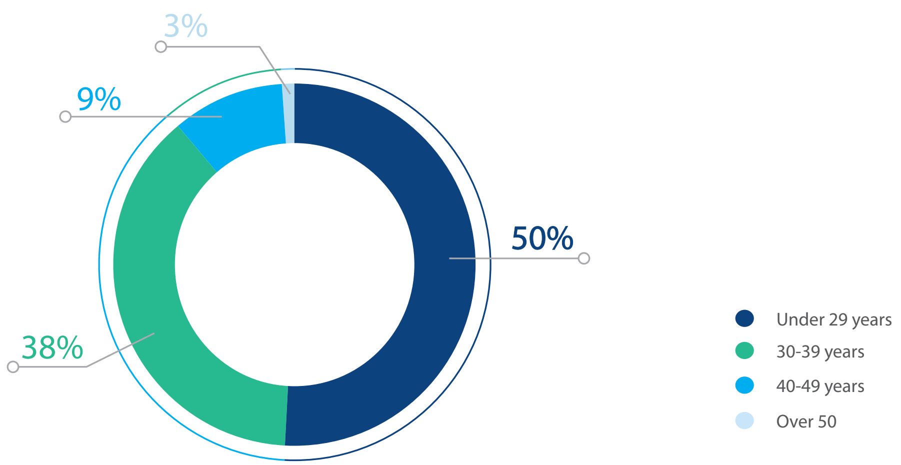


Female Male

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

* Direct reports to senior management

AGE DIVERSITY STATISTICS OF 2020



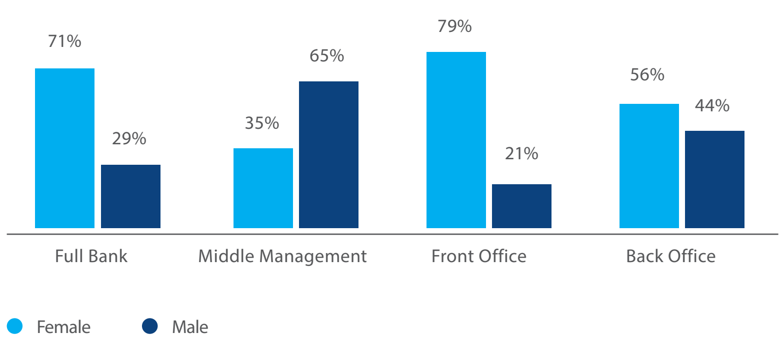
GENDER PAY GAP

We regularly review our pay levels and make sure that men and women are paid equally for doing the same type of job.

As shown in Table 1 below, the average gender pay and bonus gaps are in favour of men. This is mainly due to the higher number of women being employed in junior roles, including customer service positions at front office, which is related to our business model (as shown in the gender distribution chart below).

We remain committed to achieving a better gender balance and increasing the proportion of women working in senior roles.

GENDER DISTRIBUTION ACROSS DIFFERENT POSITIONS*



* The data in the given table is presented for the bank only

GENDER PAY AND BONUS GAP STATISTICS[1]

Gender pay gap is based on the data from April 1, 2020 to April 30, 2020.
Gender bonus gap is based on the data from April 6, 2019 to April 5, 2020.

TABLE 1

Bank full	2020	2019
mean gender pay gap in hourly pay	44.0%	44.4%
median gender pay gap in hourly pay	33.0%	46.5%
mean bonus gender pay gap	53.3%	56.6%
median bonus gender pay gap	41.7%	57.8%

TABLE 2

Middle management	2020	2019
mean gender pay gap in hourly pay	10.9%	-7.3%
median gender pay gap in hourly pay	-9.9%	-14.9%
mean bonus gender pay gap	-6.4%	-40.0%
median bonus gender pay gap	-89.1%	-82.4%

TABLE 3

Front Office Employees	2020	2019
mean gender pay gap in hourly pay	43.0%	50.2%
median gender pay gap in hourly pay	27.2%	52.5%
mean bonus gender pay gap	64.1%	66.5%
median bonus gender pay gap	69.4%	71.5%

TABLE 4

Back Office Employees	2020	2019
mean gender pay gap in hourly pay	24.7%	21.8%
median gender pay gap in hourly pay	17.7%	19.7%
mean bonus gender pay gap	25.9%	30.5%
median bonus gender pay gap	11.3%	20.5%

1 The data on gender pay gap is presented only for the bank, which accounts for the 80% of the total Group's employees. Negative gap indicates a percentage pay gap in favor of women, while positive gap indicates a percentage pay gap in favor of men

ETHICAL STANDARDS, RESPONSIBLE CONDUCT AND SAFETY AT WORK

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

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

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

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

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

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

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

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

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

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

OUR SUPPLIERS

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

ENSURING FAIRNESS AND TRANSPARENCY AT ALL STAGES OF OUR PROCUREMENT PROCESSES

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

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

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

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

RESPONSIBLE PURCHASING PRACTICES

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

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

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

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

OUR COMMUNITY

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

#TBCFORYOU

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

- Purchased 10,000 COVID-19 rapid tests and handed them over to the Ministry of Health;
- Helped 1,000 elderly people in need with food, medicine and personal hygiene items;
- Cooperated with the business sector, implementing a number of projects in collaboration with them. For example, in cooperation with “Nikora”, a leading Georgian food producer, 300 socially vulnerable families were provided with food product baskets;
- Helped MSMEs to digitalize their businesses and start offering their products and services online. More details on this topic are given in the MSME section on pages 44-49;
- Set up TBC Special Insurance for physicians and nurses who are treating patients infected with COVID-19. Such doctors and nurses will receive up to GEL 10,000 from TBC Insurance, if they become infected with COVID-19.

YOUNG GENERATION

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

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

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


FOR
YOU

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

- Starting from 2016, TBC Bank has been the main partner of the Young Researchers and Innovators Competition Leonardo da Vinci, an annual event that aims to popularize science, technology, engineering and math (STEM) among the young generation. This is a large-scale event, which is held for high-school students all over the country. Participating teams are requested to present an innovative scientific idea that is supported by comprehensive research and experiments. TBC supports the organization of the event and provides annual scholarships for the winners. This year, the event was held online due to pandemic;
- At the end of 2018, we also introduced a new project called "TBC scholarship", which aims to support young, talented people from vulnerable families from all over the Georgia, in different fields including sport, science and arts. Each year, around 200 Georgian young, talented people receive these scholarships in order to develop their knowledge and skills and become successful professionals.

In addition, we run IT Academy and TBC Camp (for future investment bankers) since 2019 and we also introduced Risk Academy in 2020 in order to provide practical knowledge and skills to talented young people in those demanding professions, as well as increase their chances for employment at TBC or other organizations. All courses are offered free of charge and run by experienced staff members. More detailed information is given in our colleagues section on pages: 78-87.

ARTS & CULTURE

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

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

- Within the scope of our partnership with the National Museum of Georgia, we created a video animation, telling the history of Georgia through various cultural heritages that are preserved in the Museum. In addition, we continue to provide financial assistance as well as support the maintenance of digital platforms and communication channel used by the Museum.
- TBC acknowledges the importance of using entertainment for the development of new generations. Therefore, in connection with the World Children's Day, we developed an educational museum kit, which unites several creative games, based on museum collections, enabling kids to study history through entertainment. In addition, the kit is accompanied by a video tutorial and tests for children to understand the whole story given in the kit games.
- During pandemic, the National Museum managed to open two new museums in Vani and Bolnisi, related to the antique cultural heritage of Georgia and the prehistoric period. TBC financially supported the museum in Vani, which contains historical relics of ancient Colchis culture, which span the whole first millennia BC. Given the current pandemic, TBC created an introductory video, dedicated to Vani Museum and presented it to the public in an innovative manner.

- In 2020, we started another project started in cooperation with Art Palace of Georgia – Museum of Cultural History, aimed at reviving Georgian heritage. The project's purpose is to promote historical Georgian textiles, inspired by various cloth patterns worn by Georgian kings, queens and historical figures. Georgian fashion startups and brands have created ready to wear collections, while TBC created a webpage www.qsovili.ge and assisted them in product promotion. TBC also contributed financially to the Art Palace.

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

SPORTS

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

SUPPORTING SMALL BUSINESSES AND ENTREPRENEURSHIP

TBC distinguishes itself through advocacy and support for young startups and MSME businesses. In order to address the social and economic challenges in the country, the development of small and medium businesses is vital. It contributes to the reduction of unemployment and boosts economic growth. We assist businesses through the provision of both financial and non-financial support, including: easing access to capital, sharing knowledge and expertise, developing products and services specially customized for business needs. Detailed information is given in Our MSME section on pages 44-49 respectively.

OUR ENVIRONMENTAL MANAGEMENT SYSTEM

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

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

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

OUR ENVIRONMENTAL MANAGEMENT SYSTEM (EMS)

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

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

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

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

Pillar I - Internal Environmental Activities:

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

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

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

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

			Total CO2 Emissions (tonnes)	KPIs (reduction per FTE)
Data for the FY	2018	2019	2020	2021
Scope1* Fuel Combustion (heating, vehicles,generators)	2,584	3,164	3,272	-6%
Scope2 (Electricity consumption)	1,391	1,260	1,614	-5%
Scope3 (International flights)	644	697	144	-
Total emissions (tCO2)	4,619	5,121	5,030	-5%
Total emission per full time employee (FTE) (CO2t/pp)	0.65	0.69	0.63	-5%
Water consumption per employee (m3/pp)	13.49	11.90	9.71	-5%
Printing paper per person in reams	11.20	11.11	12.14	-
Revenue (tCO2/US$)	0.000011	0.000013	0.000014	-
EBTDA (tCO2/US$)	0.000021	0.000022	0.000040	-
Net Income (tCO2/US$)	0.000027	0.000027	0.000049	-

*Scope 1:

a) 1,657 CO2e emissions in tonnes (from combustion of fuel (NG) from owned operation and facilities of TBC Bank) in 2020 compared to 1,443 CO2e in 2019 and 1,483 CO2e in 2018.

b) 1,538 CO2e emissions in tonnes (from owned vehicles of TBC Bank) in 2020 compared to 1,631 CO2e in 2019 and 1,013 CO2e in 2018.

c) 77 CO2e emissions in tonnes (from owned generators of TBC Bank) in 2020 compared to 90 CO2e in 2019 and 88 CO2e in 2018.

In 2020, the Group managed to reduce to the total emissions per full time employee due to conduction of energy efficiency measures according our annual environmental plan 2020. In addition, the remote working conditions introduced during the year, as well as reduction in business travel due to the pandemic also helped to reduce the gas emissions.

Scope 1 - This indicator has increased by 3% in 2020 compared to last year due to the increase in heating consumption related to the expansion of total surface area in line with the growth of the Group, which was partially offset by the decrease in gas emissions from vehicles related to reduction of total distance travelled during the year.

Scope 2 – Total electricity consumption increased by 28% in 2020 year-on-year, mainly due to the change of electricity conversion factor from 0.07 CO_2 per kWh to 0.094 CO_2 per kWh related to update of National IPCC emission factors for electricity (tCO_2*/MWhe). Without the change in the conversion factor, the total electricity consumption would have decreased by around 9%.

Scope 3 - Due to the COVID-19 pandemic, business flights were decreased dramatically by around 79% in 2020 compared to the previous year.

In 2020, water consumption per employee decreased by 18% year-on-year largely as a result of remote working practices introduced since March 2020. The average printing paper consumption per employee increased by 9% mainly due to our subsidiary UFC, as a result of changes in business processes.

Calculation Methodology

For the GHG inventory calculation, we took following steps: set the organizational boundaries, established the operational scope, developed a structured approach for the data collection and calculation of carbon dioxide (CO_2) equivalent. This report describes all emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 (Scope 1 and 2) and, additionally, the emissions under Scope 3 that are applicable to the business. In preparing the emissions data, the emissions factors from the UK Government's Greenhouse Gas Conversion Factors for Company Reporting 2017 and National IPCC emission factors for electricity (tCO_2*/ MWhe) were used. The required data was collected and a report was developed for the TBC Bank's main activities, as follows:

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

Scope 2 (purchased electricity for own use (lighting, office appliances, cooling, etc.)) includes emissions from the use of electricity at TBC Bank's owned and controlled sites. To calculate the emissions, the conversion factor for National IPCC emission factors for electricity (tCO_2*/MWhe) was used;

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

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

Pillar II - Environmental and Social Risk Management in lending

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

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

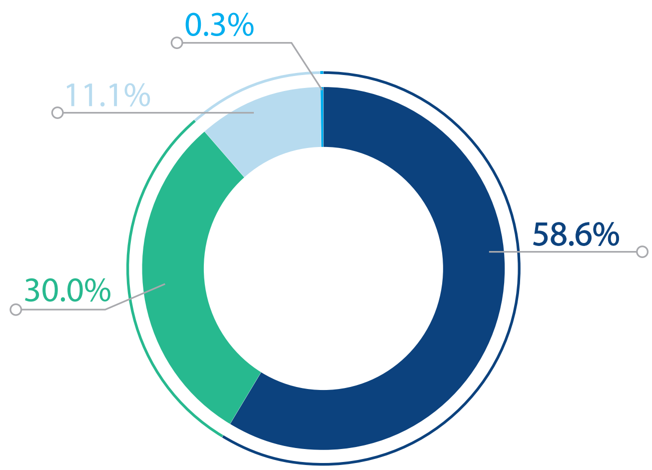
These procedures include:

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

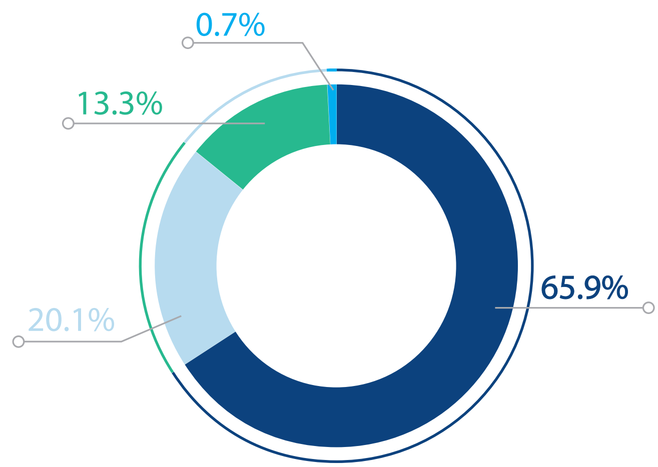
In 2020, we further fine-tuned our environmental and social action plans (ESAP) monitoring system for clients that do not meet our environmental and social standards in order to enhance their environmental performance. All such clients have been monitored and checked.

BUSINESS LOANS PORTFOLIO

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



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



Low High Medium A Category

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

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

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

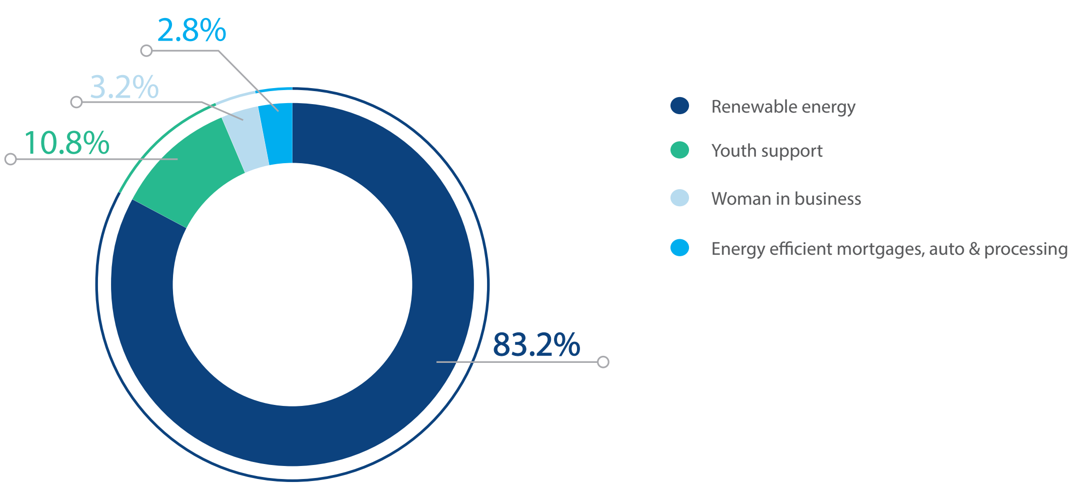
High Risk – transactions with potentially highly significant, negative and/or long-term environmental and/or social impacts, the magnitude of which may be difficult to determine at the loan application stage, which typically require analysis of environmental and social risks and impacts in the context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

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

Pillar III - Sustainable finance:

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

OUR SUSTAINABILITY PORTFOLIO BREAKDOWN



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

we developed a CO2 emissions calculation toolkit, which will be used to define our clients' green status.

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

Pillar IV - External Communications:

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

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

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

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

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

Governance:

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

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

Strategy:

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

In 2021, the Group aims to:

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

Risk Management

The Group's existing ESG framework allows for active management of climate change related risks. Please refer to emerging risks section on pages 111-113.

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

Metrics and targets:

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

In 2021, the Group will work towards:

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

NON-FINANCIAL INFORMATION STATEMENT

TBC Bank complies with non-financial reporting requirements contained in sections 414 CA and 414 CB of Companies Act 2006. The following table summarises the reference to the non-financial matters described in the Strategic Report.

NON-FINANCIAL INFORMATION	PAGES
The entity’s business model	Business model and strategy, pages 18 to 24
Environmental matters	Our environmental and social management, pages 94 to 99
Employees	Our colleagues, pages 78 to 87
Social matters	Our community, pages 90 to 93
Human rights	Ethical standards, responsible conduct and safety at work, page 87
Anti-corruption and anti-bribery	Ethical standards, responsible conduct and safety at work, page 87
Non-financial key performance indicators relevant to the entity's business	Key performance indicators, page 27
Description of principal risks and mitigations	Material existing and emerging risks, pages 102 to 113

MATERIAL EXISTING AND EMERGING RISKS

The emergence of the COVID-19 pandemic has enhanced the critical importance of risk management to the Group's strategy. During the COVID-19 era, it is even more essential to identify emerging risks and uncertainties that could adversely impact the Group's performance, financial condition and prospects. This section analyses the material principal and emerging risks and uncertainties the Group faces. However, we cannot exclude the possibility of the Group's performance being affected by risks and uncertainties other than those listed below. More details regarding risk management practices can be found on pages 114-130.

The Board has undertaken a robust assessment of both the principal and emerging risks facing the Group and the long-term viability of the Group's operations, in order to determine whether to adopt the going concern basis of accounting. For more information, please see the Going Concern and Viability Statements on pages 159-160.

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

Risk description

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

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

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

Risk mitigation

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

The Group uses a robust monitoring system to react promptly to macro and micro developments, identify weaknesses in the credit portfolio and outline solutions to make informed risk management decisions. Monitoring processes are tailored to the specifics of individual segments, as well as encompassing individual credit exposures, overall portfolio performance and external trends that may impact on the portfolio's risk profile. Additionally, the Group uses a comprehensive portfolio supervision system to identify weakened credit exposures and take prompt, early remedial actions, when necessary.

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

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

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

As a result of the COVID-19 pandemic, the Group has identified highly vulnerable clients and outlined a strategy for payment holidays, refinancing, or restructuring across all segments. Since the start of the COVID-19 pandemic, the Bank granted payment holidays on principal and interest payments to individual and MSME customers as well as to corporate borrowers that have been adversely affected by the government lockdowns. According to the strategy, some clients were given payment holidays only on interest, while other clients were given payment holidays on both interest and principal amounts. The government expanded upon a special support programme for the affected sectors - restaurants and small and medium sized hotels received subsidies in the amount of 70-80% of interest payments. For more information about government support programmes see our customers section on pages 74-76.

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

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

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

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

Risk description

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

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

Risk mitigation

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

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

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

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

Risk description

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

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

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

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

1 World Bank, Global Economic Prospects, January 2021

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

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

Risk mitigation

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

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

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

Risk description

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

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

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

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

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

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

This is compared to the planned increase of:

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

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

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

The ratios were well above the respective regulatory minimums.

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

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

Risk mitigation

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

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

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

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

Risk description

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

Under the Georgian banking regulations, the Bank is required, among other things, to comply with minimum reserve requirements and mandatory financial ratios, and to regularly file periodic reports. The Bank is also regulated by the tax code and other relevant laws in Georgia. Following the Company's listing on the London Stock Exchange's premium segment, the Group became subject to increased regulations from the UK Financial Conduct Authority. In addition to its banking operations, the Group also offers other regulated financial services products, including leasing, insurance and brokerage services.

The Bank's subsidiary was granted a banking license in Uzbekistan and launched operations in 2020. As a result, the regulatory compliance requirements have increased for the Group.

The Group takes all the necessary steps with the intention of ensuring compliance with relevant legislation and regulations. The Group is also subject to financial covenants in its debt agreements. For more information, see page 350 in the Group's Audited Financial Statements.

Risk mitigation

The Group has established systems and processes to ensure full regulatory compliance, which are embedded in all levels of the Group's operations. The dedicated compliance department reports directly to the Chief Executive Officer and has a primary role in the management of regulatory compliance risk. The Group's Risk Committee is responsible for regulatory compliance at the Board level. In terms of banking regulations and Georgia's taxation system, the Group is closely engaged with the regulator to ensure that new procedures and requirements are discussed in detail before their implementation. Although the decisions made by regulators are beyond the Group's control, significant regulatory changes are usually preceded by a consultation period that allows all lending institutions to provide feedback and adjust their business practices.

6. The Group is exposed to concentration risk

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

Risk description

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

Risk mitigation

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

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

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

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

Risk description

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

	31-Dec-20	31-Dec-19	31-Dec-18
Minimum net stable funding ratio, as defined by the NBG	***100%***	*100%*	*n/a*
Net stable funding ratio as defined by the NBG	**126.0%**	126.7%	129.3%[1]
Net loans to deposits + IFI funding	**101.2%**	104.8%	89.9%
Minimum total liquidity coverage ratio, as defined by the NBG	***100.0%***	*100.0%*	*100.0%*
Minimum LCR in GEL, as defined by the NBG	***n/a***	*75.0%*	*75.0%*
Minimum LCR in FC, as defined by the NBG	***100.0%***	*100.0%*	*100.0%*
Total liquidity coverage ratio, as defined by the NBG	**134.2%**	110.1%	113.9%
LCR in GEL, as defined by the NBG	**132.2%**	83.7%	102.5%
LCR in FC, as defined by the NBG	**134.9%**	128.4%	121.1%

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

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

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

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

Risk mitigation

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

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

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

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

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

Risk description

The majority of the Group's total income derives from net interest income. Consequently, the NIM's fluctuations affect the Group's results. In 2020, the NIM decreased by 0.9pp year-on-year to 4.7% driven by a decrease in loan yields, increase in GEL deposit costs, as well as currency depreciation due to the COVID-19 pandemic.

The Bank manages its exposure to interest rate risk, following the NBG IRR regulation introduced from September 2020. As of 31 December 2020, GEL 3,846[2] million in assets (18%) and GEL 2,788[2] million in liabilities (14%) were floating in GEL currency, whereas GEL 8,045[2] million of assets (37%) and GEL 1,606[2] million of liabilities (8%) were floating, related to the LIBOR/Euribor/FED/ECB rates. The Bank was in compliance with the EVE (Economic Value of Equity) sensitivity limit set by the NBG at 15% of Tier 1 Capital, with the ratio standing at 3.5% by 31 December 2020.

Risk mitigation

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

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

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

Risk description

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

Risk mitigation

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

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

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

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

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

1 Based on internal estimates
2 Standalone figures of the Bank, calculated per NBG standards

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

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

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

Risk description

External fraud events may arise from the actions of third parties against the Group, most frequently involving events related to banking cards, loans and client phishing. Internal frauds arise from actions committed by the Group's employees, and such events happen less frequently. During the reporting period, the Group faced several instances of fraud, out of which the most considerable case amounted to GEL 2 million. None of these cases had a material impact on the Group's profit and loss statement. As a result of the COVID-19 pandemic, the threat of fraud and the rapid growth in digital crime have been exacerbated and fraudsters are adopting new techniques and approaches to exploit various possibilities to illegally obtain funds. Therefore, unless properly monitored and managed, the potential impact can become substantial.

Risk mitigation

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

11. The Group remains exposed to some reputational risk

Risk Description

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

Risk Mitigation

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

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

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

Risk Description

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

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

Risk Mitigation

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

13. The Group is exposed to risks related to its ability to attract and retain highly qualified employees

A strong employee base is vital to the success of the Group.

Risk Description

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

Risk Mitigation

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

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

EMERGING RISKS

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

1. The Group is exposed to the risks inherent in international operations

Our subsidiary, TBC Bank in Uzbekistan, obtained a banking license in April 2020 and launched its operations in Uzbekistan in October 2020 to wider public. We have already invested US$ 22 million into the charter capital of the Bank and have secured interest from our potential partners: EBRD, IFC and the Uzbek-Oman Investment Company. Our plans foresee a minimum 51% shareholding. This investment exposes to the Group to Uzbekistan's macro-economic, political and regulatory environments, including but not limited to, exposure to risks arising from credit, market, operational and capital adequacy risks as well as risks related to COVID-19 pandemic in Uzbekistan.

Currently, the Group's business activities are mainly concentrated in Georgia, but international activities are expected to contribute to around 10%-15% of the Group's loan book over the medium to long-term.

Risk description

The risk posed by the operating environment in Uzbekistan may change the Group's risk profile.

The Uzbekistani economy is well diversified with no major reliance on a particular industry. It has one of the lowest public debts as a percentage of GDP in the region and high international reserves, implying macroeconomic stability as well as room for future high growth. The government of Uzbekistan plans to reform the economy and open it up to foreign investment. While the operational environment in Uzbekistan can be assessed as attractive, there are important risks that could materially affect the Group's performance in the country. These risks include, but are not limited to, political instability, the slow pace of reforms, adverse developments in inflation and fluctuations in the exchange rate.

According to the latest World Bank's forecasts, despite the impact of the COVID-19 pandemic, Uzbekistan's economy is expected to grow at 0.6% in 2020. For 2021-2022, the World Bank projects the growth to accelerate to 4.3% and 4.5%, respectively.

Risk mitigation

The Group's strategy is to follow an asset-light, limited capital investment approach with a strong focus on digital channels and to invest in stages, to make sure that we are comfortable with the results and the operating environment before committing additional investment. The Group plans to serve retail and MSME customers, which will in turn lead to a non-concentrated portfolio and to lower credit risk. The Group will partner international financial institutions, which intend to take a shareholding in the Uzbek bank in order, to ensure the funding of our business plan and sufficient flexibility across our operations in Uzbekistan.

Overall, from the Group's perspective, international expansion will result in diversification of business lines and revenue streams, balancing the overall risk profile of the Group.

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

Risk description

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

Risk mitigation

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

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

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

Our Environmental Policy is fully compliant with Georgian environmental legislation and follows international best practices (the full policy is available at www.tbcbankgroup.com). For the detailed information on the Environmental Management System, please refer to pages 94-99.

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

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

Risk description

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

Risk mitigation

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

RISK MANAGEMENT

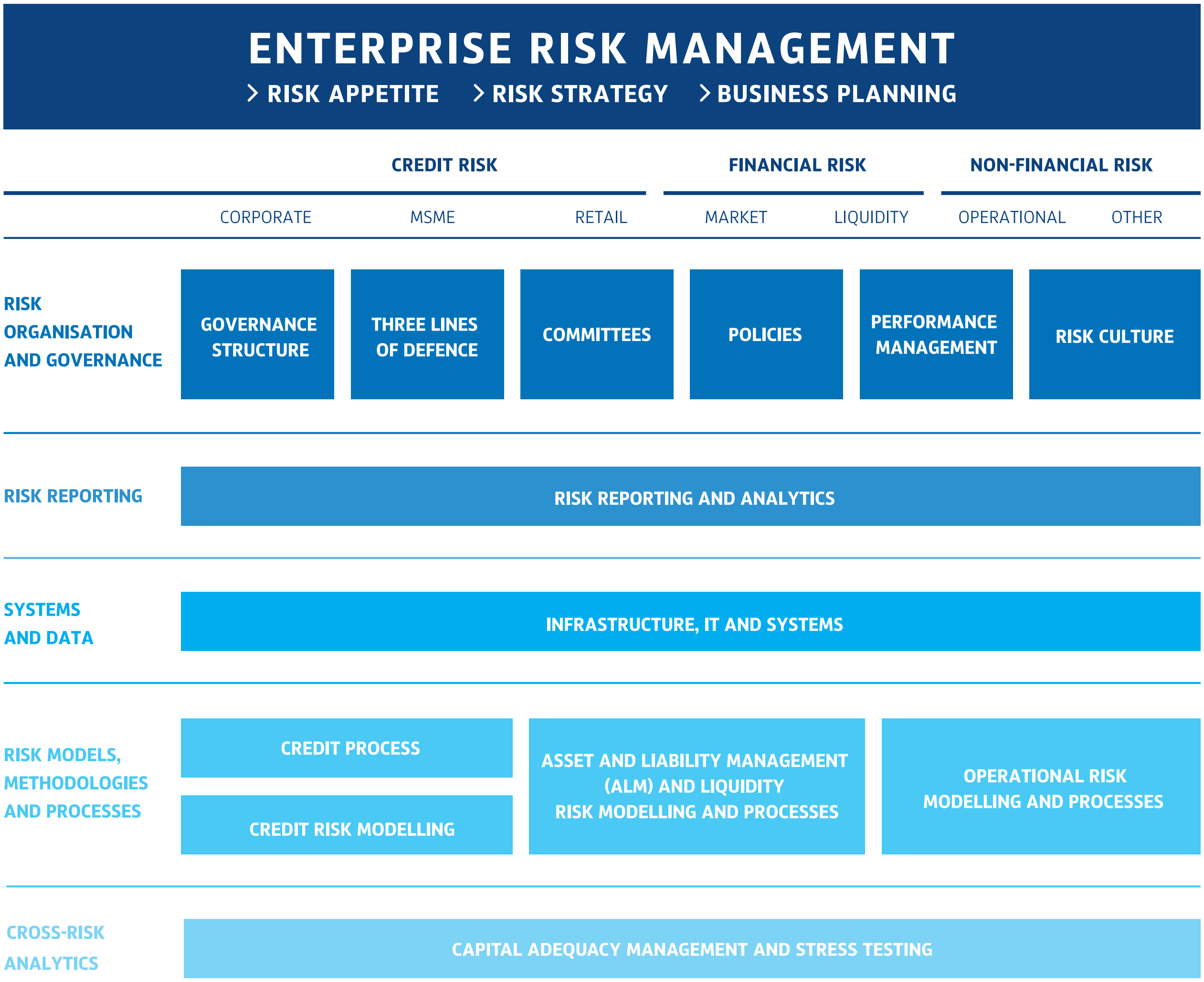
OVERVIEW

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

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

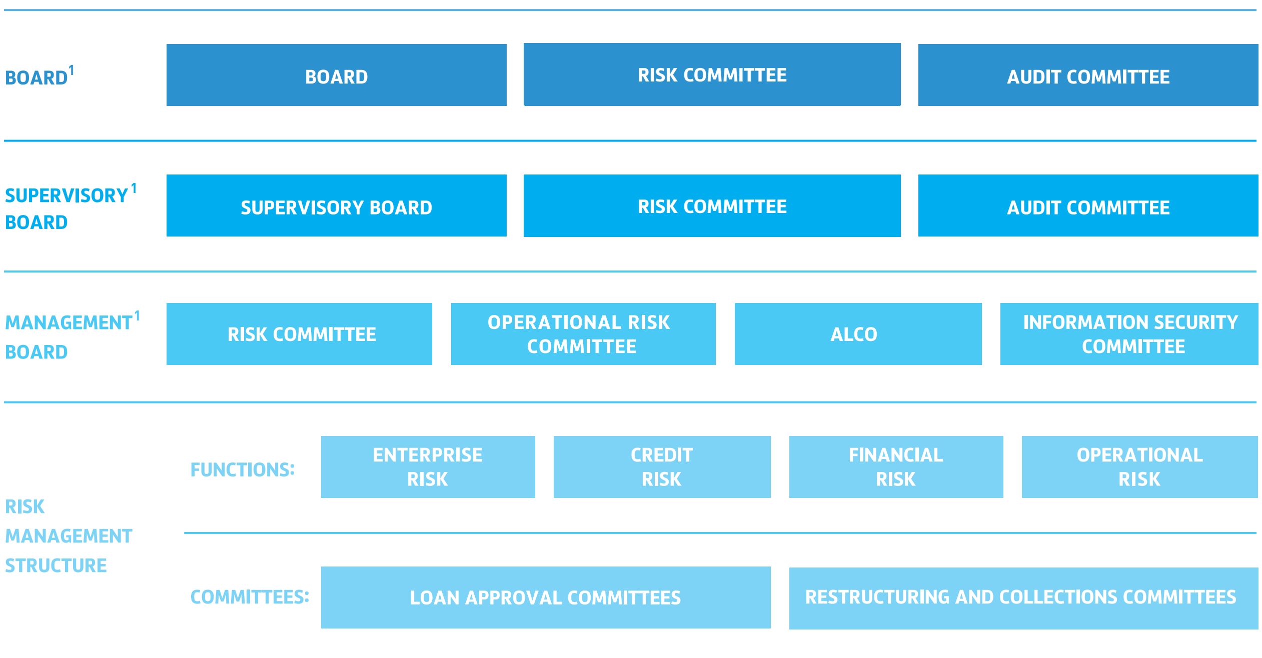
Risk management framework

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


ENTERPRISE RISK MANAGEMENT
RISK APPETITE
RISK STRATEGY
BUSINESS PLANNING
CREDIT RISK
FINANCIAL RISK
NON-FINANCIAL RISK
CORPORATE
MSME
RETAIL
MARKET
LIQUIDITY
OPERATIONAL
OTHER
RISK ORGANISATION AND GOVERNANCE
GOVERNANCE STRUCTURE
THREE LINES OF DEFENCE
COMMITTEES
POLICIES
PERFORMANCE MANAGEMENT
RISK CULTURE
RISK REPORTING
RISK REPORTING AND ANALYTICS
SYSTEMS AND DATA
INFRASTRUCTURE, IT AND SYSTEMS
RISK MODELS, METHODOLOGIES AND PROCESSES
CREDIT PROCESS
CREDIT RISK MODELLING
ASSET AND LIABILITY MANAGEMENT (ALM) AND LIQUIDITY RISK MODELLING AND PROCESSES
OPERATIONAL RISK MODELLING AND PROCESSES
CROSS-RISK ANALYTICS
CAPITAL ADEQUACY MANAGEMENT AND STRESS TESTING

GOVERNANCE

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



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

The process of setting and cascading the risk appetite is undertaken in parallel with the business planning process. The interactive development of business and risk plans aligns the plans by solving risk-return trade-offs in the process and increases the feasibility of achieving targets. Board level oversight, coupled with the permanent involvement of senior management in the Group's risk management and the exercise

1 These terms are defined in the glossary on page 375

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

ENTERPRISE RISK MANAGEMENT

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

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

CREDIT RISK MANAGEMENT

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

The major objectives of credit risk management are to put in place a sound credit approval process for informed risk-taking and procedures for effective risk identification, monitoring and measurement. The Group adopts segment and product-specific approaches for prudent and efficient credit risk management. Therefore, the corporate, MSME and retail portfolios are managed separately to address the specifics of individual segments. Corporate and MSME (except micro) borrowers have larger exposures and are managed on an individual basis, whereas micro and retail borrowers are managed on a portfolio basis. Major credit risk functions can be summarised as follows:

Credit approval

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

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

Currency-induced credit risk

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

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

Credit concentration risk

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

Collateral management policy

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

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

Credit monitoring

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

Restructuring and collections

The Group uses a comprehensive portfolio supervision system to identify weakened credit exposures and take prompt, early remedial actions when necessary. The collection and recovery processes are initiated when the borrower does not meet the agreed payments or the borrower's financial standing is weakened, potentially jeopardizing the repayment of the credit. Dedicated restructuring and recovery units manage weakened borrowers across all business segments, with collection and recovery strategies tailored for business segments and individual exposure categories. The restructuring unit's primary goal is to rehabilitate the borrower and transfer the exposure back to the performing category. The sophistication and complexity of the rehabilitation process differs based on the type and size of the exposure. Corporate and SME borrowers are transferred to the recovery unit when there is a strong probability that a material portion of the principal amount will not be paid, and the main stream of recovery is no longer the borrower's cash flow. Loan recovery plans may include all available sources of loan recovery, such as selling the borrower's assets, realising collateral or payments under guarantees.

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

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

Measurement of Expected Credit Losses

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

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

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

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

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

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

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

COVID-19 Response

In response to the COVID-19 pandemic, the Group has identified its highly vulnerable clients and outlined a strategy for payment holidays, refinancing or restructuring across all segments. Since the outbreak of the pandemic, the Bank has granted payment holidays on both principal and interest payments to individual and MSME customers as well as to corporate borrowers that have been adversely affected by the government lockdowns. According to the strategy, some clients were given payment holidays only on interest, while other clients received them on both interest and principal amounts. The government elaborated a special support programme for the affected sectors: restaurants and small and medium sized hotels received subsidies in the amount of 70-80% of interest payments. For more information about the government support programme please refer to our customers section on pages 74-76.

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

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

FINANCIAL RISK MANAGEMENT

Liquidity risk management

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

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

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

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

The Management Board reviews the Liquidity Risk Management Policy, which is then presented to the Board and the Supervisory Board for approval.

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

Funding liquidity risk is the risk that the Group will not be able to efficiently meet both expected and unexpected current and future cash flows without affecting either its daily operations or its financial condition under both normal conditions and during a crisis. Liquidity risk is measured by the Bank in accordance with NBG requirements. Additionally, the Group applies, in accordance with best practice, stress tests and "what if" scenario analyses and monitors the various liquidity risk parameters that the Group has developed internally.

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

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

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

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

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

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

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

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

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

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

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

1 Based on internal estimates

Funding and maturity analysis

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

To maintain and further enhance its liability structure, the Group sets targets for deposits and funds received from international financial institution investors in its risk appetite via the respective ratios. The loan to deposit and IFI funding ratio (defined as the total value of net loans divided by the sum of total value of deposits and funds received from international financial institutions) stood at 101.2%, 104.8% and 89.9%, as at 31 December 2020, 2019 and 2018, respectively.

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

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

Market risk

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

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

Foreign exchange risk

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

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

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

In thousands of GEL	**As of 31 December 2020**	**As of 31 December 2019**	**As of 31 December 2018**
Maximum loss (VAR, 99% confidence level)	**(6,158)**	(2,291)	(8,890)
Maximum loss (VAR, 95% confidence level)	**(4,493)**	(1,584)	(6,162)

Interest rate risk management

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

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

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

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

Counterparty risk

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

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

CAPITAL RISK MANAGEMENT

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

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

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

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

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

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

Temporary Measures

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

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

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

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

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

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

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

NON-FINANCIAL RISK MANAGEMENT

Operational risk management

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

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

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

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

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

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

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

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

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

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

The Operational Risk Management Framework and its complementing policies were updated to ensure effective execution of the operational risk management programme.

Additionally, the Bank has developed a bank-wide operational risk registry.

Compliance

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

The compliance department manages regulatory risk by:

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

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

Anti-money laundering (AML)

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

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

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

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

Following regulatory changes, the Group developed and approved a new AML policy in 2020. The new regulation expanded the definition of a politically exposed person (PEP), introduced a new list of reportable transactions, and imposed additional Know Your Client (KYC) requirements for one-time clients. Following a gap analysis conducted by the Group, the compliance department introduced a number of changes to its internal processes and procedures.

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

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

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

Information Security

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

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

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

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

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

Legal

The Bank's legal department manages all legal and related matters concerning the activities of the Bank and the Group. In accomplishing its mission to ensure that such activities fully conform with all applicable laws and regulations, the legal team delivers a wide array of professional legal services: it (i) interacts with internal and external clients, outside counsel, government and regulatory entities; (ii) issues memos and opinions; (iii) drafts standardized and individual contracts; (iv) prepares corporate resolutions; (v) provides regulatory updates; and (vi) represents the Bank in courts, other dispute resolution venues and before other third parties. The legal team, which comprises lawyers with diverse backgrounds and experience, consists of the following key divisions: regulatory and legal compliance, corporate, dispute resolution, legal support and corporate governance teams. Each division functions within its clear and distinct job descriptions corresponding to relevant knowledge, skill and capabilities of its members. As part of the Bank's agile transformation effort, several lawyers are working within and/or in close cooperation with the teams in charge of specific commercial projects. The department ensures effective execution of its duties through different processes and procedures.

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

Conduct risk

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

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

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

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

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

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

VIABILITY STATEMENT

The assessment of principal risks underpins the Viability Statement in the Directors' Report for 2020 (see pages 159 to 160). The assessment involved consideration of the Group's current financial position over three years of coverage ending 1 January 2024, which is relevant to the strategic considerations of the Group.

OVERVIEW

TBC Bank Group PLC's financial results are prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Changes in accounting policies, IAS 16

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

TAX STRATEGY

TBC is committed to complying with all applicable tax laws in all jurisdictions where TBC Group operates, including in the UK. In particular, we aim to pay the correct amount of tax within applicable time limits.

Our objectives are built around the following key principles:

- transparency;
- responsibility; and
- effective interaction with tax authorities.

We ensure that the management of tax risk and proper governance around our tax operations is supported by appropriately trained personnel who have clear responsibilities to identify, analyse, assess and manage tax risks. For more details, please view our tax strategy on our website at www.tbcbankgroup.com under the "about us" section.

FINANCIAL HIGHLIGHTS

FY 2020 P&L Highlights

- Profit for the period amounted to GEL 322.5 million (FY 2019: GEL 540.3 million)
- Return on average equity (ROE) stood at 11.7% (FY 2019: 22.9%[1])
- ROE before expected credit loss allowances[2] stood at 24.7% (FY 2019: 26.8%[1])
- Return on average assets (ROA) stood at 1.6% (FY 2019: 3.2%[1])
- Cost to income of TBC Bank Group PLC stood at 38.4% (FY 2019: 39.9%)
- Standalone cost to income ratio of the Bank[3] was 32.9% (FY 2019: 35.9%)
- Cost of risk stood at 2.4% (FY 2019: 0.7%)
- Net interest margin (NIM) stood at 4.7% (FY 2019: 5.6%)
- Basic earnings per share stood at GEL 5.84 (FY 2019: GEL 9.83)
- Diluted earnings per share stood at GEL 5.76 (FY 2019: GEL 9.76)

Balance Sheet Highlights as of 31 December 2020

- Total assets amounted to GEL 22,577.8 million, up by 23.0% YoY
- Gross loans and advances to customers stood at GEL 15,200.5 million, up by 20.0% YoY or at 8.7% on a constant currency basis
- Net loans to deposits + IFI funding[4] stood at 101.2%, down by 3.6 pp YoY, and Regulatory Net Stable Funding Ratio (NSFR), effective from 30 September 2019, stood at 126.0%
- NPLs to gross loans were 4.7%, up by 2.0 pp YoY
- NPLs coverage ratios stood at 85.6%, or 189.1% with collateral, on 31 December 2020 compared to 91.1% or 194.2% with collateral, as of 31 December 2019
- Total customer deposits amounted to GEL 12,572.7 million, up by 25.1% YoY or at 13.8% on constant currency basis
- The Bank's Basel III CET 1, Tier 1 and Total Capital Adequacy Ratios per NBG methodology stood at 10.4%, 13.0%, and 17.1%, respectively, while minimum eased regulatory requirements amounted to of 7.4%, 9.2%, and 13.7%, respectively

1 Prior to the change in PPE (property, plant and equipment) accounting policy from the revaluation model to the cost method, ROE stood at 22.4%, while ROE before expected credit loss allowances stood at 26.3% and ROA remained unchanged in for the FY 2019.

2 Return on average total equity (ROE) before expected credit loss allowances equals net income attributable to owners excluding all credit loss allowance, but after net modification losses divided by the monthly average of total shareholders 'equity attributable to the PLC's equity holders for the same period, for more information please refer to Annex 1 on page 145.

3 For the ratio calculation, all relevant group recurring costs are allocated to the Bank

4 International Financial Institutions

Market Shares as of December 2020[5]

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

Income statement highlights

In thousands of GEL	FY'20	FY'19	Change YoY
Net interest income	835,433	801,539	4.2%
Net fee and commission income	182,767	187,290	-2.4%
Other operating non-interest income[6]	137,391	139,414	-1.5%
Credit loss allowance	(351,847)	(91,992)	NMF
Operating profit after expected credit losses	**803,744**	**1,036,251**	**-22.4%**
Losses from modifications of financial instrument	(41,015)	-	NMF
Operating expenses	(443,623)	(450,726)	-1.6%
Profit before tax	**319,106**	**585,525**	**-45.5%**
Income tax credit/(expense)	3,383	(45,184)	NMF
Profit for the period	**322,489**	**540,341**	**-40.3%**

Balance Sheet and Capital Highlights

In thousands of GEL	31-Dec-20	31-Dec-19	Change YoY
Total Assets	22,577,805	18,359,266*	23.0%
Gross Loans and advances to customers	15,200,520	12,661,955	20.0%
Customer Deposits	12,572,728	10,049,324	25.1%
Total Equity	2,935,934	2,599,090*	13.0%
Regulatory Common Equity Tier I Capital (Basel III)	1,911,233	1,871,892	2.1%
Regulatory Tier I Capital (Basel III)	2,385,181	2,281,706	4.5%
Regulatory Total Capital (Basel III)	3,137,912	2,974,029	5.5%
Regulatory Risk Weighted Assets (Basel III)	18,301,477	15,590,927	17.4%

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

Key Ratios

	FY'20	FY'19	Change YoY
ROE	11.7%	22.9%*	-11.2 pp
ROE before expected credit loss allowances[2]	24.7%	26.8%*	-2.1 pp
ROA	1.6%	3.2%*	-1.6 pp
NIM	4.7%	5.6%	-0.9 pp
Cost to income	38.4%	39.9%	-1.5 pp
Standalone cost to income of the Bank[3]	*32.9%*	*35.9%*	*-3.0 pp*
Cost of risk	2.4%	0.7%	1.7 pp
NPL to gross loans	4.7%	2.7%	2.0 pp
NPLs coverage ratio exc. collateral	85.6%	91.1%	-5.5 pp
CET 1 CAR (Basel III)	10.4%	12.0%	-1.6 pp
Regulatory Tier 1 CAR (Basel III)	13.0%	14.6%	-1.6 pp
Regulatory Total CAR (Basel III)	17.1%	19.1%	-2.0 pp
Leverage (Times)	7.7x	7.1x**	0.6x

** Prior to the change in PPE (property, plant and equipment) accounting policy from the revaluation model to the cost method ROE stood at 22.4%, while ROE before expected credit loss allowances stood at 26.3% and ROA remained unchanged in FY 2019*
*** Prior to the change in PPE (property, plant and equipment) accounting policy from revaluation model to cost method, leverage stood at 7.0x for FY 2019.*

5 Market share figures are based on data from the National Bank of Georgia (NBG). The NBG includes interbank loans for calculating market share in loans.
6 Other operating non-interest income includes net insurance premium earned after claims and acquisition costs.

Net Interest Income

In FY 2020, we generated GEL 835.4 million net interest income, up by 4.2% YoY.

The YoY increase in interest income of GEL 231.2 million, or 16.1%, was mainly supported by an increase in interest income from loans, which was driven by an increase in the respective portfolio by GEL 2,538.6 million, or 20.0%. This effect was partially offset by a 0.9pp drop in loan yields across all segments, mainly related to a decrease in the Libor rate, currency devaluation, a change in the segment mix towards corporate, as well as the slowdown of lending activities due to the pandemic. Furthermore, growth was supported by interest income from investment securities, on the back of an increase in the respective portfolio of 613.3 million, or 30.5%, as well as by the increased share of new securities acquired in 2020 with higher interest rates due to the increased average refinance rate.

Our interest expense increased by GEL 189.7 million, or 28.6%, which was mainly related to an increase in interest expense from deposits and other borrowed funds. The former increase was attributable to a growth in the respective portfolio of GEL 2,523.4 million, or 25.1%, which was further supported by an increase in yields due to an increase in the average refinance rate, as well as currency depreciation. The latter increase was mainly driven by growth in the NBG loan balances, which further supported the growth in the respective yield by 0.1pp (the GEL yield went up by 0.9pp on the back of the higher average refinance rate, while the FC yield declined by 1.3pp due to the decrease in the Libor rate). Another contributor was the growth in debt securities in issue related to an increase in interest expense from the Senior and AT1 Bonds issued in June and July 2019, respectively, in the amount of US$ 425 million.

In FY 2020, our NIM stood at 4.7%, down by 0.9pp YoY.

In thousands of GEL	**FY'20**	**FY'19**	**Change YoY**
Interest income	1,667,999	1,436,843	16.1%
Interest expense	(853,516)	(663,860)	28.6%
Net gains from currency swaps	20,950	28,556	-26.6%
Net interest income	**835,433**	**801,539**	**4.2%**
NIM	**4.7%**	**5.6%**	**-0.9 pp**

Net fee and commission income

In FY 2020, net fee and commission income totalled GEL 182.8 million, down by 2.4% YoY.

The slight decrease on a YoY basis is caused by card operations and other fee and commission income on the back of reduced economic activity due to the COVID-19 pandemic. This effect was positively impacted by an increase in fees from guarantees issued and settlement transactions. The former increase was driven by the increase in the respective portfolio, while the latter growth was related to the fee income from the payments transactions of our Uzbek subsidiary Payme (Inspired LLC), which was acquired in mid-2019.

In thousands of GEL	**FY'20**	**FY'19**	**Change YoY**
Net fee and commission income			
Card operations	45,147	56,037	-19.4%
Settlement transactions	86,284	73,228	17.8%
Guarantees issued and letters of credit	37,909	30,289	25.2%
Other	13,427	27,736	-51.6%
Total net fee and commission income	**182,767**	**187,290**	**-2.4%**

Other Non-Interest Income

Total other non-interest income decreased slightly YoY and amounted to GEL 137.4 million in FY 2020. The decline of GEL 2,023.0, or 1.5%, was mainly driven by the reduction in foreign currency operations on the back of slower economic activity in 2020 compared to the previous period, because of the COVID-19 pandemic.

In thousands of GEL	FY'20	FY'19	Change YoY
Other non-interest income			
Net income from foreign currency operations	98,010	101,467	-3.4%
Net insurance premium earned after claims and acquisition costs[1]	19,485	18,510	5.3%
Other operating income	19,896	19,437	2.4%
Total other non-interest income	**137,391**	**139,414**	**-1.5%**

Credit Loss Allowance

Total credit loss allowance in 2020 amounted to GEL 351.8 million. This year, we booked additional COVID-19 related provisions, which resulted in significant growth in provision charges. As a result, our CoR for the full year 2020 stood at 2.4%.

In thousands of GEL	FY'20	FY'19	Change YoY
Credit loss allowance			
Credit loss allowance for loan to customers	(330,811)	(82,030)	NMF
Credit loss allowance for other transactions	(21,036)	(9,962)	NMF
Total credit loss allowance	**(351,847)**	**(91,992)**	**NMF**
Operating profit after expected credit losses	**803,744**	**1,036,251**	**-22.4%**
Cost of risk	**2.4%**	**0.7%**	**1.7 pp**

NMF – no meaningful figures

Operating Expenses

In FY 2020, our total operating expenses decreased by 1.6% YoY, thanks to our effective cost control measures.

The decrease in administrative & other operating expenses was driven by a reduction in consultation services and business trip expenses, as well as the impact of renegotiated rent expenses per IFRS 16 in the amount of GEL 4.2 million.

Thus, in FY 2020 our cost to income ratio stood at 38.4%, down by 1.5pp YoY, while our standalone cost to income was 32.9%, down by 3.0pp over the same period.

In thousands of GEL	FY'20	FY'19	Change YoY
Operating expenses			
Staff costs	(244,043)	(247,803)	-1.5%
Provisions for liabilities and charges	(2,706)	(1,264)	NMF
Depreciation and amortization	(68,392)	(59,478)	15.0%
Administrative & other operating expenses	(128,482)	(142,181)	-9.6%
Total operating expenses	**(443,623)**	**(450,726)**	**-1.6%**
Cost to income	**38.4%**	**39.9%**	**-1.5 pp**
Standalone cost to income*	***32.9%***	***35.9%***	**-3.0 pp**

** For the ratio calculation all relevant group recurring costs are allocated to the bank*

1 Net insurance premium earned after claims and acquisition costs can be reconciled to the standalone net insurance profit as follows: net insurance premium earned after claims and acquisition costs less credit loss allowance, administrative expenses and taxes, plus fee and commission income and net interest income.

Net Income

In FY 2020 we managed to maintain resilient profitability, driven by the increase in net interest income and effective cost management. Over the same period, we also recorded losses from modifications of financial instruments, in the amount of GEL 41.0 million to reflect the decrease in the present value of cash-flows resulting from the loan repayment grace periods granted to the borrowers. As a result, our ROE before expected credit loss allowances stood at 24.7%, down by 2.1pp.

Over the same period, credit loss allowances increased significantly to cover the potential impact of the COVID-19 pandemic on our borrowers reducing our ROE to 11.7%.

In thousands of GEL	FY'20	FY'19	Change YoY
Losses from modifications of financial instruments	(41,015)	-	NMF
Profit before tax	**319,106**	**585,525**	**-45.5%**
Income tax credit/(expense)	3,383	(45,184)	NMF
Profit for the period	***322,489***	***540,341***	***-40.3%***
ROE	***11.7%***	***22.9%****	***-11.2 pp***
ROE before expected credit loss allowances	**24.7%**	**26.8%***	**-2.1 pp**
ROA	***1.6%***	***3.2%****	***-1.6 pp***

** Prior to the change in PPE (property, plant and equipment) accounting policy from the revaluation model to the cost method, ROE stood at 22.4% while ROE before expected credit loss allowances stood at 26.3% and ROA remained unchanged in FY 2019*

Funding and Liquidity

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

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

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

	31-Dec-20	31-Dec-19	Change
Minimum net stable funding ratio, as defined by the NBG	*100%*	*100%*	*0.0 pp*
Net stable funding ratio as defined by the NBG	126.0%	126.7%	-0.7 pp
Net loans to deposits + IFI funding	101.2%	104.8%	-3.6 pp
Leverage (Times)	7.7x	7.1x*	0.6x
Minimum liquidity ratio, as defined by the NBG	*30.0%*	*30.0%*	*0.0 pp*
Liquidity ratio, as defined by the NBG	33.3%	32.2%	1.1 pp
Minimum total liquidity coverage ratio, as defined by the NBG	*100.0%*	*100.0%*	*0.0 pp*
Minimum LCR in GEL, as defined by the NBG	*n/a*	*75.0%*	*NMF*
Minimum LCR in FC, as defined by the NBG	*100.0%*	*100.0%*	*0.0 pp*
Total liquidity coverage ratio, as defined by the NBG	134.2%	110.1%	24.1 pp
LCR in GEL, as defined by the NBG	132.2%	83.7%	48.5 pp
LCR in FC, as defined by the NBG	134.9%	128.4%	6.5 pp

**Prior to the change in PPE (property, plant and equipment) accounting policy from the revaluation model to the cost method, Leverage stood at 7.0x as of 31 December 2019*

Regulatory Capital

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

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

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

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

In thousands of GEL	**31-Dec-20**	**31-Dec-19**	**Change YoY**
CET 1 Capital	1,911,233	1,871,892	2.1%
Tier 1 Capital	2,385,181	2,281,706	4.5%
Total Capital	3,137,912	2,974,029	5.5%
Total Risk-weighted Exposures	18,301,477	15,590,927	17.4%
Minimum CET 1 ratio	*7.4%*	*10.4%*	*-3.0 pp*
CET 1 Capital adequacy ratio	10.4%	12.0%	-1.6 pp
Minimum Tier 1 ratio	*9.2%*	*12.5%*	*-3.3 pp*
Tier 1 Capital adequacy ratio	13.0%	14.6%	-1.6 pp
Minimum total capital adequacy ratio	*13.7%*	*17.5%*	*-3.8 pp*
Total Capital adequacy ratio	17.1%	19.1%	-2.0 pp

Loan Portfolio

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

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

In thousands of GEL	**31-Dec-20**	**31-Dec-19**	**Change**
Retail	**5,953,687**	**5,053,203**	**17.8%**
Retail loans GEL	2,996,854	2,386,750	25.6%
Retail loans FC	2,956,833	2,666,453	10.9%
Corporate	**5,690,749**	**4,660,473**	**22.1%**
Corporate loans GEL	*1,576,778*	*1,424,309*	*10.7%*
Corporate loans FC	4,113,971	3,236,164	27.1%
MSME	***3,556,084***	***2,948,279***	***20.6%***
MSME loans GEL	1,592,836	1,419,804	12.2%
MSME loans FC	*1,963,248*	*1,528,475*	*28.4%*
Total loans and advances to customers	**15,200,520**	**12,661,955**	**20.0%**

	FY'20	**FY'19**	**Change YoY**
Loan yields	**10.1%**	**11.0%**	**-0.9 pp**
Loan yields GEL	*15.3%*	*15.7%*	*-0.4 pp*
Loan yields FC	*6.7%*	*7.8%*	*-1.1 pp*
Retail Loan Yields	**11.3%**	**12.1%**	**-0.8 pp**
Retail loan yields GEL	*16.4%*	18.0%	-1.6 pp
Retail loan yields FC	*6.6%*	7.3%	-0.7 pp
Corporate Loan Yields	**8.7%**	**9.3%**	**-0.6 pp**
Corporate loan yields GEL	13.2%	11.6%	1.6 pp
Corporate loan yields FC	7.1%	8.4%	-1.3 pp
MSME Loan Yields	**10.3%**	**11.4%**	**-1.1 pp**
MSME loan yields GEL	15.1%	15.4%	-0.3 pp
MSME loan yields FC	6.3%	7.7%	-1.4 pp

Loan Portfolio Quality

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

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

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

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

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

Cost of risk

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

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

Deposit Portfolio

The total deposits portfolio increased by 25.1% YoY and amounted to GEL 12,572.7 million, while on a constant currency basis the total deposit portfolio increased by 13.8% over the same period. The proportion of deposits denominated in foreign currency increased by 0.4pp YoY and accounted for 66.3% of total deposits, while on a constant currency basis the proportion of deposits denominated in foreign currency decreased by 3.0pp YoY and stood at 62.9%.

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

In thousands of GEL	31-Dec-20	31-Dec-19	Change YoY
Retail	**7,255,020**	**5,673,917**	**27.9%**
Retail deposits GEL	1,330,942	1,098,681	21.1%
Retail deposits FC	*5,924,078*	*4,575,236*	*29.5%*
Corporate	***3,939,501***	***3,187,319***	***23.6%***
Corporate deposits GEL	2,240,287	1,735,746	29.1%
Corporate deposits FC	*1,699,214*	*1,451,573*	*17.1%*
MSME	***1,378,207***	***1,188,088***	***16.0%***
MSME deposits GEL	*671,658*	*594,388*	*13.0%*
MSME deposits FC	*706,549*	*593,700*	*19.0%*
Total Customer Accounts	**12,572,728**	**10,049,324**	**25.1%**

	FY'20	FY'19	Change YoY
Deposit rates	**3.6%**	**3.3%**	**0.3 pp**
Deposit rates GEL	*6.5%*	*5.8%*	*0.7 pp*
Deposit rates FC	*2.0%*	*2.0%*	*0.0 pp*
Retail Deposit Yields	**2.9%**	**2.8%**	**0.1 pp**
Retail deposit rates GEL	5.6%	5.0%	0.6 pp
Retail deposit rates FC	2.3%	2.3%	0.0 pp
Corporate Deposit Yields	**5.5%**	**4.9%**	**0.6 pp**
Corporate deposit rates GEL	8.2%	7.4%	0.8 pp
Corporate deposit rates FC	1.5%	1.7%	-0.2 pp
MSME Deposit Yields	**1.0%**	**0.9%**	**0.1 pp**
MSME deposit rates GEL	1.6%	1.5%	0.1 pp
MSME deposit rates FC	0.3%	0.3%	0.0 pp

SEGMENT DEFINITION AND INCOME STATEMENT

Business Segments

The segment definitions are as follows:

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

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

Income Statement by Segments

FY'20 (in thousands of GEL)	Retail	MSME	Corporate	Corp.Centre	Total
Interest income	617,124	335,161	462,383	253,331	1,667,999
Interest expense	(184,990)	(12,100)	(203,390)	(453,036)	(853,516)
Net gains from currency swaps	-	-	-	20,950	20,950
Net transfer pricing	(59,379)	(125,599)	34,455	150,523	-
Net interest income	**372,755**	**197,462**	**293,448**	**(28,232)**	**835,433**
Fee and commission income	214,377	26,405	57,197	16,198	314,177
Fee and commission expense	(109,822)	(10,896)	(8,575)	(2,117)	(131,410)
Net fee and commission income	**104,555**	**15,509**	**48,622**	**14,081**	**182,767**
Net insurance premium earned after claims and acquisition costs	-	-	-	19,485	19,485
Net gains from derivatives, foreign currency operations and translation	31,561	27,187	51,443	(12,173)	98,018
Gains less Losses from Disposal of Investment Securities Measured at Fair Value through Other Comprehensive Income	-	-	-	(624)	(624)
Other operating income	6,901	429	1,856	11,326	20,512
Share of profit of associates	-	-	-	-	-
Other operating non-interest income and insurance profit	**38,462**	**27,616**	**53,299**	**18,014**	**137,391**
Credit loss allowance for loans to customers	(201,652)	(100,070)	(29,089)	-	(330,811)
Credit loss allowance for performance guarantees and credit related commitments	(241)	(67)	3,546	-	3,238
Credit loss allowance for investments in finance lease	-	-	-	(8,398)	(8,398)
Credit loss allowance for other financial assets	(1,476)	-	(5,600)	(6,991)	(14,067)
Credit loss allowance for financial assets measured at fair value through other comprehensive income	-	-	(875)	(934)	(1,809)
Profit/(loss) before G&A expenses and income taxes	**312,403**	**140,450**	**363,351**	**(12,460)**	**803,744**
Losses from modifications of financial instruments	**(23,633)**	**(7,153)**	**(6,345)**	**(3,884)**	**(41,015)**
Staff costs	(110,988)	(48,631)	(35,580)	(48,844)	(244,043)
Depreciation and amortization	(45,256)	(11,187)	(4,296)	(7,653)	(68,392)
Provision for liabilities and charges	(2,200)	-	(400)	(106)	(2,706)
Administrative and other operating expenses	(66,987)	(22,186)	(13,649)	(25,660)	(128,482)
Operating expenses	**(225,431)**	**(82,004)**	**(53,925)**	**(82,263)**	**(443,623)**
Profit/(loss) before tax	**63,339**	**51,293**	**303,081**	**(98,607)**	**319,106**
Income tax credit/(expense)	21,360	3,568	(18,695)	(2,850)	3,383
Profit/(loss) for the year	**84,699**	**54,861**	**284,386**	**(101,457)**	**322,489**

CONSOLIDATED FINANCIAL STATEMENTS OF TBC BANK GROUP PLC

Consolidated Balance Sheet

in thousands of GEL	31-Dec-20	31-Dec-19
Cash and cash equivalents	1,635,405	1,003,583
Due from other banks	50,805	33,605
Mandatory cash balances with National Bank of Georgia	2,098,506	1,591,829
Loans and advances to customers	14,594,274	12,349,399
Investment securities measured at fair value through other comprehensive income	1,527,268	985,293
Bonds carried at amortised cost	1,089,801	1,022,684
Net investments in lease	271,660	256,660
Investment properties	68,689	72,667
Current income tax prepayment	69,888	25,695
Deferred income tax asset	2,787	2,173
Other financial assets	171,302	133,736
Other assets	266,960	255,712
Premises and equipment	372,956	334,728*
Right of use assets	53,927	59,693*
Intangible assets	239,523	167,597
Goodwill	59,964	61,558
Investments in associates	4,090	2,654
TOTAL ASSETS	**22,577,805**	**18,359,266***
LIABILITIES		
Due to credit institutions	4,486,373	3,593,901
Customer accounts	12,572,728	10,049,324
Other financial liabilities	227,432	113,608
Current income tax liability	853	1,634
Deferred income tax liability	13,088	18,888*
Debt securities in issue	1,496,497	1,213,598
Provisions for liabilities and charges	25,335	23,128
Other liabilities	87,842	95,162
Lease liabilities	58,983	59,898
Subordinated debt	672,740	591,035
TOTAL LIABILITIES	**19,641,871**	**15,760,176**
EQUITY		
Share capital	1,682	1,682
Shares held by trust	(33,413)	(27,516)
Share premium	848,459	848,459
Retained earnings	2,281,428	1,961,231*
Group reorganisation reserve	(162,167)	(162,167)
Share based payment reserve	(20,568)	(17,803)
Fair value reserve	11,158	(6,476)
Cumulative currency translation reserve	(2,124)	(6,850)
Net assets attributable to owners	2,924,455	2,590,560*
Non-controlling interest	11,479	8,530*
TOTAL EQUITY	**2,935,934**	**2,599,090***
TOTAL LIABILITIES AND EQUITY	**22,577,805**	**18,359,266***

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

in thousands of GEL	FY'20	FY'19
Interest income	1,667,999	1,436,843
Interest expense	(853,516)	(663,860)
Net gains from currency swaps	20,950	28,556
Net interest income	**835,433**	**801,539**
Fee and commission income	314,177	293,431
Fee and commission expense	(131,410)	(106,141)
Net fee and commission income	**182,767**	**187,290**
Net insurance premiums earned	53,359	38,199
Net insurance claims incurred and agents' commissions	(33,874)	(19,689)
Insurance profit	**19,485**	**18,510**
Net gains from currency derivatives, foreign currency operations and translation	98,018	101,187
Net (losses)/gains from disposal of investment securities measured at fair value through other comprehensive income	(624)	169
Other operating income	20,512	18,916
Share of profit of associates	-	632
Other operating non-interest income	**117,906**	**120,904**
Credit loss allowance for loans to customers	(330,811)	(82,030)
(Credit loss allowance)/Credit loss allowance reversal for investments in leases	(8,398)	582
Credit loss allowance reversal /(Credit loss allowance) for performance guarantees and credit related commitments	3,238	(2,156)
Credit loss allowance for other financial assets	(14,067)	(8,098)
Credit loss allowance for financial assets measured at fair value through other comprehensive income	(1,809)	(290)
Operating income after expected credit losses	**803,744**	**1,036,251**
Losses from modifications of financial instruments	(41,015)	-
Staff costs	(244,043)	(247,803)
Depreciation and amortization	(68,392)	(59,478)
Provision for of liabilities and charges	(2,706)	(1,264)
Administrative and other operating expenses	(128,482)	(142,181)
Operating expenses	**(443,623)**	**(450,726)**
Profit before tax	**319,106**	**585,525**
Income tax credit/(expense)	3,383	(45,184)
Profit for the year	**322,489**	**540,341**
Other comprehensive income/(expense for the year)		
Items that may be reclassified subsequently to profit or loss:		
Movement in fair value reserve	17,633	(15,156)
Exchange differences on translation to presentation currency	4,707	85
Other comprehensive income/(expense) for the year	**22,340**	**(15,071)**
Total comprehensive income for the year	**344,829**	**525,270**
Profit is attributable to:		
- Shareholders of TBCG	317,752	537,895
- Non-controlling interest	4,737	2,446
Profit for the year	**322,489**	**540,341**
Total comprehensive income is attributable to:		
- Shareholders of TBCG	340,092	522,843
- Non-controlling interest	4,737	2,427
Total comprehensive income for the year	**344,829**	**525,270**

Consolidated Statements of Cash Flows

In thousands of GEL	FY'20	FY'19
Cash flows from (used in) operating activities		
Interest received	1,462,815	1,360,296
Interest received on currency swaps	20,950	28,556
Interest paid	(839,258)	(647,427)
Fees and commissions received	297,024	282,715
Fees and commissions paid	(133,385)	(106,526)
Insurance and reinsurance received	86,447	76,101
Insurance claims paid	(27,139)	(21,787)
(Expense)/income from trading in foreign currencies	(92,191)	79,287
Other operating income received	48,402	44,248
Staff costs paid	(238,577)	(216,465)
Administrative and other operating expenses paid	(134,348)	(169,582)
Income tax paid	(46,268)	(70,413)
Cash flows from operating activities before changes in operating assets and liabilities	***404,472***	***639,003***
Net change in operating assets		
Due from other banks and mandatory cash balances with the National Bank of Georgia	(353,975)	(22,009)
Loans and advances to customers	(1,059,684)	(2,013,577)
Net investments in leases	(2,902)	(43,719)
Other financial assets	(41,774)	47,128
Other assets	33,109	1,577
Net change in operating liabilities		
Due to other banks	(32,294)	(1,938)
Customer accounts	1,432,051	272,023
Other financial liabilities	115,370	(8,267)
Other liabilities and provision for liabilities and charges	(8,153)	5,816
Net cash flows from/(used in) operating activities (as reclassified)	***486,220***	***(1,123,963)***
Cash flows from/(used in) investing activities		
Acquisition of investment securities measured at fair value through other comprehensive income	(763,531)	(1,781,816)
Proceeds from disposal of investment securities measured at fair value through other comprehensive income	287,917	240,603
Proceeds from redemption at maturity of investment securities measured at fair value through other comprehensive income	165,632	1,598,536
Dividends received	694	-
Acquisition of subsidiaries, net of cash acquired	-	(36,301)
Acquisition of bonds carried at amortised cost	(668,477)	(613,383)
Proceeds from redemption of bonds carried at amortised cost	413,038	216,871
Acquisition of premises, equipment and intangible assets	(164,379)	(120,333)
Proceeds from disposal of premises, equipment and intangible assets	3,627	13,225
Proceeds from disposal of investment properties	13,513	13,338
Net cash used in investing activities	***(711,966)***	***(469,260)***
Cash flows from (used in) financing activities		
Proceeds from other borrowed funds	4,036,810	1,819,899
Redemption of other borrowed funds	(3,324,230)	(1,392,897)
Repayment of principal of lease liabilities	(13,251)	(6,453)
Redemption of subordinated debt	-	(104,079)
Acquisition of treasury shares	(25,493)	(27,516)
Proceeds from debt securities in issue	104,838	1,176,049
Redemption of debt securities in issue	-	(14,296)
Dividends paid	(1,344)	(91,928)
Net cash flows from financing activities *(as reclassified)*	**777,330**	**1,358,779**
Effect of exchange rate changes on cash and cash equivalents	80,238	71,116
Net increase/(decrease) in cash and cash equivalents	***631,822***	***(163,328)***
Cash and cash equivalents at the beginning of the year	***1,003,583***	***1,166,911***
Cash and cash equivalents at the end of the year	***1,635,405***	***1,003,583***

KEY RATIOS

Average Balances

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

Key Ratios

Ratios (based on monthly averages, where applicable)	**FY'20**	**FY'19**
Profitability ratios:		
ROE[1]	11.7%	22.9%*
ROA[2]	1.6%	3.2%*
ROE before expected credit loss allowances[3]	24.7%	26.8%*
Cost to income[4]	38.4%	39.9%
NIM[5]	4.7%	5.6%
Loan yields[6]	10.1%	11.0%
Deposit rates[7]	3.6%	3.3%
Yields on interest earning assets[8]	9.5%	10.0%
Cost of funding[9]	4.9%	4.7%
Spread[10]	4.6%	5.3%
Asset quality and portfolio concentration:		
Cost of risk[11]	2.4%	0.7%
PAR 90 to Gross Loans[12]	1.5%	1.1%
NPLs to Gross Loans[13]	4.7%	2.7%
NPLs coverage exc. collateral[14]	85.6%	91.1%
NPLs coverage with collateral[15]	189.1%	194.2%
Credit loss level to Gross Loans[16]	4.0%	2.5%
Related Party Loans to Gross Loans[17]	0.0%	0.1%
Top 10 Borrowers to Total Portfolio[18]	7.9%	8.3%
Top 20 Borrowers to Total Portfolio[19]	12.1%	12.3%
Capital optimisation:		
Net Loans to Deposits plus IFI Funding[20]	101.2%	104.8%
Net Stable Funding Ratio[21]	126.0%	126.7%
Liquidity Coverage Ratio[22]	134.2%	110.1%
Leverage[23]	7.7x	7.1x**
CET 1 CAR (Basel III)[24]	10.4%	12.0%
Regulatory Tier 1 CAR (Basel III)[25]	13.0%	14.6%
Regulatory Total 1 CAR (Basel III)[26]	17.1%	19.1%

** Prior to the change in PPE (property, plant and equipment) accounting policy from the revaluation model to the cost method ROE stood at 22.4%, while ROE before expected credit loss allowances stood at 26.3% and ROA remained unchanged in FY 2019*

*** Prior to the change in PPE (property, plant and equipment) accounting policy from the revaluation model to the cost method, Leverage stood at 7.0x as of 31 December 2019*

Ratio definitions

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

Ratio definitions

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

ANNEX 1

Reconciliation of Return on equity (ROE) with ROE before expected credit loss allowances

#	*Income Statement Highlights*					
1	*in thousands of GEL*	**4Q'20**	**3Q'20**	**4Q'19**	**FY'20**	**FY'19**
2	Net interest income	231,325	211,784	209,318	835,433	801,539
3	Net fee and commission income	52,199	47,499	54,844	182,767	187,290
4	Other operating non-interest income and insurance profit	38,573	33,913	40,075	137,391	139,414
5	Credit loss allowance	-79,370	-13,426	224	-351,847	-91,992
6	**Operating profit after expected credit losses**	**242,727**	**279,770**	**304,461**	**803,744**	**1,036,251**
7.	Losses from modifications of financial instrument	-5,082	-1,763	-	-41,015	-
8.	Operating expenses	-127,950	-113,513	-127,124	-443,623	-450,726
9.	**Profit before tax**	**109,695**	**164,494**	**177,337**	**319,106**	**585,525**
10.	Income tax credit/(expense)	-8,994	-11,906	-17,313	3,383	-45,184
11.	**Profit for the period**	**100,701**	**152,588**	**160,024**	**322,489**	**540,341**
12.	**Profit for the period less Non-controlling interest**	**99,371**	**150,755**	**159,416**	**317,752**	**537,895**
13.	**Profit before Credit loss allowances less Non-controlling interest (12 - 5)**	**178,741**	**164,181**	**159,192**	**669,599**	**629,887**

#	*in thousands of GEL*	**4Q'20**	**3Q'20**	**4Q'19**	**FY'20**	**FY'19**
14	Average equity attributable to the PLC's equity holders	2,888,145	2,731,868	2,507,930	2,713,030	2,348,165
15	Return on equity (ROE) (12÷14)*	13.7%	22.0%	25.2%	11.7%	22.9%
16	Return on equity (ROE) before expected credit loss allowances (13÷14)*	24.6%	23.9%	25.2%	24.7%	26.8%

**annualised where applicable*

CHAIRMAN'S GOVERNANCE OVERVIEW

Dear shareholders,

As the recently appointed Chairman of the Board, I am pleased to present our corporate governance review for 2020. This report sets out our approach to governance in practice and the work of the Board in this area during 2020. Throughout the year, we remained focused on protecting the health and wellbeing of our colleagues and other stakeholders, while recognizing the importance of fulfilling the Group's responsibilities and duties to shareholders and all other stakeholders.

Our approach is to ensure that our governance structure is both fit for purpose and in line with best practice. The Board's primary responsibility is to ensure that the Group applies the highest principles of corporate governance and that such principles are embedded into the culture and operations of our business. An overview of the range of matters that the Board considered this year is provided on page 150 and details of how the Board took into account shareholder and wider stakeholder interests in its discussions and decision making are set out on page 150-151.

How we have maintained governance across the group in response to pandemic

Throughout the global pandemic, management has been focused on protecting the health and wellbeing of our workforce. Appropriate protections have been put in place for those staff that had to continue dealing with our customers in person, and arrangements were made to allow other staff to work from home. The Board monitored these actions and supported management where appropriate. In addition to this, the Board has reviewed the actions taken by management to support the financial wellbeing of clients, along with other stakeholders. The Board, supported by the Chief Risk Officer and the Risk Committee, has ensured that the Group remained stable both financially and operationally. In addition, the Board has taken the significant decisions to suspend both variable pay for executives for performance period 2020 and the payment of dividends to shareholders in relation to the financial year 2019. Both of these actions were planned so that the Group's capital adequacy positions could be maintained.

The Board has been unable to meet in person since February 2020 and since then all Board and Board Committee meetings have been held via video conference. Despite this, the Board has maintained a close dialogue throughout this period, through additional calls on issues as they arose. The Board has also remained in close contact with the executive management of key subsidiaries, with a greater focus on JSC TBC Bank.

Changes to the Board in 2021

Following the publication of certain amendments to the National Bank of Georgia's Corporate Governance Code (the "NBG Code") on 9 February 2021, which introduced requirements that, as a regulated entity in Georgia, JSC TBC Bank was required to adopt, the Board re-confirmed its decision to maintain its "Mirror Boards" governance structure introduced on 13 August 2019. Under this structure, key aspects of the TBC Bank Group PLC ("TBC PLC") Board and the Supervisory Board of its main subsidiary TBC Bank JSC (the "Bank") are aligned. The Board continues to hold the view that this structure is the most appropriate approach to ensure the efficient and effective governance of the Group. Under the structure:

- The Board of TBC PLC and the Supervisory Board of the Bank have the same non-executive members;
- The Chairman of the TBC PLC Board also serves as the chairman of the Supervisory Board of the Bank;
- The Senior Independent Director ("SID") of TBC PLC also serves as the SID of the Supervisory Board of the Bank; and
- The Committee chairs of TBC PLC Board also serve as the equivalent Committee chairs of the Supervisory Board.

The amendments to the NBG Code will also affect the current composition of the Supervisory Board of the Bank as:

- The chairman of the Supervisory Board must be independent; and
- The period of time after which the Chairman or a member of the Supervisory Board shall be deemed to cease being independent has been reduced from 9 years to 7 years. That period should be calculated from the date of the relevant member's initial appointment to the Supervisory Board.

Following the amendments introduced to the NBG Code, and Board-level discussions relating to certain aspects of the Group's governance (including the Board's decision to maintain the "Mirror Boards" governance structure), a number of changes were made to TBC PLC's Board and the Supervisory Board of the Bank. Nikoloz Enukidze stepped down from his position as Chairman of the Board of TBC PLC and Chairman of the Supervisory Board on 1 March 2021 and I replaced him in both positions, having relinquished my role as Senior Independent Director.

Nikoloz Enukidze has also stepped down from the membership of the Remuneration Committee of the Board TBC PLC and the Supervisory Board of TBC Bank and I have replaced him as a member of the Remuneration Committee of the Board and the Supervisory Board. Nikoloz Enukidze continues to serve as a non-executive Director of the Board of TBC PLC and a member of the Supervisory Board of the Bank.

I have also stepped down from both membership of the Audit Committee and as Chairman of the Risk Committee of the Board and the Supervisory Board of the Bank. Abhijit Akerkar has been appointed as interim Risk Committee Chair.

Tsira Kemularia has been appointed as an interim Senior Independent Director for both the TBC PLC Board and the Supervisory Board of the Bank.

Nicholas Haag stepped down from his role as Chairman of both the Audit Committee of the Board and the Supervisory Board on 12 February 2021. He continues as a member of the Audit Committee of both TBC PLC and TBC Bank JSC.

Maria Luisa Cicognani has been appointed as interim chair of the Audit Committee of the Board and the Supervisory Board of the Bank with immediate effect.

On 28 February 2021 each of Nikoloz Enukidze, Nicholas Dominic Haag and Eric Rajendra notified the Board that they did not intend to seek re-election at the Annual General Meeting. However, on 16 April 2021 Nikoloz Enukidze, Nicholas Dominic Haag and Eric Rajendra withdrew their previous notices and confirmed in writing to the Board that they intend to stand for re-election at the Annual General Meeting. As announced on 16 April 2021, the other non-executive Directors (including myself, Maria Luisa Cicognani, Abhijit Akerkar and Tsira Kemularia) have determined to continue implementing previously-agreed commitments with the NBG regarding an orderly and effective succession plan and nominate members of the Board who will meet the new independence requirements from the NBG, as implemented in the revised NBG Corporate Governance Code. As such, the majority of the Board does not support the re-appointment of Nikoloz Enukidze, Nicholas Dominic Haag and Eric Rajendra and expects to recommend that shareholders vote against resolutions in respect of their re-appointment at the upcoming Annual General Meeting. Further information regarding the Board's views concerning the proposed re-election of Nikoloz Enukidze, Nicholas Dominic Haag and Eric Rajendra will be set out in the Notice of AGM.

In accordance with the UK Corporate Governance Code (the "Code"), it is anticipated that all Directors will be offering themselves for re-election, or in the case of Mr Akerkar election, as Directors at the forthcoming Annual General Meeting.

The Board's Nomination and Governance Committee is undertaking a search process to find candidates to complement the current range of skills on the Board through the recruitment of additional independent non-executive Directors. Following the conclusion of the recruitment exercise, the Committee will reconsider roles and memberships of the Board Committees and make appropriate recommendations to the Board.

How has the Board Remained Effective

The Board developed an extensive training programme during the year, with Directors being made aware of, and taking part in a number of online seminars. The Secretariat have monitored attendance at these sessions throughout the year. As normal, a Board effectiveness evaluation has been undertaken again, conducted by the Company Secretary. Full details of the 2020 outcome and the implementation of the 2019 plan during 2020 are given on pages 151-152, but the Board's focus in 2021 will remain on refining its strategy and continuing its focus on risk management.

Arne Berggren
Chairman

26 April 2021

CORPORATE GOVERNANCE STATEMENT

HOW WE OPERATE

Corporate governance framework

The Group's corporate governance statement provides shareholders with: an explanation of how the Company has applied the main principles of the UK Corporate Governance Code ("Code"); the Group's approach to governance in practice; and the work of the Board and its Committees.

Compliance Statement

As a premium-listed company on the London Stock Exchange, the Company complies fully with the Code.

At the date of this report, the Company has applied the principles and complied with the provisions set out in the Code issued by the Financial Reporting Council ("FRC") in full throughout 2020. The Code can be found on the FRC website www.frc.org.uk.

HOW THE BOARD LEADS THE GROUP

The Board is the principal decision-making body of the Group and is collectively responsible for promoting the Group's purpose, culture, values and long term success strategy. The Board ensures the delivery of sustainable value to stakeholders by establishing and overseeing the strategic direction of the Company and its business. The Board's role is to provide leadership through effective oversight and review of Group's operations. It sets the Group's risk appetite, monitors operational and financial performance and reporting, ensures the Group is adequately resourced with effective controls and remuneration policies, and that there are appropriate succession planning arrangements in place. The Directors are aware of their duties under section 172 of the Companies Act 2006 and further insight into how the Board takes account of the views and interests of our stakeholders can be found on pages 150-151.

The Board is led by the Chairman and provides constructive challenge, oversight and advice to ensure the Company's success. The Chairman ensures that there is constructive debate in the boardroom in order to create and maintain an environment where the Board remains open to different viewpoints and ideas.

Moreover, the Chairman takes responsibility to ensure that the Board is updated in a timely manner about the Company's performance, to enable it to make proper decisions. The Chairman ensures information exchanges between the Board, the Committees and executives. If there is a need for independent advice, the Board can seek it directly at the Company's expense.

Board operations

During the year the Board met 39 times of which only one of those meetings was in person. As the Board was unable to meet in person the Board held meetings by video conference and this led to a change in working pattern. In 2019, the Board had scheduled review meetings and a designated strategy review session, only meeting on an ad-hoc basis for urgent approvals. This year the Board used the flexibility of video conferencing to hold not only the regular review meetings but also ad hoc discussions around business development issues, and "deep dives" into core strategic developments. Further details of the range of topics discussed and the number of meetings held are on pages 150 and 154 respectively.

There is a formal schedule of matters reserved for the Board's approval in place to ensure that the Board retains control over key decisions. The matters exclusively reserved for the Board's approval include, among other things, approval of the Group's strategy, long-term objectives, risk appetite, the annual operating and capital expenditure budgets, changes to the Group's capital, share buy-backs, major acquisitions and/or mergers, annual reports and accounts. The full document is available on the website at www.tbcbankgroup.com.

All Board meetings, irrespective of the type of discussion follow a tailored agenda agreed in advance by the Chairman, Chief Executive Officer and Group Company Secretary. In addition the Board has a detailed schedule of work which plans the Board's workload throughout the year, in line with the schedule of matters reserved for the Board.

The Board recognises the need to prioritise time to focus on material strategic and business matters, while ensuring monitoring and oversight of all other key matters within its remit.

The Board and Committees rely on the management to raise relevant items for approval. The processes of agenda setting and reporting to the Board are reviewed as part of the Board performance evaluation.

All Directors are expected to attend each Board meeting and the meetings of Board Committees of which they are a member.

Board Composition

In accordance with the Code, the majority of the Board are independent non-executive Directors. At the date of this report, the Board is comprised of a Chairman (Arne Berggren), one executive Director (Vakhtang Butskhrikidze) and five independent non-executive Directors Tsira Kemularia (interim Senior Independent Director), Maria Luisa Cicognani, Nicholas Haag, Abhijit Akerkar and Eric Rajendra. Nikoloz Enukidze, the former Chairman, is a non-executive Director who is not considered as independent under the Code.

The Board has considered the independence of the Company's non-executive Directors as against the factors described in the Code and has determined that all non-executive Directors, apart from Nikoloz Enukidze, are independent.

Each non-executive Director has an ongoing obligation to inform the Board of any circumstances that could impair their independence.

Details of the individual Directors and their biographies are set out on pages 162 -165.

Division of Responsibilities

There is a clear division of responsibilities between the Chairman, the Chief Executive Officer and the Senior Independent Director. As Chairman, Arne Berggren is responsible for leading the Board to ensure that the Board as a whole performs a full and constructive role in the development and determination of the Group's strategy and overall commercial objectives. He also oversees the Board's decision-making processes. The Chief Executive Officer, Vakhtang Butskhrikidze, is responsible for the Company's day-to-day management and has the principal responsibility of running the Group's business. He is responsible for proposing, developing and implementing the Group's strategy and overall commercial objectives, which is done in close consultation with the Chairman and the Board. In addition, the Board has appointed, in line with the requirements of the Code, Tsira Kemularia as interim Senior Independent Director, who provides a sounding board for the Chairman. This separation of responsibilities between the Chairman and the Chief Executive Officer ensures that no one individual has unfettered powers of decision-making. The full document detailing the division of responsibilities between the Chairman, the Chief Executive Officer and the Senior Independent Director is available on our website at www.tbcbankgroup.com.

WHAT DID BOARD DISCUSS IN 2020

During the year ended 31 December 2020, the Board considered a wide range of matters, including:

- Reviews of the Group's performance against budget and monitoring of Key Performance Indicators;
- Consideration and approval of the 2019 financial statements, including approval of the going concern basis of preparation and the Group's viability statement;
- Approval of the 2020 interim and quarterly results announcements;
- The businesses' response to the Covid-19 pandemic, including:
  - A review of the Group's risk appetite as a result and an updated stress test;
  - An amended rolling budget for the year;
  - Cancellation of senior management variable pay for 2020; and
  - Cancellation of dividend payments for the financial year 2019.
- Changes to the Board including the appointment of a new independent non-executive Director and the appointment of a new CFO to JSC TBC Bank;
- Strategic reviews of the Group including in depth reviews of:
  - The Group's international expansion plans;
  - The Group's corporate and investment banking operations;
  - The Group's Ecosystem businesses and their development;
  - The IT transformation strategy;
  - The Space business; and
  - TBC Insurance.
- Review and consideration of the Groups investment to develop a business in Uzbekistan, including approval of an appropriate business plan and delegation of authority to management.
- Approval of various Group wide policies including:
  - An environmental policy;
  - An operational risk framework and associated IRR Policy;
  - The Group's Code of Conduct;
  - A Model Risk Management policy.
- A review of the findings of the internally facilitated Board evaluation exercise and the action plans resulting there from.

What were the principal decisions made in 2020

The principal decisions made by the Board during 2020, and the impact that these had on various stakeholders are detailed below:

Decision:	2021 Business Plan and Budget
Context	The Business Plan and Budget sets the annual targets and the costs of the necessary resources to achieve these targets. It is developed in line with the overall strategy of the Group and takes into account any specific challenges faced by the business. This includes any stakeholder related considerations. The Chief Executive Officer, supported by key members of the management team, presents the Business Plan and Budget for the Board's challenge and approval. Key senior management responsible for the key business units attend and present their budget to the Board.
Stakeholder considerations	In reviewing the Business Plan and Budget, the Board considered the potential impact that each operation and project might have on its stakeholders (employees, local communities, government and regulators, contractors & suppliers, shareholders and customers) and the environment.
Strategic Actions Supported by the Board	The strategic actions of the Business Plan and Budget supported by the Board to generate value for stakeholders are: › continued geographic expansion into other jurisdictions in the region; › further system and process enhancements based on the agile system to increase efficiency and improve control; › wider use of digital banking technology to benefit customers; › continuing high standards of corporate governance and adherence to regulations; and › approval of investment plans, generating new products and businesses that provide additional employment opportunities, enhanced customer services and supplier opportunities.

Impact of these actions on the long-term success of the Company	The Business Plan and Budget creates a balance between current operating performance and considerations that matter to all stakeholders in the short and long-term such as health & safety, environmental performance and community relations. In addition a wider range of client products will become available to customers in Georgia and other jurisdictions across the region.
Outcome	In December 2020 the Board discussed and approved the Budget for 2021 and discussed the main strategic priorities for 2021 to enhance the existing Business Plan.

Decision:	**Cancellation of dividend payments and senior management variable pay**
Context	In light of the global pandemic and its impact on the Georgian economy, the Board considered whether it was appropriate either to make dividend payments for the financial year 2019 or pay senior management annual bonus and share awards under long-term incentive plan (LTIP) for the 2020 performance period. It concluded that it was not appropriate and that funds should be retained in the group to strengthen capital positions.
Stakeholder Considerations	The Board considered that the retention of funds within the Group was a benefit to shareholders, customers and employees.
Strategic Actions Supported by the Board	The dividend payments were duly suspended for 2019, and senior management (executive Directors and top management of JSC TBC Bank) did not receive variable compensation for performance period 2020.
Impact of these actions on the long-term success of the Company	Cash retained in the business (for more information please see pages 124-126).

Decision:	**Investment in Uzbekistan**
Context	In support of the Group's strategy to widen it operations across the region, the Company has continued to build a business in Uzbekistan.
Stakeholder Considerations	The Board considers that diversification of the Group's activities into other jurisdictions in the region is of benefit to shareholders; will build its customer base and provide modern banking services for Uzbekistan customers; and provide more career development for existing employees along with providing further job opportunities in the region.
Strategic Actions Supported by the Board	Roll out of the Group Space digital banking platform into Uzbekistan, as soon as banking license awarded.
Impact of these actions on the long-term success of the Company	In April 2020 the Group received its banking license for operations in Uzbekistan, and in October launched its services, centered on the Group's digital banking platform, Space. By the end of January 2021 the business had 26,520 users, delivered 12,002 debit cards, gained 1,857 deposit customers and launched its initial lending value proposition. The business operates around 20 outlets, which are used for customer onboarding and assisted service support. This supports the initial predictions that the Group could expand its operations into other jurisdictions for the benefit of shareholders, customer and employees.

HOW DOES THE BOARD MONITOR ITS PERFORMANCE

In 2020 the Board undertook an internal evaluation of its performance conducted by the Company Secretary under the supervision of the Corporate Governance and Nomination Committee (CGN). The format followed was similar to that used in 2019, and the individual Directors completed a questionnaire seeking their views on how the Board had operated and how they assessed its performance; and that of the various Board Committees. Once completed the consolidated questionnaires were considered at three levels: (i) at a CGN Committee; (ii) between the Chairman of the CGN Committee and the Chairman of the Board; (iii) and at a full Board meeting. Overall Board and Committee performance was deemed to be satisfactory.

At a meeting in February 2021 the Board agreed an action plan, which included the following items detailed on the table below:

Action plan following 2020 Board Evaluation

Summary of comments	Planned Action
1. Strategy and business issues	
1.1. Continuing focus on further enhancing the strategy.	Enhance the links between strategy development roadmap and KPIs associated with that plan.
2. Risk Management and Internal Control	
2.1. Existing risk management and internal control processes need to be widened across group wide business.	Identify a responsible individual within key business units that will be charged with implementing the roll out across group wide businesses.
3. Board effectiveness	
3.1. Current demands on Board members are high and meeting load high despite improvement put in place by Secretariat, further development of process is needed.	Need to focus Board on key issues.
3.2. Level of challenge needs to be increased at times and clear understanding of division of responsibilities between the INED and executive teams needs to be further improved.	Ongoing discussion with INEDs and the management team.
4. Board Composition, Succession and Skills	
4.1. Succession planning needs continued review.	CGN continues to refine the process.

Arising from the items identified in the 2019 review, with relation to increased focus on strategy and succession planning, the Board as indicated above still considers that more emphasis is needed on these areas. The review undertaken concluded, however, that Board Committees had over the year become more effective and better structured.

The review of individual Board Committees highlighted that all committees were effective and performance had improved throughout 2020. The individual Committee reports all give a summary of their individual performance plan for the forthcoming year.

Due to the Board restructuring recently undertaken no individual Director's feedback session have been undertaken, and due to the change in the Chairman announced in February 2021 no review of his performance has been undertaken.

As required by the Code, during 2021, an externally conducted Board evaluation will be undertaken. The last externally evaluated review was undertaken by Independent Audit Limited in 2018 (IAL).

HOW DOES THE BOARD MONITOR CULTURE AND ENGAGE WITH STAFF

The Group's strategic review on pages 82 to 87 details the Group's policies with regard to ensuring that all colleagues are supported by the business so that they have satisfying and appropriate careers with the organization. The Board regularly reviews progress in this area to ensure that progress and processes that are in place are in line with the Group's culture. The Board receives frequent updates from the head of Human Resources. In addition the Board's Remuneration Committee reviews the pay and benefits structure across the whole Group to ensure that pay levels are appropriate.

The Board has appointed one non-executive Director to act as an employee ambassador responsible for staff engagement. During 2020 several review forums were held with staff by Tsira Kemularia, the appointed Director who fed back the outcome of her discussions to the Board. In 2020, inevitably these discussion had to be held by video conference, but the process continued throughout the year.

Throughout 2020 the Board has been kept fully informed of management's response to the COVID-19 pandemic and has supported management in decisions to guarantee no job losses as a consequence and with its plan to facilitate working from home wherever possible.

HOW THE PRINCIPAL RISKS ARE MONITORED AND CONSIDERED BY THE BOARD

The Board has considered an appropriate risk appetite for the Group, and an associated risk management framework. As explained on page 160, effectiveness of the Group's risk management framework, practice and internal control mechanisms, the Risk Committee monitors this on behalf of the Board and reports any areas of concern.

HOW THE BOARD COMMITTEES SUPPORT THE BOARD

The Board discharges some of its responsibilities through, and is supported by, it's Committees which provide oversight and make recommendations on the matters delegated to them by the Board. The Board has established four principal Board Committees: Corporate Governance and Nomination Committee, Audit Committee, Risk Committee and Remuneration Committee.

Board Committee membership and attendance at meetings is set out below. Each Committee is led by the Chair and membership consists solely of non-executive Directors. The Chairs of each Board Committee provide a report on Committee business at each Board meeting, including the matters being recommended by a Committee for Board approval. The process for setting a Committee agenda and running a Committee meeting mirrors that of the Board. Terms of References for each principal Board Committee is available on our website (www.tbcbankgroup.com).

Membership

Membership of Board Committees as at the 26 April 2021 is as follows:

Outside Directors	Audit Committee	Remuneration Committee	Corporate Governance and Nomination Committee	Risk Committee
Arne Berggren		Member		
Tsira Kemularia (SID)	Member		Chairperson	Member
Maria Luisa Cicognani	Chairperson	Chairperson		Member
Abhijit Akerkar			Member	Chairperson
Nicholas Haag	Member	Member	Member	Member
Nikoloz Enukidze			Member	
Eric Rajendra		Member	Member	

Member Chairperson

DIRECTORS

Board and Committee attendance

In 2020, in response to the global pandemic the Board significantly changed how it operated. In prior years the Board had met for two day review sessions, consisting of both Board and Committees meetings. After February 2020 the Board was unable to meet in person and operated by video conference call throughout the rest of that year and in 2021. This has resulted in a change of emphasis for Board meetings, where the normal review meetings have been supplemented by deep dives on topics of strategic interest, and matters requiring swift approval have been discussed in short calls.

In line with the Mirror Board structure utilized by the Board, where non-executive Directors of the Company are also members of the Supervisory Board of the Bank, all meetings are joint meetings of the Company and the Bank, apart from 29 meetings which were held in relation to actions that needed to be taken by the Bank alone.

Attendance at the various Board meetings in 2020 have been as follows:

	Scheduled review meetings	Meetings held in response to COVID-19	Deep Dive on strategy topics	Board approval for Financial statements and Board changes	Policy approvals and miscellanous	Investment into Uzbekistan
Number of meetings (39)	**5**	**4**	**8**	**11**	**8**	**3**
Arne Berggren	5	4	6	10	8	3
Vakhtang Butskhrikidze	5	4	8	11	8	3
Nicholas Haag	5	4	8	11	8	3
Maria Luisa Cicognani	5	4	8	11	8	3
Tsira Kemularia	5	4	8	11	8	3
Nikoloz Enukidze	5	4	8	11	8	3
Eric Rajendra	5	4	8	11	8	3
Abhijit Akerkar (maximum possible number following appointment - 19)	2/2	0/0	7/7	4/4	5/5	1/1

The three calls that Mr Berggren was unable to attend, were prior to his appointment as Chairman, they were called at short notice and conflicted with his other business engagements.

Attendance at the Board Committee was as follows:

	Audit Committee	Remuneration Committee	Corporate Governance and Nomination Committee	Risk Committee
Number of meetings	**9**	**11**	**11**	**14**
Arne Berggren	9	N/M	N/M	14
Nicholas Haag	9	11	11	14
Maria Luisa Cicognani	9	11	N/M	14
Tsira Kemularia	9	N/M	11	14
Nikoloz Enukidze	N/M	11	11	N/M
Eric Rajendra	N/M	11	11	N/M
Abhijit Akerkar	N/M	N/M	N/M	N/M

N/M – non-member

Mr Akerkar was not formally a member of any of the Board Committees during 2020, but as part of his induction process attended most meetings as an observer.

Induction And Training

A formal induction is arranged for newly appointed Directors based on the individual's needs, skills and experience. Typically, these included a series of meetings with the Chairman and other Directors and senior executives, as well as local site visits to provide familiarity with the business. During the year, there was one new appointment to the Board. The induction process for Abhijit Akerkar included an on-line business introduction, followed by discussions with executives and key business unit managers and an introduction to the operations, risks, and governance environment of the Group. In addition, Mr Akerkar received training on his duties as Directors of a listed company, with Baker McKenzie LLP, the Company's external counsel.

Members of the Board are required to complete a self-assessment process at the end of the year, where the members of the Board can identify a relevant development programme.

Diversity Policy

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

Detailed information on the Board's diversity policy can be found in the Corporate Governance and Nomination Committee report on pages 169-172 and at www.tbcbankgroup.com

Directors' Commitments

The Directors are required to disclose to the Board their external appointments or other significant commitments prior to their appointment. Should these appointments change during their tenure, the Director is required to disclose those changes and conflicts that might arise. They will then be considered and approved by the Board.

Each non–executive Director is required to devote such time as is necessary for the effective discharge of their duties. Whilst the non-executive Directors hold external directorships or other external positions, the Board believes in all cases they still have sufficient time to devote to their duties as a Director of the Company and that the other external directorships/positions held provide the Directors with valuable expertise which enhances their ability to act as a non-executive Director of the Company. No significant changes to the commitments of the Chairman or non- executive Directors were identified during the year 2020.

Re-election Of Directors

All Directors of the Company will seek re-election at the next AGM and further information regarding the contribution of each Director to the Board and their re-election will be set out in the Notice of AGM. Biographical details of the Directors are included on pages 162-165.

REMUNERATION COMMITTEE

Information on the Remuneration Committee is included in the Directors' Remuneration report on pages 177-213.

ENGAGEMENT WITH SHAREHOLDERS

Effective communication with shareholders is given high priority by the Board. The Chief Executive Officer and the Chief Financial Officer maintain close engagement with the Company's major shareholders. During 2020, they proactively engaged with market participants to provide a comprehensive analysis of the impact of COVID-19 on the Group's business, participated in quarterly roadshows, one-to-one investor conferences organized by brokers, and conducted investor calls upon request. Since March 2020, all meetings have been held virtually due to the pandemic.

The Company has a dedicated investor relations team, which is the first port of call for investors and analysts. The team answers queries in a timely manner and prepares comprehensive IR materials, including results presentations and annual reports that are available on our IR website: www.tbcbankgroup.com. The website also contains information about all announcements issued to the LSE.

Moreover, existing shareholders, potential investors and analysts are able to ask questions about the Group through the Company's permanent representative in London, who is always available for investor meetings and updates relating to investor relations and international media on behalf of the senior management team. The Chief Executive Officer, Chairman and Senior Independent Director are also available to discuss the concerns of shareholders at any point during the year. All Committee chairmen are available to answer shareholder questions at the Annual General Meeting of the Company or anytime during the year.

Details on our engagement with the shareholders can be found on pages 70-73.

ANNUAL GENERAL MEETING

The last Annual General Meeting ("AGM") of the Company was held on its registered office at Elder House, St Georges Business Park, 207 Brooklands Road, Weybridge, Surrey, KT13 0TS, United Kingdom on 10 June 2020. 71.43% of total voting rights were exercised by shareholders. All resolutions put to shareholders were passed with votes in favour ranging from 85.62% to 100.0% of the votes cast.

The 2021 AGM Notice will be circulated to all the shareholders at least 21 working days before the AGM and it will also be made available on our investor relations website: www.tbcbankgroup.com. The voting on the resolutions will be announced via the Regulatory News Service and made available on our investor relations website www.tbcbankgroup.com.

DIRECTORS' REPORT

The Directors present their Annual Report together with the audited consolidated accounts for the year ended 31 December 2020, which can be found on pages 225 to 372.

The Strategic Report on pages 4 to 145 was approved by the Board on 26 April 2021 and signed on its behalf by Vakhtang Butskhrikidze, the Company's Chief Executive Officer.

The Management Report together with the Strategic Report on pages 4 to 145 form the Management Report for the purposes of DTR 4.1.5. R.

Other information that is relevant to the Directors' Report and incorporated by reference into this report can be located as follows:

DIRECTORS' CONFLICTS OF INTERESTS

The Company, in accordance with the requirements of the Companies Act 2006 and the Company's articles of association (the "Articles of Association"), requires Directors to declare actual or potential conflicts of interest that could interfere with the interests of the Company. The Directors are required, prior to the Board meetings, to declare any conflict of interest they may have in relation to the matters under consideration and, if so, abstain from voting and decision-making, in relation to the matter in question.

Directors have a continuing duty to notify the Chairman and Company Secretary as soon as they become aware of any potential or actual conflicts.

DIRECTORS' INDEMNITIES AND INSURANCE

The Group maintains Directors' and officers' liability insurance, which gives appropriate cover for legal action brought against its Directors. The Company has also granted indemnities to each of its Directors to the extent permitted by law. Neither the indemnity nor insurance cover provides cover in the event that a Director, officer or Company Secretary is proved to have acted fraudulently or dishonestly. The above referred liability insurance and indemnities were in force during the course of the financial year ended 31 December 2020 and remain in force as at the date of this report.

POLITICAL DONATIONS

The Group did not make any political donations or incur any political expenditure during 2020.

RELATIONSHIP AGREEMENT

On 31 May 2016, the Company entered into a relationship agreement with certain major shareholders (the "Relationship Agreement"). The Company understands that those major shareholders no longer control, in aggregate, 20% or more of the Company's voting rights, and so the Relationship Agreement is no longer in full force and effect.

SHARE CAPITAL

As of 26 April 2021, the Company's issued ordinary share capital comprised 55,155,896 ordinary shares with a nominal amount of £0.01 each and carrying one vote per ordinary share at general meetings of the Company. There were no shares held in treasury. The Company has in issue one class of ordinary shares, all of which are fully paid up, and it does not have preference shares in issue. The rights and obligations attaching to the Company's ordinary shares are set out in the Articles of Association. There are no voting restrictions on the issued ordinary shares and each ordinary share carries one vote.

Details of the movements in share capital during the year are provided in Note 26 to the consolidated financial statements on page 318 of this Annual Report.

PROFIT AND DIVIDENDS

The profit for the financial year ending 31 December 2020 attributable to the Company's shareholders, after taxation, amounts to GEL 317,752,000. The Board is not recommending dividend payment for the financial year 2020 at the 2021 AGM.

POWERS OF DIRECTORS

The Directors may exercise all powers of the Company subject to applicable laws and regulations and the Articles of Association.

SPECIAL RIGHTS AND TRANSFER RESTRICTIONS

None of the ordinary shares in the capital of the Company carry special rights with regard to the control of the Company. There are no specific restrictions on transfers of shares in the Company, which is governed by its Articles of Association and prevailing legislation, other than:

- certain restrictions which may from time to time be imposed by laws or regulations such as those relating to insider dealing;
- pursuant to the Group's Share Dealing Code, whereby the Directors and designated employees require approval to deal in the Company's shares;
- 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; and
- pursuant to the Group's Senior Management Compensation System, whereby Participants (as defined therein) may be granted restricted share awards, which vest subject to continuous employment and malus and clawback provisions over three years from the award date.

All employees (including Directors) that are deemed by the Company to be insiders have complied with the Group's Share Dealing Code. There are no restrictions on exercising voting rights save 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.

MAJOR SHAREHOLDERS

As at 31 December 2020, the Company had been notified under Rule 5 of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority (the "DTRs") of the following interests in its total voting rights of 3% or more.

As of 31 December 2020

Shareholder	% of voting rights	# of voting rights
Mamuka Khazaradze	8.64%	4,763,048
Badri Japaridze	6.00%	3,308,616
European Bank for Reconstruction and Development	5.05%	2,786,406
Dunross & Co.	7.42%	4,093,634
JPMorgan Asset Management	4.56%	2,513,488
Allan Gray Investment Management	4.26%	2,346,972
Creation Investments Capital Management	3.22%	1,773,471
Schroder Investment Management	3.12%	1,721,176
BlackRock	3.02%	1,665,300

POWERS OF DIRECTORS TO ISSUE AND/OR BUY BACK COMPANY SHARES

The Companies Act 2006 and the Articles of Association determine the powers of Directors, in relation to share issues and buy backs of shares in the Company. The Directors are authorised to issue and allot shares subject to approval at a general meeting of shareholders. Such authorities were granted to the Directors by shareholders at the Annual General Meeting of the Company, held on 14 June 2020, authorising the Directors to allot ordinary shares in the capital of the Company up to an aggregate nominal value of £183,853.

This authority will apply until the conclusion of the 2020 AGM. Shareholders will be requested to renew these authorities at the 2021 AGM.

APPOINTMENT / REPLACEMENT OF DIRECTORS AND AMENDMENT OF ARTICLES OF ASSOCIATION

The appointment and retirement of Directors is governed by the Articles of Association, the Code and the Companies Act 2016 and related legislation.

Shareholders are authorised to appoint/replace the Directors and make amendments to the Articles of Association by resolution at a general meeting of the Company with the latter being required to be passed as a special resolution.

All Directors of the Company will seek re-election at the next AGM. As already mentioned, Abhijit Akerkar was appointed to the Board as a non-executive Director in 2020 and will stand for election by the shareholders at the Annual General Meeting. Vakhtang Butskhrikidze has service contract with the Company, which came into effect on 10 August 2016 and will continue until terminated by either party to such contracts, giving the other not less than seven months written notice. Biographical details and reasons for the reappointment for the Directors are given in the Notice of AGM.

CHANGE OF CONTROL

There are no significant agreements to which the Company is a party of that take effect, alter or terminate upon a change of control of the Company. In addition, there are no agreements between the Company and its employees and the Directors that contain compensation clauses for loss of office or employment that occurs because of a takeover bid, resulting in a case of change of control.

EMPLOYEE DISCLOSURES

The Company's disclosures relating to the employee engagement and policies, as well as human rights, are included in the "Our Colleagues" section on pages 78-87 of this Annual Report.

DISCLOSURE OF INFORMATION TO THE AUDITOR

The Directors, who held office at the date of approval of this Annual Report, confirm that, so far as they are aware, there is no relevant audit information of which the Group's auditors are unaware, and that each Director has taken all steps that he/she reasonably should have taken as a Director in order to make him/herself aware of any relevant audit information and to establish that the Company's statutory auditors are aware of such information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

GOING CONCERN STATEMENT

The Board has fully reviewed the available information pertaining to the principal risks, strategy, financial health, liquidity and solvency of the Group, and determined that the Group's business remains a going concern. The Directors have not identified any material uncertainties that could threaten the going concern assumption and have a reasonable expectation that the Company and the Group have adequate resources to remain operational and solvent for the foreseeable future (which is, for this purpose, a period of 12 months from the date of approval of these financial statements).

In reaching this assessment, the Directors have specifically considered the implications of the COVID-19 pandemic upon the Group's performance, projected funding and capital position, and they have also taken into account the impact of further stress scenarios. Accordingly, the accompanying financial statements are prepared in line with the going concern basis of accounting.

VIABILITY STATEMENT

In compliance with the Code, the Directors assessed the prospects of the Group and its viability over a three-year period beginning on 1 January 2021. The Directors determined the three-year period ending on 1 January 2024 to be appropriate, as it is consistent with the Group's planning cycle, covering financial forecasts and the strategic considerations of the Group. While assessing the viability of the Group and its operations, the Directors carried out a robust and thorough assessment of the Group's risk profile, including material existing and emerging risks that could cause a deviation in the Group's financial condition, operations and prospects from the expectations over the period of assessment. The Directors specifically assessed the impact of the COVID-19 pandemic on the Group's viability and concluded that its potential negative effects are sufficiently addressed. As part of their strategic planning, the Directors looked beyond this period and took into consideration, as far as possible, information from a variety of sources relating to local, regional and other, broader macro-economic, political, technological, social and environmental changes that could impact the Group's business and development. At this point, the Directors have no reason to believe that the Group will not stay viable over the longer-term.

In addition, the Directors analyzed the Group's ability to meet all regulatory requirements. The Directors' assessment considered all of the principal and emerging risks of the Group and the effectiveness of current and proposed mitigating actions. The key areas of focus were:

- the impact of the COVID-19 pandemic;
- the risk of economic and political instability and its impact on the Group's future performance;
- the risk of not meeting regulatory requirements, with a key focus on minimum capital adequacy;

- foreign exchange rate risk, which is significant due to the high dollarization of the Group's portfolio; and
- the risk of decreasing net interest income and net interest margin as a result of new regulations, increased competition and changing funding structure.

A summary of all of the material existing and emerging risks to which the Group is exposed and the mitigating actions taken by the Group are set out on pages 102 to 113.

The Group's strategic plans

While reviewing and analysing the Group's strategic plans, the Directors assessed all potential risks related to the strategic plans and the achievement of the Group's strategic objective, and ensured that those risks were properly managed. Considering each in the context of the COVID-19 pandemic, the key focus areas were:

- the current business position and future prospects of the Group;
- the capital, funding and liquidity profile of the Group; and
- the availability and efficient use of respective human and technical resources.

Effectiveness of the Group's risk management framework, practice and internal control mechanisms

The Directors ensure that the Group's governance structure enables adequate oversight and accountability, as well as a clear segregation of duties including in relation to the financial reporting process. The involvement of all governance levels in risk management, the clear segregation of authority, and effective communications between different entities facilitate clarity regarding the Group's strategic and risk objectives, adherence to the established risk appetite, risk budget and sound risk management. The centralised ERM function ensures effective development, communication and implementation of the risk strategy and risk appetite across the Group. The Directors have determined that the Group's risk management framework is adequate for managing the principal and emerging risks set out in the Annual Report and reducing their likelihood and impact, wherever possible. Having reviewed and analysed the information presented in this Annual Report, the Directors can confirm that they have a reasonable expectation that the Group will remain viable over the next three years up to 1 January 2024, and that the Group will be able to continue its operations and meet its liabilities as they fall due over the three-year period from 1 January 2021 to 1 January 2024.

Stress testing

In 2020, the Bank enhanced its regular stress-testing framework and performed a number of additional stress tests as part of its response to the COVID-19 pandemic. The primary purpose of the stress testing was to assess the vulnerability of the Bank's capital adequacy and portfolio quality to different macro scenarios.

The stress scenarios covered the negative effects of the prolonged COVID-19 pandemic as a result of the slower than expected vaccine roll out, which encompasses a longer period of uncertainty. The assumptions included: further GEL depreciation, a slower recovery of GDP and sectoral growth in Georgia, a further increase in unemployment, and significantly unfavorable changes in real estate and commodity prices, interest rates and loan and deposit portfolio developments. The results of the stress test show that the Bank remains viable and is able to meet the updated capital regulatory requirements. See pages 124-126 summarizing countercyclical measures introduced by the NBG in relation to the capital adequacy requirements.

In addition, as part of the Recovery Plan development, the management also performed a reverse test exercise, to identify potential extreme conditions that would make our business model nonviable. Examples include far more severe assumptions on GDP growth, GEL depreciation, unemployment, remittances and real estate prices.

Given that the Directors consider the stress scenarios and the associated results to be appropriate, no urgent mitigation has therefore been required. The Bank will continue to use stress-testing exercises as one of the key tools in its risk management framework.

DIRECTORS' RESPONSIBILITIES

The following statement, which should be read together with the Auditors' report set out on pages 225-372, is required by the Companies Act 2006 (the "Act").

The Directors are required to prepare the Company's and the Group's financial statements for each financial year. Under the Act, the Group's financial statements shall be prepared in accordance with the International

Financial Reporting Standards (the "IFRS") as adopted by the European Union, and the Directors have elected to prepare the Company's financial statements on the same basis.

The financial statements are required by the Act and the IFRS to present fairly the financial position and performance of the Company and the Group for that period. The Directors must not approve the financial statements, unless they are satisfied that they give a true and fair view of the state of affairs and the profit or loss of the Company and the Group for that period.

The Directors consider that in preparing the financial statements they have used appropriate accounting policies, supported by reasonable judgments and estimates, and that all accounting standards which they consider to be applicable have been followed. The Directors also believe that the financial statements have been prepared on the going concern basis. Please see further the "Going concern statement" on page 159 of this Annual Report.

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

The Directors have a responsibility that the Company and the Group keep accounting records, which disclose with reasonable accuracy the financial position of the Company and the Group and enable the Directors to ensure that the accounts comply with the Act.

The Directors are also responsible 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.

In addition, the Directors are 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.

DIRECTORS' RESPONSIBILITY STATEMENT

Each of the Directors, whose names and functions are listed on pages 162 to 165 of this Annual Report, confirms that to the best of their knowledge:

- the Group's financial statements, which have been prepared in accordance with the IFRS standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report and Director's Report contained in this Annual Report 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 they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable, and provide the information necessary for the shareholders to assess the Company's position and performance, business and strategy.

This responsibility statement was approved by the Board and is signed on its behalf by:

Arne Berggren
Chairman

26 April 2021

ARNE BERGGREN

Chairman

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

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

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

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

TSIRA KEMULARIA

Senior Independent Non-Executive Director

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

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

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

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

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

MARIA LUISA CICOGNANI

Independent Non-Executive Director

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

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

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

Ms Cicognani was appointed to the Board as an independent non-executive Director of TBC Bank Group PLC and as a member of the Supervisory Board of JSC TBC Bank in September 2018. Maria Luisa Cicognani has the recent and relevant financial experience required by the UK Corporate Governance Code to fulfil her responsibilities as a designated financial expert on the Audit Committee of TBC Bank Group PLC.

ABHIJIT AKERKAR

Independent Non-Executive Director

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

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

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

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

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

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

NICHOLAS DOMINIC HAAG

Independent Non-Executive Director

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

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

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

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

NIKOLOZ ENUKIDZE

Non-Executive Director

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

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

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

ERIC RAJENDRA

Independent Non-Executive Director

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

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

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

VAKHTANG BUTSKHRIKIDZE

CEO

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

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

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

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

THE BANK'S MANAGEMENT BOARD BIOGRAPHIES
(EXCEPT FOR CEO'S BIOGRAPHY, WHICH IS PRESENTED ON PAGE 165)

GIORGI MEGRELISHVILI

Deputy CEO, Chief Financial Officer

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

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

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

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

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

GEORGE TKHELIDZE

Deputy CEO, Corporate and Investment Banking

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

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

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

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

NIKOLOZ KURDIANI

Deputy CEO, MSME Banking, Marketing, Payments and Space

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

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

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

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

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

TORNIKE GOGICHAISHVILI

Deputy CEO, Retail Banking

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

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

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

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

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

NINO MASURASHVILI

**Deputy CEO,
Chief Risk Officer**

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

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

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

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

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

CHAIRPERSON'S LETTER

Dear Shareholders,

I am pleased to introduce the Corporate Governance and Nomination Committee report for 2020.

The key task of the Committee during 2020 was succession planning across the Group. The benefits of maintaining effective succession planning policies were apparent to us this year, following the resignation of our Chief Financial Officer. The Committee was able to recommend Giorgi Megrelishvili (previously deputy CFO) to be appointed as successor from a list that included several internal senior management nominees, alongside external candidates. Also, in January 2020, the committee recommended Nino Masurashvili, deputy CEO (previously head of retail banking) to be appointed as Chief Risk Officer (CRO) following the departure of the previous CRO, David Chkonia, at the end of his contractual term. Nino Masurashvili has been with the Bank for more than 20 years and understands business extremely well which is critical for the CRO role.

Following a review of skills currently represented by board members, the Committee, at the request of the Board, undertook a search to recruit a non-executive Director who could bring additional expertise to the Board in the fields of Fintech and digital banking. The Committee engaged with its shareholders, and explored its own wide range of contacts, to identify suitable candidates. As a consequence the Board appointed Mr Abhijit Akerkar as an independent non-executive Director on 27 July 2020.

The Committee believes that diversity of gender, ethnicity and personal strengths and social backgrounds is an essential element in maintaining a competitive advantage and effective governance, both at the Board level as well as at the senior management level. At the same time the Board strongly believes that all appointments should be based on merit against objective criteria in the context of the skills and experience required. The Committee will consider candidates in regard to the benefits of diversity when identifying suitable candidates for appointment to the Board.

The Committee notes the recommendations of the Hampton Alexander review and makes a firm commitment that by the end of 2021 the Company will meet the gender diversity target set in that report of 33% female representation at Board level.

I am particularly pleased to report that there are a number of talented women in key positions, who report directly to the CEO and other members of the management board within the Group. As at 31 December 2020, 14% of Group's top management and 33% of Group's middle management roles were performed by women. Across the Group 64% of the workforce are female.

The Board is currently in line with Parker Review Committee Report recommendations into the Ethnic Diversity of UK Boards, as two members of the Board represent ethnically diverse backgrounds.

The Committee also supervised the annual board evaluation exercise, which was conducted by the Company Secretary during the year. The results of the evaluation are reported in the individual Committee Reports, by their respective Chairs, and the outcome of the Board evaluation is detailed on pages 151-152 of the Corporate Governance Statement.

Tsira Kemularia
Chairperson

26 April 2021

WHO IS ON THE COMMITTEE

The following were members of the Committee throughout the year: Tsira Kemularia, (Chairperson), Nicholas Haag, Eric Rajendra, Nikoloz Enukidze. Abhijit Akerkar was appointed a member of the Committee on 15 February 2021.

As of date of this report, the Committee is composed of the five members, detailed above, four of whom are independent non-executive Directors. Mr Enukidze, who was previously the non-executive Chairman of the Board is also a member, but is not considered to be independent for the purposes of the UK Corporate Governance Code. Biographies of the Committee members can be found on pages 162 to 165.

Only members of the Committee have the right to attend meetings, but the Committee may invite other independent Board members, including the Chief Executive Officer, the Head of Human Resources and external advisors, to attend all or part of any meeting if it thinks it is appropriate or necessary. The Committee meets on a quarterly basis and schedules additional meetings when appropriate. The Company Secretary attends all meetings of the Committee.

The attendance of members at the Committee meetings during the year is set out on page 154.

WHAT IS THE COMMITTEE'S ROLE?

The Committee's role and responsibilities are set out in its terms of reference, available on the Group's website: www. tbcbankgroup.com. The Committee's Terms of Reference is reviewed on an annual basis.

The main responsibilities of the Committee, in relation to the development and functioning of corporate governance within the Group, are:

- advising the Board periodically with respect to significant developments in the law and practice of corporate governance;
- approving changes to corporate governance guidelines, monitoring the Group's compliance with such guidelines and applicable legal and regulatory requirements and recommending to the Board such changes or additional action as it deems necessary;
- reviewing the independence standards for Board members;
- monitoring and evaluating the process for assessing the performance and effectiveness of the Board and its committees (including the annual Effectiveness Self-Review of this Committee); and
- reviewing the structures and procedures of the Board and its relationship with management to ensure it can function independently.

The main responsibilities of the Committee, in relation to nominations, are:

- Regularly reviewing the structure, size and composition of the Board, including evaluating the current balance of skills, experience, independence and knowledge on the Board, including considering diversity and gender balance;
- identifying suitable candidates from a wide range of backgrounds, with use of open advertising and services of external advisers;

- considering and making recommendations to the Board on the composition of the Board;
- advising the Board on succession planning for the roles of Chairman, Senior Independent Director, Chief Executive Officer and for all other Board appointments;
- in conjunction with human resources, setting diversity objectives and strategies for the Company as a whole and monitoring the impact and outcome of diversity initiatives;
- considering and making recommendations, as necessary, on the removal and resignation of Board members;
- assisting the Chairman of the Board and the Senior Independent Director with the implementation of an annual evaluation process to assess the overall and individual performance and effectiveness of the Board and its committees; and
- making recommendations to the Board on succession planning for the Board over the longer term

WHAT THE COMMITTEE DID IN 2020

During the year under review the Corporate Governance and Nomination Committee considered the following matters:

Key area of review	Committee Action and Outcome
Recruitment of independent non-executive Directors	› The Committee undertook two recruitment searches for independent Directors during 2020. › Following a review of skills currently represented by board members, the Committee with the support of the Board, undertook a search to recruit a non-executive Director who could bring additional expertise to the Board of Fintech and digital banking. The Committee engaged with its shareholders, and explored its own wide range of contacts, to identify suitable candidates. › As a consequence the Board appointed Mr Abhijit Akerkar as an independent non-executive Director on 27 July 2020, Mr Akerkar's biography is detailed on page 163. › In addition the Committee, appointed Russell Reynolds to assist in searching for an additional independent non-director although as of yet no appointment has been finalised. Russell Reynolds have no other contractual arrangement with the Company.
Succession planning	› The Committee has reviewed succession plans across the Group, this exercise is co-ordinated by HR and reviewed in detail by the Committee. › The Committee was pleased to note that following the resignation of the former Chief Financial Officer from the Company, a strong list of internal candidates was available for review alongside external candidates and consideration, resulting in the appointment of Giorgi Megrelishvili, as Chief Financial Officer of the Group .
Diversity including gender balance across the workforce	› The Committee has considered diversity issues across the Board and amongst the employees of the Group. › The Committee remains confident that by the end of 2021 it will achieve the target set out in the Hampton Alexander Report for gender diversity on the Board. › The Board already meets the ethnic diversity recommendations detailed in the Parker Review. › The Committee noted strong levels of gender diversity across both the management with a number of senior female management reporting to the CEO and in other key management positions. › In considering ethnic diversity, the Committee noted the high levels of ethnic homogeny across the country and did not consider that it was a major business issue at present.
Board evaluation	› As in past years, the Committee reviewed the board evaluation process prepared on its behalf by the Company Secretary. This included considering the questions to be answered by Board members, and reviewing the initial outcome before approval of a development plan by the Board. Details of the resultant plan are shown on pages 151-152. › In line with the Code requirements, in 2021 the Committee will oversee an evaluation undertaken by an external evaluator.

Key area of review	Committee Action and Outcome
Executive Committee	› The Committee considered terms of reference for an Executive Committee of the Company, and recommended the terms to the Board for approval. › The Executive Committee's role is to formulate plans and recommendations for Group wide issues, that are not under the remit of the Management Board of the Bank.
Delegation of authority	› The Committee reviewed and recommended to the Board a revised delegation of authority from the PLC to the Chief Executive Officer, and his direct reports. › The delegation included delegations to the both the Bank and other Group Subsidiary Companies.
Independence of Directors	› The Committee reviewed the current non-executive Directors and considered whether they continued to meet the independence criteria specified in the Code. › It also considered whether the Independent non-executive Directors were able to commit sufficient time to the role, and ensured that they did not serve on to many boards. › Finally it was able to propose to the Board as to whether the Board was able to recommend to shareholders the re-appointment or election of the individual Directors at the forthcoming Annual General Meeting.

WAS THE COMMITTEE EFFECTIVE?

The Committee undertook an internal assessment of its performance as part of the overall Board Evaluation process, detailed on pages 151-152. This assessment was led by the Company Secretary and collated responses from Committee members to an internally developed questionnaire. The outcome of the process indicated the need for the Committee to consider in 2021 the following:

- Instigate a clear training programme for senior management to ensure the succession plan can be followed when needed; and
- Consider Governance issues across the Group as the expansion away from core activities develops.

The Committee has in place a schedule of work that details all the planned tasks for the year. Before each meeting the Company Secretary discusses the agenda with the Committee chair, and combines planned tasks from the schedule of work with any other matters that have arisen. All papers are circulated to Committee members for review a week prior to the meeting.

The Committee undertakes an assessment at the end of each financial year to ensure that it has covered all the required items detailed in the Committee's terms of reference.

WHAT ARE THE PRIORITIES FOR 2021?

In addition to the regular duties detailed in the responsibilities section on pages 170-171, as a result of the revised Corporate Governance Code issued by the National Bank of Georgia and referred to in the Chairman's introduction to the Governance Report on pages 147-148, the Committee will, in 2021, be focusing on recruiting new independent non-executive Directors to join the Board.

In identifying suitable candidates to help develop the Group further, apart from the individuals' expertise and experiences, their fit to the board as a collective and their ability to work in a team will both be important considerations. The Committee will be looking for the individual to be able to dedicate sufficient time for both the key committee and board workload. The first priority will be to identify and appoint a suitable candidates able to chair the Audit and Risk Committees respectively and a detailed job description has already been prepared for this role. The next task is to identify another two candidates with risk and remuneration experience and among new independent Directors we will have at least one female, The objective is to appoint at least the Audit and Risk Committee chairs before the 2021 AGM, whilst others before the end of the year.

In addition the Committee will be considering a suitable external evaluator to complete the 2021 board evaluation.

RISK COMMITTEE REPORT

CHAIRMAN'S LETTER

Dear shareholders,

I am pleased to present the Risk Committee report for the year ending 31 December 2020 having taken over as an interim Chair of the Risk Committee on 1 March 2021.

2020 was a particularly challenging year for risk management, as the COVID-19 pandemic introduced new risks to the Group. The Risk Committee continued to take a proactive approach to risk management by closely monitoring developments relating to the pandemic, frequently discussing both the internal and external challenges to the Group and assessing the risk management strategies proposed by the management. While the situation stabilised to some extent in the second half of the year, the economic and market situation remains challenging, and the Committee continues to work with management to increase the Group's resilience.

In addition to closely monitoring the risks related to capital, liquidity and credit portfolio quality in the context of COVID-19, the Risk Committee focused on strengthening the critical aspects of risk management, namely:

- Review and enhancement of the Risk Appetite Framework (RA) and respective risk limits;
- Enhancement of the Bank's operational risk management; and
- Monitoring and review of the development and implementation of the Bank's Recovery Plan, an internal document guiding our crisis management process.

Nino Masurashvili, Deputy CEO, who was previously in charge of developing TBC Bank's retail banking operations, was appointed as the new Chief Risk Officer in January 2020. The Group has further improved its risk management practices under her leadership as she leverages both her detailed knowledge of the Group's business and the skills that brought significant success in her previous role.

I would also like to thank Arne Berggren for his chairmanship of the Committee, particularly during this unprecedented year.

In 2021, the Committee will continue to focus on the impact of the external environment on the Group's risk profile, particularly the ongoing impact of the COVID-19 pandemic, and further strengthening risk management practices.

Abhijit Akerkar
Chairman of Risk Committee

26 April 2021

COMMITTEE RESPONSIBILITIES

The Risk Committee's primary function is to assist the Board in its oversight of all matters related to the risk management and compliance of the Company and the Group, together with implementation of the highest standards of business ethics and compliance with all of the legal requirements to which the Group is subject.

The Risk Committee is responsible for recommending the Group's risk appetite limits to the Board and monitoring the risk profile to make sure that it complies with the established limits. It is also responsible for reviewing, assessing and recommending any actions for the Board to take regarding the Group's overall risk management strategy, as well as the risk management system and internal control framework. In addition, it determines the nature and extent of the principal risks the Group is willing to take in order to achieve its long-term strategic objectives.

The Risk Committee advises the Board on strategic transactions, focusing on risk aspects and implications for the risk appetite and tolerance of the Group.

The Risk Committee reviews and approves the statement concerning internal risk management and the Group's viability statement included in this annual report. It ensures robust assessment of the emerging and principal risks faced by the Group, including those that would threaten the business model, future performance, solvency and liquidity.

The Risk Committee is also responsible for overseeing the Group's compliance activities to ensure that it complies with all applicable laws and regulations and maintains the highest standards of ethical behavior. The Risk Committee supports the fostering of an ethical culture within the Group, based on the principles of honesty, integrity, fairness and transparency. The Risk Committee's Terms of Reference are available on the Group's website: www.tbcbankgroup.com.

COMMITTEE MEMBERS AND MEETINGS

Throughout the year 2020 Arne Berggren chaired the Risk Committee. In March 2021, he was appointed as the Chairman of the Board and the Supervisory Board and Abhijit Akerkar was appointed as a Risk Committee Chair on an interim basis. He joined the Board as an independent non-executive Director in July 2020. For more information please refer to the Corporate Governance and Nomination Committee report, on pages 169-172.

As of date of this report, the Risk Committee consists of four independent, non-executive Directors: Abhijit Akerkar (interim Chairman), Nicholas Haag, Maria Luisa Cicognani and Tsira Kemularia. Biographies of the Risk Committee members can be found on pages 162 to 165.

The Risk Committee typically meets in person at least on a quarterly basis. However, in 2020 and going forward, the committee chose to hold meetings more frequently in response to the increased importance of risk management practices, driven by COVID-19 pandemic. Due to the various travel restrictions, most of the meetings held in 2020 were online, rather than in person. Each quarter, committee members review a thorough report on the previous quarter's risk management results as well as updates on compliance and other areas within its remit. The Chief Executive Officer, CRO, head of compliance and key members of the Group's risk and compliance teams normally attend the meetings. Members' attendance at the Risk Committee's meetings during the year, at the Company and the Bank levels, are set out in the Directors' Governance statement on page 154.

RISK COMMITTEE ACTIVITIES DURING 2020

During 2020, in addition to taking the measures necessary in response to the Covid-19 pandemic, the Risk Committee continued to concentrate on its key responsibilities: monitoring the Group's risk management processes, promoting progress in risk management tools and techniques, and implementing mitigation actions against prevailing risks.

Moreover, in February 2020, the Risk Committee's Terms of Reference were updated and approved. Minor changes were recommended by the Company Secretary, with input from the company's lawyers, in order to bring the terms of reference up to date to reflect recent developments in the UK Corporate Governance Code and better to align our mission with the Terms of Reference for other Committees. This document is available on TBC's website at www.tbcbankgroup.com. The Risk Committee's Terms of Reference were reviewed again in December 2020, particularly in the context of the COVID-19 pandemic, and no additional changes were recommended.

Risk appetite

The Risk Committee received and reviewed the risk appetite compliance reports at quarterly meetings, during which the Committee's members discussed the Group's risk profile and respective outlook with the management. At the beginning of 2020, some of the risk metrics were updated due to the increased uncertainty caused by the COVID-19 pandemic. Key updates made were in relation to capital adequacy and portfolio growth.

In addition, the Risk Committee, after extensive discussions and a detailed assessment, recommended that the Board approve the updated, bank-wide Risk Appetite (RA) Framework. The RA Framework is an exhaustive document covering all material financial and non-financial risks faced by the Bank, defining the governing principles that set the tone for the Bank's risk management, and introducing additional risk metrics together with the qualitative risk tolerance statements.

Moreover, the Risk Committee approved the plan proposed by the management for the year 2021, to further enhance the RA Framework for other material subsidiaries and the Group overall, as well as cascading the Bank's RA down to its business segments.

Credit risk

The Risk Committee actively monitored the performance of the Group's credit portfolio throughout the year, including the effects of the pandemic-related lockdowns on the credit risk and the overall portfolio quality, and received regular updates on the changes in non-performing loans and the cost of risk.

The Risk Committee assessed the proposed credit risk management strategies in response to COVID-19, including the payment holidays, restructuring, changes in underwriting across the segments performed throughout the year, and recommended potential actions to the management to be taken in order to manage the increased risk in the portfolio. In addition, the Risk Committee regularly reviewed the monitoring results of the Group's top 20 corporate borrowers. The Risk Committee reviewed and scrutinized several stress test results conducted by the management in response to COVID-19.

Operational risk

The Risk Committee reviewed and approved the long-term plan developed by the Operational Risk Management team aimed at further enhancing the risk management practices and deploying advance technologies to deal with fraud and other operational risk threats. Throughout the year, the Risk Committee closely monitored the progress in the implementation of this revised strategic plan.

In addition, the Risk Committee continued to closely monitor the Risk and Control Self-Assessment (RCSA) results, together with progress on the mitigation action plan developed as a result of the RCSA process.

Financial risks

The Risk Committee continued monitoring the Bank's financial risk position, including monitoring and assessing the Bank's strategy, to counter any potential negative impacts from COVID-19 in conjunction with the measures implemented by the NBG in relation to liquidity risk. For more details, please see pages 121-124.

The Risk Committee held several discussions on the Bank's financial risk appetite, leading to certain changes to the proposed risk appetite limits, before recommending them to the Board for approval.

Capital management

The Risk Committee continued to closely monitor the Bank's capital position, including reviewing the stress test results conducted by the management to assess the negative impact of COVID-19 on the Bank's capital adequacy. In addition, certain changes were applied to the Bank's capital risk appetite metrics under stress conditions. Moreover, the Committee discussed the changes introduced by the NBG to the capital requirements in response to COVID-19. For more details, please see pages 124-126.

Throughout the year, the Risk Committee also held discussions on the Bank's capital adequacy risk appetite metrics under ordinary business conditions, prior to approval by the Board. In addition, the Risk Committee assessed the Bank's long-term capital adequacy position based on its four-year financial plan to ensure that the Bank holds sufficient capital to stay within the risk appetite limit, which adds a considerable buffer above the increasing regulatory requirements. For more details, please see pages 124-126.

Compliance

Throughout the year, the Risk Committee received regular updates on significant pieces of legislation that were introduced in 2020. The Risk Committee assessed and approved updated group-wide compliance policies such as the AML Policy, Whistleblowing Policy, Financial Crime Risk Appetite and other documents subject to annual update.

The Risk Committee discussed and approved an enterprise-wide Anti-money Laundering Risk Assessment Methodology in accordance with a new regulatory obligation. Additionally, the Risk Committee examined the Group's related parties list and the transaction tracker for the purposes of the UK Listing Rules and Disclosure Guidance and Transparency Rules, as well as related party transactions for NBG purposes. Together with regulatory matters, the Risk Committee discussed other compliance topics in detail during quarterly meetings.

Recovery Plan

The Risk Committee reviewed and recommended that the Board approve the Bank's first version of the recovery plan, supporting the Bank in maintaining its critical functions during stress conditions. The plan was prepared in accordance with the NBG's respective requirement and with the assistance of experienced external consultant.

The Committee also reviewed the timeline for further enhancement of the recovery plan and gave specific recommendations in relation to the recovery options developed by the management.

Information Security

The Risk Committee continued monitoring the Group's cyber security risks, including the execution of the action plan developed by the Information Security department for the purpose of identifying cyber threats and performing real world cyber-attack simulations.

Model Risk Management

In 2020, the Model Risk Management (MRM) department was created to govern the risks associated with models employed across the Group. The Risk Committee reviewed, approved, and recommended that the Board approve the MRM policy, which aims to define the full lifecycle of the models, the responsibilities of the associated parties, and the governance and control procedures for the models. The Group's MRM policy is in compliance with the newly issued regulatory guidance from the NBG regarding the management of model risk.

THE COMMITTEE'S EFFECTIVENESS REVIEW

The Board and the Risk Committee members conduct a review of the Risk Committee's effectiveness every year. In 2020, the Risk Committee was found to be effective in overseeing the Group's risk management, compliance activities and ethical standards.

LOOKING AHEAD TO 2021

Going forward, the Risk Committee will continue to focus on its key responsibilities: assessing risk results and compliance with the Bank's risk appetite, providing sign-off on transactions with the largest exposures, and facilitating progress in risk management tools and techniques. Moreover, the Risk Committee will continue to closely monitor developments related to the COVID-19 pandemic and its implications on the Bank's portfolio quality, operations and financial conditions, including profitability, capital adequacy, liquidity, and funding positions.

The Risk Committee will continue to closely monitor the impact that recent and upcoming regulatory changes may have on the Bank's financial standing and the respective implications for its risk management processes. The Risk Committee will also monitor the RCSA process, the further enhancement of the RA framework for other material subsidiaries and for the Group overall, as well as the process of cascading the RA limits down to business segments. In addition, close attention will be paid to the development of the subsequent versions of the recovery plan and the enhancement of the risk culture within the Group. The Risk Committee will closely follow the Group's international expansion activities so that it can ensure that risks are managed properly across the Group. The Risk Committee will continue to focus on the proper management of risks that may arise from remote-working practices established in the Group in response to the COVID-19 pandemic and the further digitalization of the Bank's services.

CHAIRPERSON'S LETTER

Dear shareholders,

As Chair of the Board Remuneration Committee (the "Committee"), I am pleased to present the Directors' Remuneration Report for the year ending 31 December 2020.

The Committee response to COVID-19

The extraordinary events of 2020 and the impact of the pandemic have led the Committee to closely work with management to ensure that all remuneration outcomes would reflect the experiences of our stakeholders and shareholders. The need for restraint in executive Directors and top management of JSC TBC Bank compensation has been reflected in no fixed salary increases in 2020 and 2021. In addition, executive Directors and top management of JSC TBC Bank did not receive any annual bonus and share awards under long-term incentive plan (LTIP) for the 2020 performance period.

As Georgia's economy enters into its recovery phase the Committee recognises more than ever the need to incentivise and retain critical talent while maintaining alignment with shareholders and responding to the challenges that economic changes are bringing to our way of working.

All our employees have continued to be paid in full during the year and we have preserved work positions even when employees needed to care at home for sick family members and take extra time off. We decided that to maintain motivation in these difficult times, a 50% and 30% reduced variable compensation to mid and lower level employees respectively, would be paid for 2020. As profitability improves in 2021 we should be able to enhance our compensation recognition to executive management and the wider workforce for their hard and committed work which continues to be the pillar of the Group's success.

New proposed Remuneration Policy

The Committee continues to ensure that the Remuneration Policy is closely aligned with the strategic priorities of the Group (as defined below), provides fair rewards and meets appropriate regulatory requirements and best practice standards as well as takes into consideration the views of all stakeholders.

The current Director's Remuneration Policy (the "Policy") was approved at the 2018 AGM, has applied since 1 January 2019 and is due to expire at the end of 2021. Over the past year the Committee has conducted a full review of the Policy and proposes several changes, which are summarised below. In setting the new Policy, the Committee engaged with shareholders and external, independent, consultants to ensure that the remuneration structure was appropriate, whilst at the same time allowing us to attract and retain the best talent.

Also, no Director should be involved in deciding their own remuneration outcome. The new Policy will be subject to a binding vote at the 2021 AGM. It is anticipated that it will be applied from 1 January 2022 and will apply for three years to 31 December 2024.

In 2019, the National Bank of Georgia (the "NBG"), the regulator of JSC TBC Bank, has introduced a new Corporate Governance Code (the "NBG CG Code") for Commercial Banks. Some of the requirements set by the NBG Code come into effect on 1 January 2022 and in particular, effective from 1 January 2022, the NBG CG Code sets the ratio of fixed to variable pay at a maximum of 1:1 which can be increased with approval from shareholders to 1:2. This will apply to JSC TBC Bank. In accordance with the NBG CG Code we are seeking TBC Bank plc shareholder approval for a fixed to variable ratio of 1:2 at the 2021 AGM.

Alongside the triannual review of the Policy, the Committee annually reviews both executive and non-executive Directors' compensation and benchmarks them to ensure that they are aligned with best market practice.

Summary of updates to the Policy

A summary of the significant revisions made to the previous Policy is set out below to align with the new regulatory requirements above:

- To ensure that all salary can be treated as fixed pay for the Fixed to Variable Pay Ratio introduced as part of the NBGCG Code, the requirement for continuing employment for the salary which is delivered in shares has been removed together with the malus and clawback conditions.
- The limit on executive Director pension contributions from the Company will be reduced from up to 3% of salary to up to 2% of salary in a defined contribution plan to align with the majority of the workforce.
- The maximum limits of annual bonus and LTIP award remain unchanged as a precentage of salary, with reference to a monetary amount removed.
- Bonus conditions have been amended to introduce a minimum of 60% of the bonus to be determined by reference to financial KPIs. Target performance under the current Policy (as amended last year to meet the NBG requirements) provides 63% of the maximum bonus award; the new Policy will set a limit of 50% of the maximum bonus award for target performance.
- At least 60% of variable remuneration will be delivered as LTIP for any year. With this context, the annual bonus will continue to be delivered in shares and subject to a one year holding period for 50% of shares and to a two-year holding period for the remaining 50% of shares with the annual deferred bonus shares no longer be subject to a continuing employment requirement. However, it remains subject to malus and clawback and forfeiture in case the participant is being deemed a bad leaver.
- From 2022, LTIP grants will be based on an assessment of the previous year performance and subject to three-year forward-looking assessment of the LTIP performance conditions, followed by a two year vesting in line with the requirements under the NBG CG Code.
- Where threshold performance conditions are achieved for the LTIP, vesting will be limited to 25% of the maximum in line with best practice, reduced from 47% of the maximum.
- Malus and clawback trigger events are extended in line with the requirements of NBG CG Code.

Fixed to variable remuneration ratio

Effective from 1 January 2022, the NBG CG Code sets the ratio of fixed to variable pay at a maximum of 1:1 which can be increased with approval from shareholders to 1:2. This will apply to JSC TBC Bank. In accordance with the NBG CG Code we are proposing to seek TBC Bank PLC shareholders' approval for a fixed to variable ratio of 1:2 at the 2021 AGM.

NBG CG Code requires shareholders' approval not only in relation to our CEO but all members of executive management board of JSC TBC Bank. The CEO's maximum variable remuneration limit under the current TBC Policy exceeds this ratio but, to comply with the NBG Code, the actual payments will be required to be within this ratio.

We believe that it is appropriate to have a Fixed to Variable Pay Ratio of 1:2 to maintain our competitive positioning in an international market where we are hiring from and losing talent to banks which operate a 1:2 Fixed to Variable Pay Ratio, FinTech companies which do not have a variable compensation cap, and general technology companies. This also helps us to manage our fixed costs giving us flexibility to reward performance within agreed risk parameters.

The proposed changes to our Remuneration Policy bring further alignment with best practice and reflect new regulatory provisions. We believe that the Policy continues to serve the Group strategy of remunerating sustainable performance especially in difficult and uncertain times. In particular, the increase of LTIP proportion of overall variable compensation strengthens the need to assess performance over the medium-term and the new risk-related KPI for the LTIP's award will provide incentives while containing excessive risk taking and capital absorption.

Principles of remuneration

The following principles have been considered when determining executive Directors' remuneration:

- **Clarity and simplicity** - the Remuneration Committee strives to ensure that performance measures are clear and straightforward. Executive Directors' performance is measured against their KPIs (both financial and non-financial).
- **Risk** - the Remuneration Committee has the discretion to reduce an executive Director's variable remuneration if specific KPIs have not been met and every element of executive Directors' variable compensation is subject to the relevant malus and clawback provisions. Malus applies before vesting of awards and clawback applies for up to 3 years after the vesting of awards. Triggers include, material misstatement, material downturn in financial performance and misconduct that causes serious reputational harm. Further, the Remuneration Committee has the discretion under the LTIP and deferred annual bonus to reduce awards if it considers that either the underlying financial performance of the Company or the performance of the individual is such that the level of vesting cannot be justified. The Company proposes to further extend its malus and clawback triggers under its new Remuneration Policy.
- **Predictability** - the maximum possible value of the executive Directors' remuneration has been detailed in the new Remuneration Policy and in operating the 1:2 fixed to variable remuneration cap.
- **Proportionality/alignment with culture** – the Remuneration Committee strives to ensure that performance measures are aligned with the corporate culture of the Group to foster the right behaviour and deliver remuneration that is proportionate in the circumstances, by measuring executive Directors' remuneration against a mix of financial, non-financial and personal KPIs. Further, by delivering a large proportion of executive Directors' salary into shares, this intrinsically aligns the executive Directors' pay to the long-term success of the Group and fosters a culture of sustainable long-term growth.

2020: resilient financial performance

In 2020, our operating income amounted to GEL 1,156 million, up by 2.4% year-on-year basis driven by increase in net interest income. Over the same period, our income generation was supported by effective cost management. During the year, we also recorded a net modification loss of financial instruments in the amount of GEL 41.0 million to reflect the decrease in the present value of cash flows resulting from the loan repayment grace periods granted to borrowers. As a result, our pre-provision ROE amounted to 24.7% compared to 26.8% a year ago. For the full year 2020, our net interest margin was 4.7%, while the cost to income ratio for the group amounted to 38.4%, an improvement of 1.5pp year-on-year, and 32.9% for the standalone bank. In 2020, our provision charges increased significantly to cover the potential impact of the COVID-19 pandemic on our borrowers, which resulted in a total cost of risk for the full year of 2.4% compared to 0.7% in 2019. As a result, we recorded consolidated net profit of GEL 322.5 million for 2020, while our return on equity and return on assets stood at 11.7% and 1.6%, respectively.

Our loan book increased by 8.7% year-on-year in constant currency terms, which translated into a 39.0% market share. Over the same period, our deposits increased by 13.8% on constant currency terms. As a result, our market share in total deposits amounted to 37.2% as of 31 December 2020.

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

The Group has also in place Environmental Policy, which ensures that we conduct own business in an environmentally and socially responsible manner (to view the full policy, please refer to www.tbcbankgroup.com). In 2020, we also published our first Sustainability Report (which can be found at the following link:

www.tbcbankgroup.com). These documents are a starting point for the development of an integrated Group ESG Framework, which will align the Group's strategic objectives in the medium and long term with our ESG targets. TBC already monitors a number of ESG performance indicators which track our greenhouse gas emissions, our environmental impact and the work we do to support and kindle the work-life balance of our employees (please refer to doing business responsibly section on pages 74-100). The Committee intends to review and select the relevant indicators and connect them to management strategic KPIs to ensure full commitment to constant improvements.

Executive Director changes

On 28 October 2020, Giorgi Shagidze stepped down from his positions as deputy CEO of the Bank and Group CFO and as a member of the TBC PLC Board. To ensure a smooth transition, he stayed with TBC Bank until 31 December 2020 in an advisory role. On 28 October 2020, Giorgi Megrelishvili was appointed as a CFO of JSC TBC Bank. He is not a member of the TBC PLC Board, he is a member of the management board of its main subsidiary, JSC TBC Bank ("TBC Bank").

The Committee exercised its discretion and determined that Mr. Shagidze was classed as a Good Leaver in relation to his outstanding share awards, which included his salary paid in shares, deferred bonus shares and LTIP award. In making its decision the Committee recognised that the awards that Mr Shagidze would retain relate to the periods in which he had already provided valuable service. The Committee further considered that Mr. Shagidze, who was stepping down from these roles to further other pursuits, had made a significant contribution to TBC throughout his service over the course of the previous ten years, including on key projects on which Mr. Shagidze has been instrumental such as TBC's IPO and foreign expansion projects, and had provided valuable assistance in ensuring a smooth transition out of his role. It was also acknowledged that he would not be due any additional severance payment, and that he did not receive any entitlement to any variable compensation in respect of 2020. As such the Committee considered it appropriate for Mr. Shagdize to retain all his Awards in accordance with their original terms, pro-rated to reflect his period of service where appropriate. In particular:

- His salary delivered as shares for the period of the year served until 28 October 2020 was paid as for other members of management in 2021. The value of this will be US$ 212,500 converted into shares (9,816 TBCG shares) using the average share price for the period of 7-16 February 2021 (GBP 12.43 converted into US$ using the cross rate of the official exchange rates published by the NBG of 3.30 for GEL/ US$ and of 4.55 for GEL/GBP over the same period)
- Mr Shagidze will retain his outstanding salary delivered as shares and pre-2020 annual share bonus awards that would otherwise be subject to continuing employment.
- Part of the outstanding LTIP award granted in 2019 will vest on the original vesting date on a pro-rata basis for services performed up to 28 October 2020. The portion of award being retained remains subject to performance conditions until the end of 2021.

Mr Shagidze will remain subject to the Minimum Shareholding Requirement for two years post cessation. Mr Shagidze's salary delivered as shares, pre-2020 annual share bonus and outstanding LTIP award remain subject to their original holding periods and malus and clawback provisions.

Executive Director remuneration decisions

The executive Directors' remuneration for 2020 comprised:

- Salary delivered in cash and shares; and
- taxable benefits.

As reported last year, given the COVID-19 pandemic, the executive Directors and top management of JSC TBC Bank did not receive any variable compensation (usually representing majority of total compensation) in relation to 2020.

As a result, no annual bonus in respect of 2020 performance was awarded to the executive Directors and top management of JSC TBC Bank, and there was no LTIP award for the 3-year performance period 2020-2022. The Committee debated and agreed on the decision to review executive Directors' and JSC TBC Bank's top management 2020 KPIs after the declaration of the COVID-19 pandemic by WHO and Georgia as well as other countries entered into lock-down. Given the economic scenario brought by the new global crisis the Committee considered that having attainable but challenging KPI targets have further fostered motivation among the executive Directors and the top management team for 2020. The decision did not affect the executive Directors' and top management's variable remuneration since as agreed KPI revision was not considered in YE performance assessment.

An award of 161% of salary will be granted to Vakhtang Butskhrikidze in 2021 under the LTIP to align him with the long-term success of the Group. The award to be granted in 2021 will be subject to a 3-year performance period and a subsequent 3 years holding period. Shares granted under the LTIP, therefore, will be subject to a 6-year performance and holding period.

Performance conditions and targets together with corresponding weightings for the CEO for LTIP awards to to be granted in 2021 in respect of forward-looking performance period 2021-2023 are as follows:

	KPI weight	Threshold	Target (inclusive)	Above Target
Total shareholder return (TSR) for a period of 3 years (2021-2023)	40%	15%- 17%	17-20%	Above 20%
Average ROE for 3 years (2021-2023)	40%	15%-18%	18-21%	Above 21%
Loan market share at the end of (2021-2023)	20%	34%- 36%	36-40%	Above 40%

In February 2021, the Remuneration Committee considered whether any of the events set out in the Malus or Clawback provisions had occurred. It was satisfied that in 2020 none of the trigger events occurred and so the Remuneration Committee has not used its powers under the Policy to reduce or clawback any Share Awards.

No Remuneration Committee discretion was exercised in the year other than to determine good leaver status for Mr Shagidze as set out above.

Non-executive Director remuneration

The non-executive Directors' receive fees based on best practice against comparable FTSE 250 financial companies and other regional peers' board membership fees. Non-executive Directors do not receive any form of variable remuneration from the Group nor other benefits except for reimbursement of documented expenses. No changes are proposed for 2021.

Engagement with the workforce

The Group Remuneration Policy is grounded on the principle of fairness across all categories of employees. Each year our human resources department has oversight on the application of our internal policy by each department and each of our colleagues is evaluated against achievements and contribution to the success of our strategy and business objectives. Regularly and on-rotation middle and senior managers' performance is also reviewed by applying a 360-methodology to obtain a comprehensive feedback including from their subordinates. Our remuneration policy allows higher performing employees to obtain a higher compensation via their variable remuneration. During a difficult 2020, we did not have any layoff and we maintained the fixed compensation of our workforce. The variable compensation of the wider workforce was reduced by 50% for middle management and 30% for lower level employees. Our executive Directors and top management of JSC TBC Bank did not receive any variable compensation usually delivered as deferred shares bonus and LTIP grants, something which our employees have appreciated and which is aligned with what the Board requires from its leadership team in difficult economic times.

The Remuneration Committee reviewed ratios of gender and pay gaps and our human resources team always monitors trends in the local Georgian market to ensure that the Group remuneration structure remains competitive to support and retain talent. The Remuneration Committee was pleased to see that on local benchmarking basis our remuneration structure remains very competitive and provides the right balance to give our employees motivation and stability. For more information about gender pay gap please refer to page 86.

Our Staff Ambassador, Tsira Kemularia, regularly meets with employees and obtains feedback about their views on their Group and collects feedback about a wide variety of issues. Employees cherish the opportunities, which TBC Group provides them for personal career and talent development and we intend to invest resources to ensure this continues to be widely available to all levels as we consider it a strategic factor to retain and motivate best talent.

Looking ahead

In light of the on-going COVID-19 pandemic, the Committee will continue to closely monitor developments and consider, if necessary, adjustments to maintain alignment between performance and executive pay. As the medium and long-term effects of the current events remain highly uncertain the Committee will continuously review both the quantitative and the qualitative factors which are components of the year-end executive performance assessment.

The alignment of compensation with our shareholders' interest remains an important objective for the Remuneration Committee and our work will continue to adapt to changing markets. I very much hope that you will support the resolutions to approve the Directors' Remuneration Policy, the Annual Report on Remuneration and the 1:2 Fixed to Variable Pay Ratio at the forthcoming AGM. We firmly believe that our approach is appropriate and will motivate and incentivise our leadership team to deliver on behalf of the shareholders and communities we serve.

Maria Luisa Cicognani
Chair of the Remuneration Committee

26 April 2021

1. REMUNERATION COMMITTEE

The Company's Remuneration Committee is responsible for establishing and overseeing the Group's Remuneration Policy principles and considering and approving remuneration arrangements of executive Directors. Full details of the Remuneration Committee's responsibilities are set out in the Remuneration Committee terms of reference, which are available on our website at www.tbcbankgroup.com. Terms of reference for the TBC Bank Group PLC (hereinafter referred as "the Company") were reviewed and approved on 19 February 2020.

The following were members of the Committee throughout the year: Maria Luisa Cicognani (Chair), Eric Rajendra, Nicholas Haag and Nikoloz Enukidze (who stepped down from the membership of the Committee on 6 April 2021).

As of date of this report, the members of the Remuneration Committee are: Maria Luisa Cicognani (Chair), Arne Berggren (current Chairman of the Board, who was considered independent on appointment), Eric Rajendra and Nicholas Haag. The meetings of the Remuneration Committee are always open to other non-executive Directors who wish to attend. Biographies of the Remuneration Committee members can be found on pages 162 to 165.

The attendance of members at the Remuneration Committee meetings during the year at the Company and the Bank levels are set out in the Directors' Governance Statement on page 154.

1.1 Advisors to the Remuneration Committee

Members of the Remuneration Committee provide valuable input in updating the Remuneration Committee on the recent developments in the area of remuneration. However, when there is a need, the Remuneration Committee receives external advisory services.

TBC Bank undertook a review of non-executive Directors' (NEDs) fees in early 2020 using benchmarking data provided by Deloitte. The externally conducted benchmarking exercise was required to objectively compare the changes in the non-executive Directors' remuneration policy with market practice and ensure that the non-executive board members are compensated for their time commitment and responsibilities in an ever increasing complex operational and regulatory environment in UK, Georgia and abroad. Further details of the benchmarking exercise are presented in section 2.6 of the Remuneration Committee Report 2019.

As disclosed in the 2019 annual report and accounts, Deloitte was selected by the Remuneration Committee as a result of a tender among a short list of three companies, all with internationally recognized governance and compensation practices and track record in similar assignments. The amount of fees for the benchmarking advice provided by Deloitte in late 2019/early 2020 was £25,000, net of taxes. The fees were charged on a time and materials basis, which was capped at the amount mentioned above.

The Board is satisfied that Deloitte's advice was objective and independent and that the Deloitte team which rendered advice did not have any connections with the Group that may impair its independence. The Board reviewed the potential for conflicts of interest and decided that Deloitte had appropriate safeguards in place. Deloitte also provided other services during 2020 to the Group, including advice in relation to CFC (Controlled Foreign Companies) and advice in relation to recovery and resolution planning.

Also, during 2020, Aon (McLagan) provided advice on benchmarking for the executive Directors and remuneration policy with fees of £43,400. The fees were charged on a time and materials basis, which was capped at the amount mentioned above. In addtion, the Committee received additional advice on compliance from Baker & McKenzie LLP, the Group's legal advisors. The Committee is of the view that the advice received from Baker & McKenzie LLP is objective and independent.

The Board is satisfied that Aon's advice was objective and independent and that Aon's team which rendered advice did not have any connections with the Group that may impair its independence. Aon was selected by the Remuneration Committee amongst four firms invited to submit both a technical and a financial proposal and it was considered that it had the best offer for the scope of work which the Committee had agreed and was seeking to be completed within set deadlines. The Board reviewed the potential for conflicts of interest and decided that Aon had appropriate safeguards in place. Aon does not provide any other services to the Company.

1.2 Statement of voting at Annual General Meeting

The current Remuneration Policy was presented and approved at the 2018 AGM by 99.95% of the votes cast, with 0.05% votes against, while 1,538,484 votes were withheld.

Last year's Remuneration Report was presented and approved at the AGM on 10 June 2020. The results were as follows:

No	Resolution	Votes For	% of votes cast For	Votes Against	% of votes cast Against	Total votes	% of issued share capital voted	Votes Withheld
1	To approve the Directors' remuneration Report	33,341,857	87.19%	4,899,502	12.81%	38,241,359	69.33%	1,538,484

2. SINGLE TOTAL FIGURE OF REMUNERATION

The table below summarize the total remuneration earned by each Director of the Company, in respect of their employment with the Company's Group for the financial years ended 31 December 2020 and 31 December 2019.

2.1 Single total figure for executive Directors (audited)

	Vakhtang Butskhrikidze		Giorgi Shagidze[1]	
	2020	2019	2020	2019
	US$'000	US$'000	US$'000	US$'000
Salary including:	964	964	402	482
Salary delivered in cash	454	454	189	227
Salary delivered in shares[2]	510	510	213	255
Taxable benefits (gross amount)	18	21	2	3
Pension	-	-	-	-
Total fixed pay	***982***	***985***	***404***	***485***
Deferred share bonus award[3]	0	902	0	428
LTIP[4]	0	0	0	0
Total variable pay	***0***	***902***	***0***	***428***
Total remuneration[5]	**982**	**1,887**	**404**	**913**

Notes to table:

1. Giorgi Shagidze stepped down from his positions as deputy CEO of the Bank, Group CFO and as a member of the TBC PLC Board on 28 October 2020. He remained at the Company in an advisory role until 31 December 2020. Payments in relation to his role as a consultant are set out later in this report in the section "Payments to Past Directors".
2. In case of CEO, this amount includes US$ 103,301 (2019: US$ 106,167) of taxes paid by the company on behalf of Vakhtang Butskhrikidze in respect of the salary delivered in shares of US$ 406,699 (2019: US$ 403,833), which is made up of the number of deferred shares granted in the period, multiplied by the value of the shares disclosed in the following table. In case of CFO, this amount includes US$ 44,419 (2019: US$ 51,415) of taxes paid by the company on behalf of Giorgi Shagidze in respect of the salary delivered in shares of US$ 168,081 (2019: US$ 203,585), which is made up of the number of deferred shares granted in the period, multiplied by the value of the shares disclosed in the following table.
3. As reported last year, executive Directors would not receive any bonus for 2020, therefore there was no deferred share bonus for 2020. In case of CEO, this amount includes US$ nil (2019: US$ 187,756) of taxes paid by the company on behalf of the Director in respect of the deferred share bonus of US$ nil (2019: US$ 714,178), which is made up of the number of deferred shares granted in the period, multiplied by the value of the shares disclosed in the following table. In case of CFO, this amount includes US$ nil (2019: US$ 86,240) of taxes paid by the company on behalf of the Director in respect of the deferred share bonus of US$ nil (2019: US$ 341,481), which is made up of the number of deferred shares granted in the period, multiplied by the value of the shares disclosed in the following table.
4. The first LTIP award was granted in 2019 but has not yet vested and so it is not included in this table to date. As reported last year, executive Directors would not receive any LTIP award for 2020.
5. Directors did not receive any remuneration other than those disclosed in the table. Further details of the pay shown in the above single figure table are set out in the notes table below.

Approach to executive Director remuneration for 2020

<table>
<tr><th></th><th></th><th colspan="2">Description</th></tr>
<tr><td rowspan="4">Fixed</td><td>Salary delivered in cash</td><td colspan="2">Salary paid in year to executive Directors
No additional fees were paid to executive Directors</td></tr>
<tr><td rowspan="3">Salary delivered in shares</td><td colspan="2">Salary delivered in shares comprised of TBCG shares granted in respect of service in the relevant year</td></tr>
<tr><td>2020</td><td>2019</td></tr>
<tr><td>The number of TBCG shares awarded as deferred share salary under the remuneration policy, effective from 1 January 2019, is linked to the salary and its level is US$ 510,000 for Mr. Vakhtang Butskhrikidze and US$ 255,000 (US$ 213,000 pro-rated to his period of service in 2020) for Mr. Giorgi Shagidze.

Grants of deferred shares in relation to 2020 were approved in principle by the Committee on 24 March 2021 and this level was determined at 23,752 TBCG shares for Mr. Vakhtang Butskhrikidze and 9,816 TBCG shares for Mr. Giorgi Shagidze.

Deferred share salaries are subject to a condition of continuous employment for 2 years and malus and clawback provisions. The continuous employment condition is lifted as follows: 50% of the award on the first anniversary from the award date and the other 50% on the second anniversary from the award date.

The 2020 award has been valued using the average share price for the period of 7-16 February 2021 (GBP 12.43 converted into US$ using the cross rate of the official exchange rates published by the NBG of 3.30 for GEL/US$ and of 4.55 for GEL/GBP over the same period).</td><td>The number of TBCG shares awarded as deferred share salary under the new remuneration policy, effective from 1 January 2019, is linked to the base salary and its level is fixed at the maximum amount of US$ 510,000 for Mr. Vakhtang Butskhrikidze and US$ 255,000 for Mr. Giorgi Shagidze.

Deferred shares in relation to 2019 were awarded on 19 February 2020 determined at 24,072 TBCG shares for Mr. Vakhtang Butskhrikidze and 12,135 TBCG shares for Mr. Giorgi Shagidze.

Deferred share salaries are subject to a condition of continuous employment for 2 years and malus and clawback provisions. The continuous employment condition is lifted as follows: 50% of the award on the first anniversary from the award date and the other 50% on the second anniversary from the award date.

The 2019 award has been valued using the average share price for the period of 9-18 February 2020 (GBP 12.93 converted into US$ using the cross rate of the official exchange rates published by the NBG of 2.87 for GEL/US$ and of 3.72 for GEL/GBP over the same period).</td></tr>
</table>

<table>
<tr><td rowspan="3">Variable</td><td rowspan="3">Deferred share bonus</td><td colspan="2">A deferred share bonus award may be granted as a result of the achievement of performance measures for the relevant financial year.</td></tr>
<tr><td>2020</td><td>2019</td></tr>
<tr><td>The award is 100% deferred in shares and is subject to continuous employment and malus and clawback provisions. The continuous employment condition is lifted as follows: 50% of the award on the first anniversary from the award date and the other 50% on the second anniversary from the award date.

Executive Directors and top management of JSC TBC Bank did not receive any bonus for 2020, therefore there was no deferred share bonus.</td><td>The award is 100% deferred in shares and is subject to continuous employment and malus and clawback provisions. The continuous employment condition is lifted as follows: 50% of the award on the first anniversary from the award date and the other 50% on the second anniversary from the award date.

Deferred shares in relation to 2019 were awarded on 19 February 2020 and its level was determined at 42,571 TBCG shares for Mr. Vakhtang Butskhrikidze and 20,355 TBCG shares for Mr. Giorgi Shagidze.

The 2019 award has been valued using the average share price for the period of 9-18 February 2020 (GBP 12.93 converted into US$ using the cross rate of the official exchange rates published by the NBG of 2.87 for GEL/US$ and of 3.72 for GEL/GBP over the same period).

The value of the award is determined in line with the achievement of performance measures, as explained in detail in the 2019 Annual Report.</td></tr>
<tr><td rowspan="2">Pension and Benefits</td><td>Taxable benefits</td><td colspan="2">Taxable benefits comprise medical insurance, and in the case of our CEO, security allowances as well.</td></tr>
<tr><td>Pension</td><td colspan="2">The Group did not pay pension contributions for the executive Directors. Neither of the executive Directors has a prospective entitlement to a defined benefit pension. Both CEO and CFO opted out the state pension scheme (since at 6 August 2018 they were above 40 years of age. www.pensions.ge) which came into force starting from January 2019 in Georgia.</td></tr>
</table>

2.2 Basis for determining executive Directors' deferred share bonus awards (audited)

As reported last year, the executive Directors and top management of JSC TBC Bank would not receive any entitlement to deferred share bonuses in 2020 and therefore no award in respect of 2020 had been made.

The 2020 deferred share bonus awards that would have been made to executive Directors reflect the Remuneration Committee's assessment of the extent to which corporate financial, non-financial and personal KPIs were achieved. Such objectives were set by the Remuneration and agreed by the board at the beginning of the year.

The compensation is structured by reference to a set of stretch targets for each of the KPIs that is reviewed by the Remuneration committee and approved by the Board. Each KPI has three thresholds: threshold, target and maximum and is evaluated as follows:

- If the achievement is below the threshold level 0% is awarded;
- If the achievement is at the threshold level 60% is awarded;
- If the achievement is on target, 100% is awarded;
- If the achievement is at or above the maximum level, 140% is awarded.

The final evaluation score for the executive Director is made up of the weighted sum of the scores of all the KPIs. As a result, the awards for the executive Director is capped at 140%. If all KPIs targets are achieved the executive Director will receive 100% of the target bonus. The maximum bonus will be 140% of his target bonus.

While one KPI can be achieved at maximum level, achieving maximum level across all KPIs is extremely difficult. To date, it has never been achieved and the maximum bonus has never been paid. The Remuneration Committee will continue to monitor and implement challenging goals for its executives on an annual basis.

2020 deferred share bonus performance measures and corresponding weightings are set out in the table below:

	CEO	CFO
Corporate Financial Measures	**73%**	**53%**
ROE	17%	11%
Cost to income	17%	15%
NIM	15%	10%
Gap with Bank of Georgia in Retail, Micro & SME loans for Q4 2020	12%	8%
Cost of risk	12%	9%
Corporate Non-Financial Measures	**17%**	**17%**
Agile transformation	***9%***	***9%***
– Increase Employee Happiness from the current level	5%	5%
– Improve time-to-market and release frequency (increase X times)	2%	2%
– Improve organizational Agility score (by certain percentage)	2%	2%
Customer Experience	***8%***	***8%***
– “The Best Service Company in Georgia” (Retail)	4%	4%
– Customer Centricity Survey	4%	4%
Personal KPIs	**10%**	**30%**
– Financial	0%	16%
– Non-Financial	10%	14%

The below table sets out the performance against the corporate financial and corporate non-financial measures. The selected financial performance measures are vital for the long-term financial sustainability of the Group and are also closely monitored by investors. Non-financial measures including agile transformation and customer experience are closely linked to our strategic priorities as described in our business model and strategy section. In light of the COVID-19 pandemic the performance measures and respective weights were amended during the year, for example there was more weighting place on the corporate financial measures, than disclosed in the 2019 remuneration committee report in relation to 2020. However, as explained above, executive Directors and top management of JSC TBC Bank did not receive deferred share bonuses in 2020; therefore, although the performance outcome is set out below, there will be no award in respect of 2020 made.

	Performance measure	Minimum (60%)	Target (100%)	Maximum (140%)	Actual performance	KPI evaluation[1]
Corporate Financial Measures	ROE[2]	9.4%-10.1%	10.1%-10.8%	>10.8%	11.7%	140%
	Cost to income[3]	41.77%-40.36%	40.36%-39.04%	<39.04%	38.4%	140%
	NIM[4]	4.36%-4.74%	4.74%-4.88%	>4.88%	4.7%	60%
	Gap with Bank of Georgia in Retail, Micro & SME loans for Q4 2020[5]	GEL 340-440 mln	GEL 440-540 mln	> GEL 540 mln	GEL 570 mln	140%
	Cost of Risk[6]	>2.7% - <=3.2%	2.2 - 2.7%	< 2.2%	2.4%	100%
Corporate Non-Financial Measures	**Agile transformation[7]:**					
	Increase Employee Happiness from the current level	-3%-0%	0%-3%	>3%	7%	140%
	Improve time-to-market and release frequency (increase X times)	x1.1-x1.5	x1.5-x2	>x2	1.4x[9]	60%
	Improve organizational Agility score (by certain percentage)	0%-3%	3%-6%	>6%	30%	140%
	Customer Experience[8]:					
	"The Best Service Company in Georgia" (Retail)	To be #1, whereas the Gap with #2 is up to 5%	Gap with #2 >5%	Gap with #2 >10%	Gap with #2 2.9%	60%
	Customer Centricity Survey	60% - 65%	65% - 75%	> 75 %	80%	140%

Notes to table:

1. Each KPI is evaluated at: 60% where achievement falls into the minimum range, 100% where achievement falls into the target range and 140% where achievement falls into the maximum range.
2. The target range for ROE was decreased from 20.28%-21.40% in 2019 to 10.1%-10.8% due to slowdown in business activities and higher provision charges related to COVID-19.
3. The target range for cost to income ratio (C/I) remained broadly unchanged in 2020 compared to 2019, due to the Group's high focus on efficiency measures.
4. The target range for NIM was decreased from 5.63%-5.80% in 2019 to 4.74%-4.88% in 2020, mainly due to the negative impacts of the pandemic, which resulted in decrease in loan yields, increase in GEL deposits costs as well as currency depreciation.
5. A new KPI was introduced in 2020 in order to reinforce the importance of our leading position in regard to retail and MSME loan book. Since Bank of Georgia's Q4 2020 figures were not available at the Committee's decision date of 17 February 2021, the figures for Q3 2020 were used.
6. The target range for the cost of risk (CoR) was increased from 1.08%-0.95% in 2019 to 2.2 - 2.7% in 2020 due to significant provision charges expected to cover potential impact of the COVID-19 pandemic on the borrowers.
7. The importance of agile transformation is explained in our strategy section on pages 20-24. Based on the best practice shared by the consultants that TBC has been working with in Agile implementation, the selected KPIs are used to measure agile implementation efficiency. Improved time-to-market and release frequency are direct results of a good agile programme. In addition, employee happiness and improved organizational agility score are additional important benefits of the cultural change. TBC has agreed to embark on ambitious targets across all these impact areas and agreed to set appropriate KPIs for each of them.
   - Time-to-market measures the time it takes for the product to be launched from the idea origination date to the release date, while release frequency measures how many times the systems are renewed within the given period of time.
   - Organizational agility score is measured based on internal predefined survey, which is based on the best practice examples.
   - Employee happiness is measured based on internal predefined survey among the Bank's total employees, which is based on the best practice example prepared by external consultants.

   Agile transformation has involved more than 600 employees during 2020.
8. In line with our aspiration to be the best service provider in Georgia, two measures were evaluated:
   - To conduct survey among mass retail customers to identify "Best Service Company in Georgia in Retail" in the following industries: banking, telecom, insurance and pharmacy, based on surveys conducted by independent research company IPM in December 2020.
   - To measure customer-centricity of our team, based on an ainternal survey among the Bank's employees in December 2020.
9. Release frequency: 1.4-2.4 times improvement for in-house systems, 2.8-4.9 times improvement for vendor systems, time-to-market: 1.4 times improvement for majority of systems.

The tables below set out respective performance against personal KPIs for the CEO and CFO respectively

Vakhtang Butskhrikidze

Performance measure	Weighting	Minimum (60%)	Target (100%)	Maximum (140%)	Actual performance	KPI evaluation
Leadership[1]	10%	A-	A	A+	A	100%

Notes to table:

1. The Board assessed the CEO leadership skills and confirmed performance at Target. The Board in general was satisfied that the CEO continued to have active engagement with staff and led the Group with commitment during a very unsettling year. Support will continue to be provided to ensure that at executive Directors' level talent development is fostered and an articulated succession planning is constantly updated.

Giorgi Shagidze

Performance measure	Weighting	Minimum (60%)	Target (100%)	Maximum (140%)	Actual performance	KPI evaluation
Financial:	**16%**					
– Treasury - FX & liquidity income target (GEL 165.5 mln)[1]	8%	95%-98% of the budget	98%-103% of the budget	>103% of the budget	GEL 160.1 mln	60%
– TBC Bank UZ - loan book target (US$ 8.1 mln)	8%	90% -95% of the target	95% -105% of the target	> 105% of the target	US$ 0.4 mln	0%
Non-financial:	**14%**					
– Investor Relations:	**8%**					
– Increase average daily trading volume in 2020	4%	GBP 1.1 mln -1.4 mln	GBP 1.4 mln -1.7 mln	>GBP 1.7 mln	>GBP 1.7 mln	140%
– Diversify shareholder register by adding new investors to the register	4%	2-3 (must be at least 1 UK)	4 (must be at least 2 UK)	4+	7 (3 UK based)	140%
– Leadership[2]	**6%**	A-	A	A+	N/A	N/A

Notes to table:

1. The figures are based on the bank's IFRS standalone numbers and envisages meeting certain level of income from foreign exchange operations and liquidity management.
2. Leadership skills of Giorgi Shagidze were not assessed by the Board given the fact that he resigned from his positions as deputy CEO of the Bank and Group CFO and as a member of the TBC PLC Board in October 2020 and no bonuses were paid in relation to 2020 performance.

2.3 Share interests granted in 2020 (audited)

As reported last year, the executive Directors and top management of JSC TBC Bank would not receive an LTIP award in 2020 and therefore no grants have been made.

STRATEGIC REPORT GOVERNANCE FINANCIAL STATEMENTS ADDITIONAL INFORMATION

Further details of fixed and discretionary share compensation granted during 2020 in respect of 2019 (audited)

	Date of award	Award Type	Face value (% of base salary)[1]	Face value[2]	Percentage of award receivable if minimum performance achieved	Basis on which award was made	Performance measures	Continued employment condition	End of the vesting/ holding period[3]
Vakhtang Butskhrikidze	19 February 2020	Salary delivered as shares	Not applicable	US$ 510,000	Not applicable	As described in section 2.1 above	None – Fixed pay	31 Dec 2019. Subject to continued employment condition until 19 February 2022.	19 February 2022. The holding period for 50% of the shares is lifted on 19 February 2021.
	19 February 2020	Deferred share bonus	94%	US$ 901,934	Not applicable	As described in section 2.1 above	See section 2.2 of 2019 Remuneration report	31 Dec 2019. Subject to continued employment condition until 19 February 2022.	19 February 2022. The holding period for 50% of the shares is lifted on 19 February 2021.
Giorgi Shagidze	19 February 2020	Salary delivered as shares	Not applicable	US$ 255,000	Not applicable	As described in section 2.1 above	None – Fixed pay	31 Dec 2019. Subject to continued employment condition until 19 February 2022.	19 February 2022. The holding period for 50% of the shares is lifted on 19 February 2021.
	19 February 2020	Deferred share bonus	107%	US$ 427,721	Not applicable	As described in section 2.1 above	See section 2.2 of 2019 Remuneration Report	31 Dec 2019. Subject to continued employment condition until 19 February 2022.	19 February 2022. The holding period for 50% of the shares is lifted on 19 February 2021.

Notes to table:

1. For the purpose of this calculation, the fixed salary paid in 2020 has been used.
2. The face value of share awards has been valued using the average share price for the period of 9-18 February 2020 (GBP 12.93 converted into US$ using the cross rate of the official exchange rates published by the NBG of 2.87 for GEL/US$ and of 3.72 for GEL/GBP over the same period) plus taxes as stated in details in table 2.1.
3. The salary delivered in shares and deferred share bonus subject to a two-year continued employment and holding period, lifted on a phased basis: 50% on first anniversary of grant and 50% on second anniversary of grant. Both salary delivered in shares and deferred share bonus are eligible for dividends during the holding period.

2.4 LTIP award to be granted in 2021

The Remuneration Committee has determined that share awards of 161% of salary will be granted to Vakhtang Butskhrikidze in 2021 under the LTIP to further align him with the long-term success of the Group. The share awards to be granted in 2021 will be subject to a 3-year performance period and a subsequent 3 years period of holding. Share awards under LTIP are eligible for dividends during the holding period.

Performance conditions and targets together with corresponding weightings for CEO for LTIP awards to be granted in 2021 in respect of forward-looking performance period 2021-2023 are as follows:

	KPI weight	Below Target	Target (inclusive)	Above Target
Total shareholder return (TSR) for a period of 3 years (2021-2023)	40%	15%- 17%	17-20%	Above 20%
Average ROE for 3 years (2021-2023)	40%	15%-18%	18-21%	Above 21%
Loan market share at the end of (2021-2023)	20%	34%- 36%	36-40%	Above 40%

2.5 Directors' outstanding incentive scheme interests (audited)

The tables below summarise the outstanding awards made to executive Directors:

Salary in shares

		Interest at 31/12/2019	Granted in year	Vested in year	Interest at 31/12/2020	Grant date	Share price at grant GBP	Vesting date[1,2]
Vakhtang Butskhrikidze	2020[1]	n/a	24,072	-	24,072	19/02/2020	£12.93	19/02/2022
	2019[2]	17,622	-	1,762	15,860	21/03/2019	£16.00	21/03/2022
	2018[2]	15,860	-	1,762	14,098	09/03/2018	£18.40	09/03/2021
	2017[2]	14,098	-	14,098	0	28/03/2017	£15.00	28/03/2020
	Total	**47,580**	**24,072**	**17,622**	**54,030**			
Giorgi Shagidze	2020[1]	n/a	12,135	-	12,135	19/02/2020	£12.93	19/02/2022
	2019[2]	8,811	-	881	7,930	21/03/2019	£16.00	21/03/2022
	2018[2]	7,930	-	881	7,049	09/03/2018	£18.40	09/03/2021
	2017[2]	7,049	-	7,049	0	28/03/2017	£15.00	28/03/2020
	Total	**23,790**	**12,135**	**8,811**	**27,114**			

Notes to table:

1. Subject to a condition of continuous employment for 2 years and malus and clawback provisions. The continuous employment condition is lifted as follows: 50% of the award on the first anniversary from the award date and the other 50% on the second anniversary from the award date.
2. Subject to continuous employment and malus and clawback provisions. The continuous employment condition is lifted as follows: 10% of the award on the first anniversary from the award date, a further 10% on the second anniversary from the award date and the final 80% of the on the third anniversary from the award date.

Bonus deferral

		Interest at 31/12/2019	Granted in year	Vested in year	Interest at 31/12/2020	Grant date	Share price at grant GBP	Vesting date[1,2]
Vakhtang Butskhrikidze	2020[1]	n/a	42,571	-	42,571	19/02/2020	£12.93	19/02/2022
	2019[2]	89,421	-	8,942	80,479	21/03/2019	£16.00	21/03/2022
	2018[2]	84,013	-	9,335	74,678	09/03/2018	£18.40	09/03/2021
	2017[2]	71,489	-	71,489	0	28/03/2017	£15.00	28/03/2020
	Total	**244,923**	**42,571**	**89,766**	**197,728**			
Giorgi Shagidze	2020[1]	n/a	20,355	-	20,355	19/02/2020	£12.93	19/02/2022
	2019[2]	46,674	-	4,667	42,007	21/03/2019	£16.00	21/03/2022
	2018[2]	40,103	-	4,456	35,647	09/03/2018	£18.40	09/03/2021
	2017[2]	36,349	-	36,349	0	28/03/2017	£15.00	28/03/2020
	Total	**123,126**	**20,355**	**45,472**	**98,009**			

Notes to table:

1. Subject to a condition of continuous employment for 2 years and malus and clawback provisions. The continuous employment condition is lifted as follows: 50% of the award on the first anniversary from the award date and the other 50% on the second anniversary from the award date.
2. Subject to continuous employment and malus and clawback provisions. The continuous employment condition is lifted as follows: 10% of the award on the first anniversary from the award date, a further 10% on the second anniversary from the award date and the final 80% of the on the third anniversary from the award date.

LTIP

		Interest at 31/12/2019	Granted in year	Vested in year	Lapsed in year	Exercised in year	Interest at 31/12/2020[1]	Grant date	Share price at grant GBP	End of performance period	Vesting date	Holding date
Vakhtang Butskhrikidze	2019	79,217	-	-	-	-	79,217	03/03/2019	£14.92	31/12/2021	19/02/2022	19/02/2024
	Total	**79,217**	**-**	**-**	**-**	**-**	**79,217**					
Giorgi Shagidze	2019	39,609	-	-	-	-	39,609	03/03/2019	£14.92	31/12/2021	19/02/2022	19/02/2024
	Total	**39,609**	**-**	**-**	**-**	**-**	**39,609**					

Notes to table:

1. These figures represent the maximum number of share awards, out of which 79% will be granted at target peformance and and which will be assessed and awarded in Q1 2022 subject to performance.

Performance conditions and targets together with corresponding weightings for CEO and CFO for share awards granted under LTIP in 2019 in respect of performance period 2019-2021 are as follows:

	KPI weight	Below Target	Target (inclusive)	Above Target
Total shareholder return (TSR) for a period of 3 years (2019-2021)	40%	15-17%	17-20%	Above 20%
Average ROE for 3 years (2019-2021)	40%	15-18%	18-21%	Above 21%
Loan market share at the end of 2021	20%	34-36%	36-40%	Above 40%

2.6 Single figure for non-executive Directors (audited)

The table below sets out the remuneration earned by each non-executive Director for the years ended 31 December 2019 and 31 December 2020. The independent non-executive Directors are remunerated based on the number of committees they serve on and chair.

Director	Year	Fees US$'000	Taxable benefits US$'000	Total remuneration US$'000[5]
Nikoloz Enukidze[1]	**2020**	350	0	**350**
	2019	248	0	**248**
Nicholas Haag	**2020**	175	0	**175**
	2019	157	0	**157**
Eric Rajendra[2]	**2020**	142	0	**142**
	2019	68	0	**68**
Tsira Kemularia	**2020**	157	0	**157**
	2019	144	0	**144**
Maria Luisa Cicognani	**2020**	154	0	**154**
	2019	149	0	**149**
Arne Berggren[3]	**2020**	148	0	**148**
	2019	51	0	**51**
Abhijit Muralidhar Akerkar[4]	**2020**	54	0	**54**
	2019	-	-	**-**
Total amounts	**2020**	**1,180**	**0**	**1,180**
	2019	**817**	**0**	**817**

Notes to table:

1. Nikoloz Enukidze was appointed to serve as the Chairman of the Board on 25 July 2019 following the resignation of Mamuka Khazaradze.
2. Eric Rajendra was re-appointed as Independent non-executive Director on 17 September 2019 following his resignation on 15 March 2019 due to health reasons. He was appointed as a member of JSC TBC Bank Supervisory Board on 9 October 2019.
3. Arne Berggren joined the Board as an independent non-executive Director on 13 August 2019 and was appointed as a member of JSC TBC Bank Supervisory Board on 18 July 2019.
4. Abhijit Muralidhar Akerkar joined the Board as an independent non-executive Director on 27 July 2020 and was appointed as a member of JSC TBC Bank Supervisory Board on the same date.
5. Non-executive Directors have not received any other payments from the Group in 2020 and 2019. Non-executive Directors do not receive annual bonus or LTIP awards.

As detailed in the 2019 report, the Board underwent a restructuring and the fees for the remaining non-executive Directors (including the new Chairman) have been amended several times during the year to comply with the principles of the NBG's Corporate Goveranance Code for Commercial Banks. Fees are now structured as follows:

2020 NED fee policy

	US$'000
Chairman (eligible for committee fees)	338
Non-executive Director (other than Chairman)	130
Senior Independent Director	15
Committee Chairmanship	12
Committee membership	6
Employee engagement designated independent board member role	3

2.7 Change in Director remuneration compared to other employees

In the table below, as per the requirements of the Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, changes to the base pay (or fees), taxable benefits and annual bonus of Directors are compared to employees over the same period (2019 to 2020).

	Change in 2020 against 2019 (%)		
	Salary/fees	**Taxable Benefits**	**Deferred Share Bonus**
Executive Directors			
Vakhtang Butskhrikidze	0%	-14%	-100%
Giorgi Shagidze[1]	-17%	-33%	-100%
Non-executive Directors			
Nikoloz Enukidze[2]	41%	-	-
Nicholas Haag	11%	-	-
Eric Rajendra[3]	109%	-	-
Tsira Kemularia	9%	-	-
Arne Berggren[4]	190%	-	-
Abhijit Muralidhar Akerkar[5]	-	-	-
Maria Luisa Cicognani	3%	-	-
Average employee[6]	**18%**	**-25%**	**-61%**

Notes to table:

1. Giorgi Shagidze stepped down from his positions as deputy CEO of the Bank and Group CFO and as a member of the TBC PLC Board on 28 October 2020. He remained at the Company in an advisory role until 31 December 2020.
2. Nikoloz Enukidze was appointed to serve as the Chairman of the Board on 25 July 2019.
3. Eric Rajendra was re-appointed as Independent non-executive Director on 17 September 2019 following his resignation on 15 March 2019 due to health reasons. He was appointed as a member of JSC TBC Bank Supervisory Board on 9 October 2019.
4. Arne Berggren joined the Board as an independent non-executive Director on 13 August 2019 and was appointed as a member of JSC TBC Bank Supervisory Board on 18 July 2019.
5. Abhijit Muralidhar Akerkar joined the Board as an independent non-executive Director on 27 July 2020 and was appointed as a member of JSC TBC Bank Supervisory Board on the same date.
6. These numbers include employees of the Group, except for the executive and non-executive Directors' remuneration provided in the given table since at Company level there is only one employee.

3. PAYMENTS TO PAST DIRECTORS (AUDITED)

Giorgi Shagidze stepped down from his positions as deputy CEO of the Bank and Group CFO and as a member of the TBC PLC Board on 28 October 2020. He remained at the Company in an advisory role until 31 December 2020. He received a total of US$80,334 for providing these services. No other payments have been made to Mr Shagidze.

4. PAYMENTS FOR LOSS OF OFFICE (AUDITED)

Giorgi Shagidze will receive his salary delivered as shares for the period of the year served until 28 October 2020. This will be paid along with the salary delivered as shares as for other members of management in 2021. The value of this will be US$ 212,500 converted into shares (9,816 TBCG shares) using the average share price for the period of 7-16 February 2021 (GBP 12.43 converted into US$ using the cross rate of the official exchange rates published by the NBG of 3.30 for GEL/ US$ and of 4.55 for GEL/GBP over the same period).

The Committee exercised its discretion and determined that Mr. Shagidze was classed as a Good Leaver. In making its decision the Committee recognised that the awards that Mr Shagidze would retain relate to the periods in which he had already provided valuable service. The Committee further considered that Mr. Shagidze, who was stepping down from these roles to further other pursuits, had made a significant contribution to TBC throughout his service over the course of the previous ten years, including on key projects on which Mr. Shagidze has been instrumental such as TBC's IPO and foreign expansion projects, and had provided valuable assistance in ensuring a smooth transition out of his role. It was also acknowledged that he would not be due any additional severance payment, and that he did not receive any variable compensation in respect of 2020. As such the Committee considered it appropriate for Mr. Shagdize to retain all his Awards in accordance with their original employment holding period. Mr. Shagidze will retain the outstanding salary delivered as shares and deferred bonus awards relating to 2019.

Part of the outstanding LTIP award granted to Mr Shagidze in 2019 will vest on the original vesting date on a pro-rata basis for services performed up to 28 October 2020. The portion of award being retained remains subject to performance conditions until the end of 2021.

The deferred share salary, deferred bonus awards and pro-rated LTIP will continue to vest in accordance with their original schedule and remain subject to the terms of the relevant share plan, including the malus and clawback provisions. The LTIP award will remain subject to the post-vesting holding period.

5. STATEMENT OF DIRECTORS' SHAREHOLDINGS AND SHARE INTERESTS (AUDITED)

The application of our remuneration structure naturally results in our executive Directors holding a significant number of shares that are subject to continued employment conditions. In addition, as described in section 9 below, the Company has implemented a Minimum Shareholding Requirement for executive Directors. The executive Director has met the Minimum Shareholding Requirement. Deferred shares paid in relation to salary and annual bonus, which count towards the Minimum Shareholding Requirement, are subject to continuous employment and malus and clawback requirements but are not subject to any further performance conditions.

The following table sets out a summary of each Director's shareholdings and share interests in the Company as at 31 December 2020. Although not a Company requirement, one NED has chosen to become a shareholder.

Share ownership requirement

Mr. Butskhrikidze's shareholding of 1767% of 2020 salary at 31 December 2020 exceeds the share ownership requirement of 200% of salary.

Mr. Shagidze's post cessation shareholding requirement is 100% of salary for two years and his shareholding of 797% of his 2020 salary at 31 December 2020 exceeds this requirement. Mr. Shagidze stepped down on 28 October 2020.

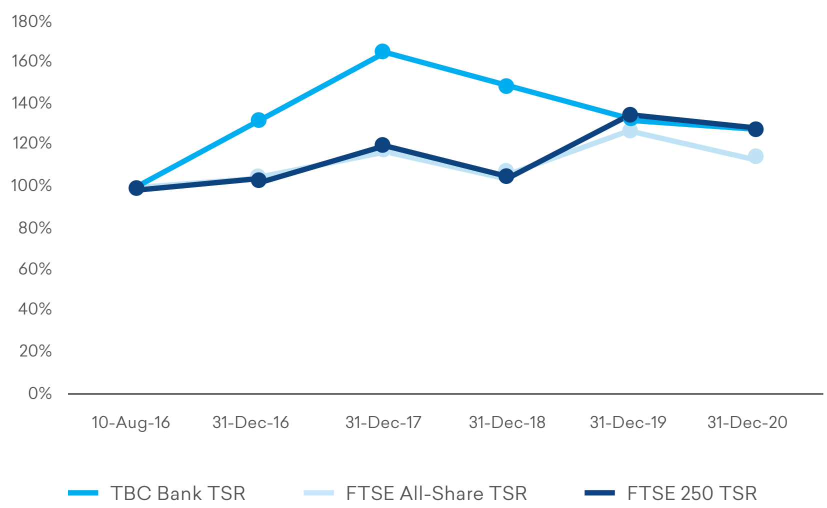
	Shareholding guidelines (% of salary)	Shareholding at 31 Dec 2020 not subject to either continuing employment requirements or performance conditions[1] (A)	Shareholding at 31 Dec 2020 subject to continuing employment requirements[2] (B)	Total number of shares held (C = A+B)	Shares (C as a percentage of 2020 salary[3] (D)	Number of shares subject to the performance conditions in relation to LTIP [4] (E)	Total interests in shares still subject to conditions (B+E)	Total interests in shares (A+B+E)
Vakhtang Butskhrikidze[5] (executive Director)	200%	750,754	251,757	1,002,511	1767%	79,217	330,974	**1,081,728**
Giorgi Shagidze[5] (stepped down on 28 October 2020)	100%	63,440	125,123	188,563	797%	39,609	164,732	**228,172**
Nikoloz Enukidze[6]		10,000	–	10,000	–	–	–	**10,000**
Nicholas Haag		–	–	–	–	–	–	**-**
Eric Rajendra		–	–	–	–	–	–	**-**
Maria Luisa Cicognani		–	–	–	–	–	–	**-**
Tsira Kemularia		–	–	–	–	–	–	**-**
Arne Berggren		–	–	–	–	–	–	**-**
Abhijit Akerkar		–	–	–	–	–	–	**-**

Notes to table:

1. This figure includes all shares held which are no longer subject to any conditions or transfer restrictions. Some of these shares may still be subject to clawback requirements.
2. This figure includes shares that are still subject to conditions, including transfer restrictions, a continuous employment condition and malus and clawback provision. The figure includes shares granted as deferred share compensation each year as a result of the achievement of performance measures for the relevant financial year and deferred share salary. Details of these interests are described at sections 2.1 and 2.2.
3. The shares as a percentage of 2020 salary has been calculated based on a share price of GBP 12.50 as of 31 December 2020 converted into US$ using the cross rate of the official exchange rates published by the NBG of 3.28 for GEL/US$ and of 4.45 for GEL/GBP for the same date.
4. This figure includes share awards granted, but not vested, under the LTIP that are subject to performance conditions. Details of these interest are described at section 2.1 and 2.4.
5. On 24 March 2021, the Committee approved the amount of deferred shares to be awarded to Mr. Butskhrikidze and Mr. Shagidze, in respect of the year ended 31 December 2020, as part of their fixed salary. Mr Butskhrikidze has been granted 23,752 shares and Mr. Shagidze has been granted 9,816 shares. These shares are subject to two years continued employment and malus and clawback provisions. The continued employment condition is lifted as follows: 50% of the award on the first anniversary from the award date and the other 50% on the second anniversary form the award date. These have not been included in the above table. All figures in the table reflect the position as at 31 December 2020. As at 26 April 2021, Mr Butskhrikidze held 142,708 shares and Mr. Shagidze held 70,450 shares that were subject to continued employment conditions. In addition, during the first four month of 2021, Mr.Shagidze sold 12,000 shares. Except for the ones described above, no other changes have taken place between the end of 2020 and 26 April 2021.
6. Nikoloz Enukidze acquired his shares before premium listing in August 2016.

6. PERFORMANCE: TOTAL SHAREHOLDER RETURN

The following graph compares the total shareholder return (TSR) of the Company for the period from the date when shares were listed on the premium segment of the London Stock Exchange (10 August 2016) to 31 December 2020, with the performance of the FTSE All-Share Index and FTSE 250 Index over the same time period. These market indexes were selected because they are most comparable to the Company in terms of listing and relevant governance and transparency standards. Further, the Company is included in the FTSE All-Share Index and FTSE 250 Index.



Set out below is a table that contains details of Company CEO, Vakhtang Butskhrikidze's remuneration for each financial year in the relevant period:

Financial year	Single total figure of remuneration (US$'000)[1]	Deferred share bonus as a percentage of maximum opportunity (%)[2]	LTIP vesting as a percentage of the maximum number of shares that could have been achieved (%)[3]
2020	**982**[3]	**N/A**	**N/A**
2019	1,887	69%	N/A
2018	3,356	85%	N/A
2017	4,084	88%	N/A
2016	3,017	85%	N/A
2015	1,809	87%	N/A

Notes to table:

1. Total remuneration includes salary delivered in cash, salary delivered in shares, deferred share bonus award and taxable benefits as described in section 2.1, but excludes LTIP, as no LTIP awards vested in 2020. Total remuneration paid in 2020 is down compared to 2019 due to not receiving a deferred share bonus.
2. Executive Directors and top management of JSC TBC Bank did not receive a deferred share bonuses in respect of 2020.
3. The first LTIP awards were granted in 2019 and are not yet vested, and so no LTIP awards vested in 2020. More details about the LTIP is given in section 2.3.

7. RELATIVE IMPORTANCE OF SPEND ON PAY

The following table illustrates the difference in spend on pay for all employees of the Group and the difference in dividend paid to the shareholders between 2020 and 2019.

	2020	2019	% change
Total spend on Pay (staff costs in US$000)[1]	78,478	87,900	-11%
Dividends paid to shareholders (in US$000)[2]	0	38,145	-100%

Notes to table:

1. Total spend on pay includes total staff costs per Group's IFRS consolidated financial statements and is converted into US$ using average US$/GEL exchange rate of 3.11 for 2020 and of 2.82 for 2019 respectively.
2. Dividend paid to shareholders in 2019 were gross amounts converted into US$ using official exchange rate prevailing at the date of payment of the dividends, GEL 2.85. The dividend amount included both cash and scrip dividend. No dividends were distributed in 2020. .

8. POLICY IMPLEMENTATION IN 2021

Remuneration policy for the executive Director

The Remuneration Policy was developed with support of external consultants and KPMG and was approved by the shareholders on 21 May 2018 at the 2018 Annual General Meeting (AGM). The Policy is applicable starting from 1 January 2019 until the end of 2021.

In 2021, the Remuneration Committee intends to continue to provide remuneration in accordance with the Policy as set out in the tables below and as approved by shareholders at the 2018 AGM. Fees and salaries may be adjusted but in all cases will not exceed the maximum levels stated in the relevant Policy, as approved by shareholders at the 2018 AGM.

Base salary (cash and shares)	This is set at levels, which the Remuneration Committee reviews periodically and benchmarks against main competitors in the region and other listed financial services groups to retain executive Directors with the calibre needed to develop and deliver the Group's strategic priorities. It reflects the role of the individual and takes into accounts responsibilities and experience. To further increase alignment of performance with the Group's short term objectives a substantial portion of the fixed salary is delivered in shares and delivery of these shares is deferred till the first quarter following the year of entitlement. The cash and share salaries are set out in the policy approved by the shareholders at 2018 AGM. The Remuneration Committee reserves the right to agree changes to the base salary with the executive Directors but no change will exceed the maximum levels stated in the Policy approved by shareholders at the 2018 AGM. The Remuneration Committee's discretion will be exercised fairly and reasonably and with regard to appropriate comparable market practice and business strategy. For 2021, the base salary has been set the same as it was in 2019, that is US$ 963,994 for CEO.
Annual bonus	This is used to incentivise and reward the achievements of annual targets both at a Group level and at a personal level. The Group annual targets are set by the Board each year within the context of the Group medium-term strategy and sustainability goals as described in our strategy section on pages 20-24, while individual KPIs reflect the Director's personal responsibility on specific strategic targets which need to be delivered during the period and the achievement of which is crucial for the delivery of the medium-term strategy of the Group. This component is delivered entirely in deferred shares as described in section 2.1. **Performance measures and weightings:** Performance measures for 2021 with appropriate stretching targets will be set on the basis of the Company's strategy and sustainability goals, and will include corporate financial KPIs, corporate non-financial KPIs as well as personal KPIs. The overall weighting and structure of the KPIs will follow the structure below:

Annual bonus

Financial KPIs weighting 60%:

In line with the Group strategy KPIs for 2021 will reflect the following objectives:
- maintaining a well-diversified profitable business model;
- reaching sustainable returns over the medium and long term;
- respecting target internal risk parameters;
- achieving target profitability.

Targets are set on a consolidated basis to capture the Group's expansion in Uzbekistan.

Strategic non-financial weighting 30%:

The objectives of the Group are to increase its financial services offering and digitalisation. At the same time a series of important projects to strengthen internal control systems and processes are underway and expected to result in increased efficiency and effectiveness of operations. In addition, specific critical projects in IT transformation remain under the direct responsibility of the CEO.

The Group is in the process of defining Group ESG strategy. The first CSR report was produced in 2020 and strategic objectives related to ESG will be set.

Personal Leadership weighting 10%:

- Leadership is evaluated as a composite of a number of parameters to include scoring on organisational, people, cultural and individual objectives. This is directly linked to the need to implement strategic goals over the medium term across the group.

Given the uncertainties of the current economic environment in Georgia and other relevant countries, the final quantitative KPIs will be set after this report has been sent to print. Emerging from the national lockdown and a return to normal operations is dependent on a number of domestic macro policy decisions which are affecting the Group's activities and which should be clear by the end of next quarter. The Remuneration Committee will specifically ensure that such KPIs will remain appropriately stretching, having regard to all relevant factors at that time.

Performance targets: Specific performance targets are considered commercially sensitive as they may give our competitors information about our budget and strategy. The targets will be disclosed in the Group's 2021 annual report

Long term incentive plan (LTIP)

This long-term variable component delivered entirely in deferred shares aligns executive management incentives and behaviours to the Group strategy of delivering superior and sustainable returns as described in our strategy section on pages 20-24. This is considered important by the Board as it incentivises stewardship over a longer time horizon and promotes good governance by aligning shareholders' interests and executive compensation. The LTIP represents the largest percentage of the total variable compensation of executive Directors as the Board considers necessary to maintain a long-term view in producing shareholders' returns.

The Remuneration Committee has determined that an award of 161% of salary will be granted to Mr. Vakhtang Butskhrikidze in 2021 under the LTIP to further align him with the long-term success of the Group. The award to be granted in 2021 will be subject to a 3-year performance period and a subsequent 3 years period of holding.

Performance conditions and targets together with corresponding weightings for the award are as follows:

	KPI weight	Threshold	On target	Maximum
Total shareholder return (TSR) for a period of 3 years (2021-2023)	40%	15%-17%	17-20%	Above 20%
Average ROE for 3 years (2021-2023)	40%	15%-18%	18-21%	Above 21%
Loan market share at the end of 2023	20%	34%- 36%	36-40%	Above 40%

Remuneration policy for the non-executive Directors

As reported last year, the Remuneration Committee revised the compensation for the non-executive Directors from 25 September 2019. No changes are proposed for 2021:

	US$'000
Chairman (eligible for committee fees)	338
Non-executive Director (other than Chairman)	130
Senior Independent Director	15
Committee Chairmanship	12
Committee membership	6
Employee engagement designated independent board member role	3

9. DIRECTORS REMUNERATION POLICY

Introduction

This Directors' Remuneration Policy provides an overview of the proposed Company policy on Directors' pay. It is anticipated that it will be applied from 1 January 2022 and will apply for three years to 31 December 2024. Provisions of the current policy will continue to apply until 31 December 2021. Full details of this can be found in the 2017 Annual Report, which is available at our website at www.tbcbankgroup.com.

In accordance with the requirements of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) (the "Regulations"), the policy contained in this part will be subject to a binding vote at the 2021 AGM.

In 2018, the National Bank of Georgia (NBG), the regulator of JSC TBC Bank, introduced a new Corporate Governance Code for Commercial Banks. This included certain requirements in relation to executives' remuneration that came into force from 2019 and a Fixed to Variable Pay Ratio which will be effective from 2022. The new policy takes account these amendments. It aims to enhance our existing remuneration structure and ensure that it is more closely aligned with all stakeholder expectations, as well as to offer competitive compensation to Directors.

The key objective of the Policy is to maintain a competitive remuneration incentive towards performance aligned with the Group's strategic targets. In particular, the variable compensation maximum opportunity will be capped by the proposed 2:1 variable to fixed ratio while certain thresholds of vesting are being reduced. As the global economic environment remains uncertain and volatile we consider essential to maintain a remuneration policy that provides the flexibility to contain fixed costs while rewarding exceptional sustainable performance.

Significant revisions made to the previous policy

- To ensure that all salary can be treated as fixed pay for the Fixed To Variable Pay Ratio introduced as part of the NBG Corporate Governance code for Commercial Banks, the requirement for continuing employment for the salary which is delivered in shares has been removed together with the deferral and malus and clawback conditions.
- The limit on executive Director pension contributions from the Company will be reduced from up to 3% of salary to up to 2% of salary in a defined contribution plan to align with the majority of the workforce.
- The maximum limits of annual bonus and LTIP award remain unchanged as a percentage of salary, with reference to monetary amount removed.
- Bonus conditions have been amended to introduce a minimum of 60% of the bonus to be determined by reference to financial KPIs. Target performance under current Policy (as amended last year to meet NBG requirements) provides 63% of the maximum bonus award; the new Policy will provide 50% of the maximum bonus award for target performance.
- At least 60% of variable remuneration will be delivered as LTIP for any year. With this context, Annual performance bonus will continue to be subject to one year holding period for 50% of shares delivered as annual bonus and for two years of holding period for remaining 50% of shares but the annual deferred bonus shares will no longer be subject to a continuing employment requirement. However, it remains subject to malus and clawback and forfeiture in case the participant is being deemed a bad leaver.

- From 2022, LTIP grants will be based on an assessment of the previous year performance and subject to three-year LTIP future assessment of the LTIP performance conditions, followed by a two-years of vesting in line with the requirements under the NBG Code.
- Where threshold performance conditions are achieved for the LTIP, vesting will be limited to 25% of the maximum in line with best practice, reduced from 47% of the maximum.
- Malus and Clawback trigger events are extended in line with the requirements of NBG CG Code.

Full details are disclosed in the policy table.

Fixed to Variable Pay Ratio

Effective from 2022, the NBG Code sets the ratio of fixed to variable pay at a maximum of 1:1 which can be increased by shareholders to 1:2. This will apply to JSC TBC Bank. In accordance with the NBG Code we are proposing to seek shareholder approval for a fixed to variable ratio of 1:2 at the 2021 AGM.

NBG Code requires shareholders' approval not only in relation to our CEO but all members of executive management board of JSC TBC Bank. The CEO's maximum variable remuneration limit under the current TBC Policy exceeds this ratio but, to comply with the NBG Code, the actual payments will be required to be within this ratio.

We believe that it is appropriate to have a Fixed to Variable Pay Ratio of 1:2 to maintain our competitive positioning in an international market where we are hiring from and losing talent to banks which operate a 1:2 Fixed To Variable Pay Ratio, fintech companies which do not have variable compensation cap, and general technology companies. This also helps us to manage our fixed costs giving us flexibility to reward performance within agreed risk parameters.

Consideration of shareholder views

The Remuneration Committee remains mindful of shareholder views when evaluating and setting ongoing remuneration strategy and considers feedback from shareholders received at each AGM. The proposed policy was discussed with the NBG and we engaged with a number of our large shareholders and proxy bodies. This engagement has been key to designing the remuneration policy as described in this report, and we aim to continue this dialogue as we implement to proposed policy.

Our Remuneration Policy is composed of fixed and variable components with each component closely linked to what the Group's objectives are in the short, medium and long terms. Strategically the Group considers important to balance a competitive fixed salary with strong incentives to perform beyond the approved strategic targets. As a consequence, variable remuneration represents over 60% of total compensation of executive Directors and is linked for 40% to annual targets and 60% to medium-long term strategic targets. Such emphasis on deferred shares compensation (including in the portion of a deferred share salary component) and heavy weight on variable rather than fixed compensation is considered by the Committee and the Board the optimal structure to ensure full alignment of executive Directors with the Group's objectives.

Policy table: executive Directors

FIXED PAY

Salary – delivered as cash and shares	
Purposes and link to the strategy of the Group	Salaries are determined based on market practice and provide each executive Director with a competitive fixed income to efficiently retain and reward the Director and are based upon each Director's roles and responsibilities within the Group and relative skills and experience. **Salary in cash** The cash part of the salary is aimed to provide fixed cash remuneration. **Salary in shares** Part of the salary is delivered in the form of shares to align executive Directors' and shareholders' interests.
Operation	An executive Director may be paid separate salaries for roles and responsibilities at different entities within the TBC Group as set out in a separate service contract with any relevant entity. Currently the executive Director receives a salary from JSC TBC Bank and TBC Bank Group PLC. The aggregate is disclosed in the Remuneration Report. Salaries are reviewed annually by the Remuneration Committee. Salaries will be reviewed against relevant bank peers and other companies of a similar size and complexity. **Delivery of shares** Shares are usually delivered during the first quarter of the second year (i.e. the year after the work is performed) and the exact date is determined by the Remuneration Committee. All shares must be held for one year and 50% of the shares must be held for a second year. They are registered in the trustees name as nominee for the participants. The participants are entitled to receive dividends and have voting rights from the delivery date.
Maximum opportunity	Salary is set and reviewed annually to ensure that the Directors receive a fair compensation which is competitive for the role the individual is asked to play within the Group and is commensurate with experience. Salary for the executive Director is determined by the Remuneration Committee, taking account his skills, performance and experience. No salary increase is proposed for 2021 nor it was awarded in 2020, as salary has remained at the same level as approved by the Policy in 2018. The maximum salary level will be determined by the Board in line with the principles outlined. Whilst there is absolute no maximum salary level, any increase will normally be in line with those awarded to the workforce. Where an increase is to be awarded above those granted to the workforce, we will engage with our shareholders and maintain the objective that the total reward potentially available is not excessive from the standpoint of relevant employment data. Any changes to salary must be recommended by the Remuneration Committee and approved by the Board. For the element of salary paid in shares, the number of shares is calculated based on the average share price of the last 10 days preceding the Remuneration Committee decision date. However, the maximum value is fixed by reference to a cash amount on that date.
Performance measures	Not performance based
Malus / clawback	Malus and clawback provisions are not applicable to salary delivered in cash or shares.
Amendments to previous policy	Removal of deferral (with a requirement for continued employment), malus and clawback on salary delivered in shares. This is to ensure salary delivered in shares is treated as fixed pay for regulatory purposes.

Pension	
Purposes and link to the strategy of the Group	To assist our employees in providing for their retirement and to maintain a market competitive benefits package to attract and retain executive Directors.
Operation	The Georgian government has a mandatory pension scheme, under this scheme 2% of total employee compensation is to be contributed to a national pension fund.
Maximum opportunity	In line with the workforce, the maximum employer contribution will not exceed 2% of total compensation.
Performance measures	No performance measures apply to the contribution level.
Malus/ clawback	Malus and clawback provisions are not applicable.
Amendments to previous policy	Reduction of maximum employer contribution from 3% to 2% to align pension with workforce pension arrangements.

Benefits	
Purposes and link to the strategy of the Group	Benefits are in line with Georgian market practice and are designed to be sufficient to attract and retain high calibre talent.
Operation	Benefits available to executive Directors consist of insurance (such as medical, life and disability insurance), physical examinations, Directors' and officers' liability insurance, a car service, personal security arrangements and assistance with filling out tax returns, where required. The Remuneration Committee retains the discretion to provide additional benefits, where necessary or relevant in the context of the Director's location. Executive Directors are reimbursed for reasonable business expenses incurred in the course of carrying out duties under their service contracts, on provision of valid receipts.
Maximum opportunity	The maximum amount payable depends on the cost of providing the benefits that the Remuneration Committee is willing to provide to an employee in the location at which the executive Director is based. Shareholders should note that the cost of providing comparable benefits in different jurisdictions may vary widely. Disclosure of amounts paid will be provided in the implementation report and will be explained where the cost of benefits is significant.
Performance measures	Not performance based
Malus / clawback	Malus and clawback provisions are not applicable.
Amendments to previous policy	No changes proposed

VARIABLE PAY

Annual bonus delivered in shares	
Purposes and link to the strategy of the Group	To provide a strong motivational tool to achieve the annual KPIs and to provide rewards to the extent those KPIs are achieved. The annual KPIs are chosen to align our executive Directors' interests with the short terms strategic objectives of the Group.

Operation	**Determination of annual bonus** KPIs are set at the beginning of each year in relation to that year (see more detail below). The nature of the KPIs will be disclosed in the annual report published in the performance year. The precise weightings and targets may be considered by the Remuneration Committee to be commercially sensitive and in that case will be disclosed retrospectively, which is generally expected to be in the following annual report. **Delivery structure** Annual bonus is delivered entirely in shares, which are subject to a holding period. Once shares are delivered, 50% of the shares will be subject to a holding period for 1 year and the other 50% for 2 years from the delivery date. The shares are registered in the trustees' name as the nominee for the participants and the participants are entitled to receive dividends. Shares are usually delivered during the first quarter of the second year (i.e. the year after the work is performed) and the exact date is determined by the Remuneration Committee. **Administration** Key discretions the Remuneration Committee has with respect to the plan are summarised further on in this Remuneration Policy.
Maximum opportunity	The maximum value of the annual bonus for the Chief Executive Officer, under the annual short-term incentive arrangements, is 135% of fixed salary. For achieving target performance, no more than 50% of the maximum bonus opportunity is payable. For threshold performance, no annual bonus is paid. The number of shares is calculated based on the average share price of the last 10 days preceding the Remuneration Committee decision date.
Performance measures	The KPIs consist of corporate and individual performance measures. Corporate KPIs include financial measures, and non-financial measures with long term focus. At least 60% of annual bonus will be earned against a challenging set of financial KPIs with the targets set with reference to the bank's planning for the year. Individual performance measures may include individual strategic objectives which vary per person. The performance period is one year. To the extent that the KPIs are achieved, the Remuneration Committee may decide whether an award may be made and the amount of such award. The Remuneration Committee may also adjust KPIs during the year to take account of material events, such as (without limitation): material corporate events, changes in responsibilities of an individual and/or currency exchange rates.

Malus / clawback	Awards are subject to the operation of malus at any time before the end of the holding period and clawback at any time before the third anniversary of the end of the holding period. The precise powers of the Remuneration Committee to operate malus and clawback are set out in the terms and conditions governing the awards. In summary, for awards granted whilst this Policy is in effect, if the Board determines (based on the recommendation of the Remuneration Committee) that: › the Director deliberately mislead the Company or the Bank in relation to financial performance; › there has been a material misstatement or material error in the financial statements of the Company or the Bank; › the Director participated in or was responsible for conduct which resulted in significant losses to the Company or the Bank; › the Director failed to meet the relevant fit and proper criteria set by the NBG; › there is evidence of misconduct or serious errors by the Director, including (without limitation) a breach of any code of ethics or any other material breach of internal company rules; › the Company, the Bank and/or a relevant business unit suffers a significant downturn in its financial performance (e.g. specific business indicators) (for malus purposes), or the Director has caused the Company, the Bank and/or a business unit to suffer a significant downturn in its financial performance (for clawback purposes); › the Company, the Bank and/or a business unit in which the Director works suffers a significant failure of risk management (for malus purposes), or the Director has caused the Company, the Bank and/or the business unit in which the Director works to suffer a significant failure of risk management (for clawback purposes); › there is significant increase in the Company's and or Bank's or relevant business unit's economic or regulatory capital base (for malus purposes), or the Director's participation caused significant increase in the Company's and or Bank's or relevant business unit's economic or regulatory capital base (for clawback purposes); or › the conduct of the Director contributed to the imposition of regulatory sanctions on the Company or the Bank. the Board has the right to cause some or all of the award for that year or any subsequent financial year that is unvested (or unpaid) to lapse (or not be paid) (i.e., operate malus), and/or to require the return of shares and/or cash value received by the Director pursuant to the award (i.e., operate clawback), may be as determined by the Board in its absolute discretion. Further, malus may be operated if it is considered that the underlying financial performance of the Company or the performance of the Director during the holding period is such that the number of shares cannot be justified. For awards granted prior to the effective date of this Policy, the awards are subject to the Company's previous malus and clawback policy as summarised in the Policy in effect from 1 January 2019.
Amendments to previous policy	Move to basing maximum award on a percentage of salary rather than a monetary amount. Removal of continuing employment requirement for the annual bonus. Introduction of a minimum of 60% of annual bonus determined by financial KPIs. Setting target performance to provide 50% of maximum bonus opportunity compared to 63% per current policy. Extension of malus and clawback trigger events in line with the requirements of NBG CG Code.

Long Term Incentive Plan (LTIP)	
Purposes and link to the strategy of the Group	To provide a strong motivational tool to achieve long-term performance conditions and to provide rewards to the extent those performance conditions are achieved. Performance conditions are chosen to align our executive Directors' interests with strategic objectives of the Group over multi-year periods and encourage a long-term view.
Operation	**Determination of award** Awards are discretionary and are granted if the Remuneration Committee considers that there has been satisfactory performance over the prior base year. **Delivery structure** Awards may be granted in the form of conditional share awards, options or restricted share awards. Awards are structured so that when combined with the annual bonus no less than 60% of variable pay is delivered as LTIP in any one year. For each award, forward-looking performance conditions are set by the Remuneration Committee for a period of 3-years (see more detail below). The Remuneration Committee determines the level of award at the end of the performance period, based on the extent to which the performance conditions have been met. The performance conditions and respective targets will be disclosed in the annual report published in the year of the award. **Timing of receipt** For the shares to be delivered, the performance conditions need to be met over the 3-year performance period. To the extent that performance conditions have been met, the LTIP awards remain subject to 2 years vesting period and continued employment requirements before vesting at the end of 5 years. No dividend equivalents will be paid on any awards (or part thereof) that lapse on or before vesting. **Dilution** For newly issued and treasury shares, the LTIP is limited to using 10% in 10 years for employee plans and 5% in 10 years for discretionary plans. These limits will exclude shares under awards that have been renounced, forfeited, released, lapsed or cancelled or awards that were granted prior to the Company's IPO or awards that the Remuneration Committee decide will be satisfied by existing shares. **Administration** The plan will be administered by the Remuneration Committee. Key discretions the Remuneration Committee has with respect to the plan are summarised further on in this Remuneration Policy.

Maximum opportunity	The maximum value of the award for the Chief Executive Officer in any given year, under the long-term incentive arrangements, to be awarded is 161% of salary. The number of shares is calculated based on the average share price during the 10 days after the preliminary annual results of the year preceding the year of each grant is announced.
Performance measures	Forward-looking performance measures will be based on financial performance, appropriate risk taking, and other long-term strategic measures are approved by the Board and set by the Remuneration Committee each year. Measures and weightings will be set out in advance of each grant to reflect the Company's strategy. At threshold level of performance, for each measure, 25% of the award opportunity for that measure will vest, 100% of the award will vest for achieving the maximum performance set for each measure and a target award will be calculated on a straight line basis. The Remuneration Committee has the discretion, any time after an award has been granted, to reduce (including to zero) an award if the Remuneration Committee considers that either the underlying financial performance of the Company or the performance of the individual is such that the level of vesting cannot be justified. The performance period is a continuous period of three years, commencing no earlier than the beginning of the financial year during which the Award is granted. The Remuneration Committee may adjust performance conditions during the performance period to take account of an event which causes the Remuneration Committee to reasonably consider that it would be appropriate to amend them, such as (without limitation) material corporate events, changes in responsibilities of an individual and/or currency exchange rates, provided that the altered KPIs will, in the reasonable opinion of the Remuneration Committee (acting fairly and reasonably), be not materially less difficult to satisfy.
Malus / clawback	Awards are subject to the operation of malus until two years after the shares have been delivered and to clawback until three years after the shares have been vested. The precise powers of the Remuneration Committee to operate malus and clawback are set out in the terms and conditions governing the awards. In summary, for awards granted whilst this Policy is in effect, if the Board determines (based on the recommendation of the Remuneration Committee) that: › the Director deliberately mislead the Company or the Bank in relation to financial performance; › there has been a material misstatement or material error in the financial statements of the Company or the Bank; › the Director participated in or was responsible for conduct which resulted in significant losses to the Company or the Bank; › the Director failed to meet the relevant standards of fitness and propriety set by the NBG; › there is evidence of misconduct or serious errors by the Director, including (without limitation) a breach of any code of ethics or any other material breach of internal company rules; › the Company, the Bank and/or a relevant business unit suffers a significant downturn in its financial performance (e.g. specific business indicators) (for malus purposes), or the Director has caused the Company, the Bank and/or a business unit to suffer a significant downturn in its financial performance (for clawback purposes); › the Company, the Bank and/or a business unit in which the Director works suffers a significant failure of risk management (for malus purposes), or the Director has caused the Company, the Bank and/or the business unit in which the Director works to suffer a significant failure of risk management (for clawback purposes); › there is significant increase in the Company's and or Bank's or relevant business unit's economic or regulatory capital base (for malus purposes), or the Director's participation caused significant increase in the Company's and or Bank's or relevant business unit's economic or regulatory capital base (for clawback purposes); or › the conduct of the Director contributed to the imposition of regulatory sanctions on the Company or the Bank.

Malus / clawback	the Board has the right to cause some or all of the award for that year or any subsequent financial year that is unvested (or unpaid) to lapse (or not be paid) (i.e., operate malus), and/or to require the return of shares and/or cash value received by the Director pursuant to the award (i.e., operate clawback), as determined by the Board in its absolute discretion. Further, the Board has the discretion to operate malus if it considers that the underlying financial performance of the Company/Group or the performance of the Director during the performance period is such that the number of shares cannot be justified. In addition, if it is discovered during the three years after cessation of employment that a good leaver is in fact a bad leaver according to the rules of the plan, the provisions of the plan applicable to bad leavers will apply and the individual will be required to return all shares acquired pursuant to awards that vested on or after the cessation of employment. For awards granted prior to the effective date of this Policy, the awards are subject to the Group's previous malus and clawback policy as summarised in the Policy in effect from 1 January 2019.
Amendments to previous policy	In line with NBG requirements, introduction of Remuneration Committee assessment that there has been satisfactory performance over the prior year before grant. Move to basing maximum award on a percentage of salary rather than a monetary amount. Reduction of the threshold LTIP to 25% of maximum award. Extension of malus and clawback trigger events in line with the requirements of NBG CG Code.
Shareholding requirement	
Purposes and link to the strategy of the Group	To further enhance the alignment of shareholders' and executive Directors' interests in long-term value creation and sustainability of results.
Operation	The Company has a minimum shareholding requirement of 200% base salary, built up within five years of appointment. Until it is met, executive Directors are expected to retain 50% of shares (net of tax). Shares counted for this purpose include any deferred annual bonus and any vested awards from the LTIP (notwithstanding that holding / continued employemnt conditions may still apply). Unvested awards from the LTIP will not be counted. After employment the lower of the executive Director's shareholding at termination or 50% of the minimum shareholding requirement are required to be held for two years post-cessation.
Maximum opportunity	Minimum shareholding requirement of 200% of base salary to be built up within five years of appointment. For two years post-cessation, the lower of the executive Director's shareholding at termination or 50% of the minimum shareholding requirement
Performance measures	Not performance based
Amendments to previous policy	Introduction of a timeframe within which to build minimum shareholding requirement.

Pre-existing obligations

It is a provision of this Policy that the Group will uphold all pre-existing obligations and commitments that were agreed prior to this Policy taking effect. The terms of those pre-existing obligations and commitments may differ from the terms set out in the Policy and may include (without limitation) obligations and commitments under service contracts, deferred share compensation schemes and pension and benefit plans.

We believe, the new policy meets the best and regional practices, is competitive and aligns executives' long-term interests with those of the Group and its shareholders.

Performance measures and targets

Annual bonus

Annual share bonuses are awarded to reward past performance over the year. At the end of the performance year, the shares will be delivered to the extent that annual KPIs have been met (as determined by the Remuneration Committee). Once shares are delivered, the shares will be subject to a 2-year post performance holding period (with 50% released each year).

The Remuneration Committee's goal for each KPI is to establish a level of performance that is not certain to be attained, so that achieving or exceeding the targets requires diligent efforts by the executive Director.

KPIs for the annual share bonus, consist of corporate, financial (such as ROE, cost to income ratio, CoR) and non-financial KPIs (such as strategic, people and customer satisfaction levels) and individual KPIs (such as leadership and/or performance of specific function) and are chosen to reflect the executive Directors' required contribution to the Group's overall key strategic and financial objectives for that financial year. At least 60% of the annual bonus will be determined by financial performance KPIs. The actual weighting on financial performance may exceed this.

The nature of the KPIs will be disclosed in the annual report published in the performance year. Specific weightings and targets for each KPI may be considered by the Remuneration Committee to be commercially sensitive as a measure to the Group's business; in that case, these details will be disclosed retrospectively, which is generally expected to be in the following annual report.

Each KPI will have a threshold, target and maximum level and conditions to meet these levels. Targets for each corporate KPI will be determined by the Remuneration Committee and will be approved by the Board. Individual KPIs will be approved by the Remuneration Committee, based on the recommendations of the CEO. Target annual bonus will not exceed 50% of the maximum policy limit.

LTIP

The award grant will be based on an assessment of the base i.e. prior year performance (i.e. for the LTIPs grant in early 2022, the base year is 2021). Awards granted will then be subject to 3-year LTIP forward-looking performance conditions. After three years, the shares will be delivered to the extent the performance conditions have been met (as determined by the Remuneration Committee). Once shares are delivered, the shares will be subject to - 2 years of vesting period subject to continued employment and Malus and Clawback.

The Remuneration Committee's goal for each performance condition is to establish a level of performance that is not certain to be attained, so that achieving or exceeding the targets requires diligent efforts by our executive Directors. The Remuneration Committee's current view is that performance condition will include three categories of objectives:

- Maintain a strong value creation incentive (such as absolute TSR);
- Focus on long-term sustainability (ratios such as ROE, NIM, Cost/Income; individually or in combination); and
- Appropriate risk framework (such as Non-Performing Loans (NPL) ratio, Common Equity Tier 1 (CET1) ratio, Loan Loss Provision (LLP) ratio, individually or in combination).

One of the LTIP KPIs will continue to be the absolute TSR. The Committee considered that it is difficult to find a peer group against which to benchmark TBC TSR relative performance. The Group is listed on a major stock exchange (LSE) which reflects in its high standard of governance, it is a systemic bank in Georgia with a diversified business model, it is rapidly expanding its digital offering while continuing to offer traditional banking services and it is expanding in a high growth country. Finding a suitable peer group has been considered sub-optimal with the above considerations.

Any measure selected, will be closely aligned with the Group strategy at the time of grant.

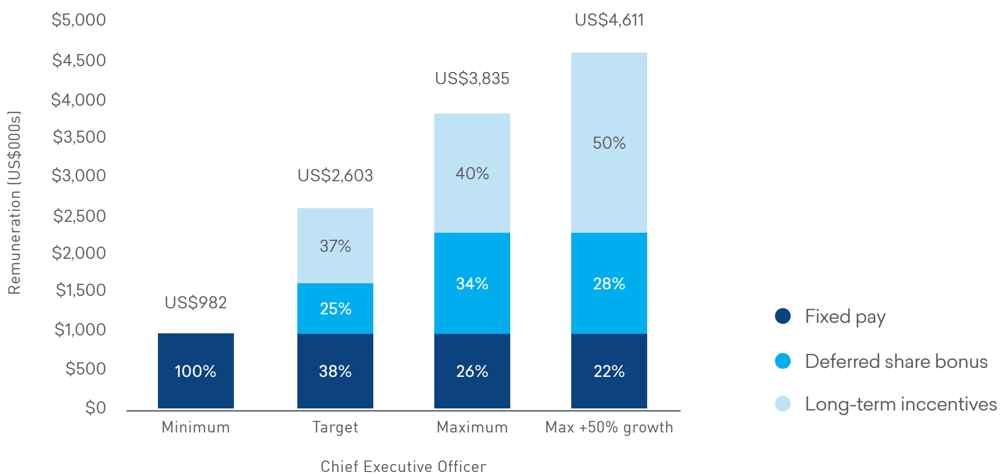
The performance conditions for each three-year performance period will be set at the start of each performance period. The performance conditions and targets will be disclosed in the annual report published in the year of the award.

The Remuneration Committee has discretion to amend the agreed performance conditions in exceptional circumstances if, in the opinion of the Remuneration Committee, an event occurs which causes the Remuneration Committee to consider that the original performance conditions are no longer appropriate; provided that the amended conditions will, in the reasonable opinion of the Remuneration Committee, be not materially less difficult to satisfy. Performance conditions are not capable of being re-tested.

Each performance condition will have a threshold, target and maximum level and conditions to meet these levels. Targets for each corporate performance condition are determined by the Remuneration Committee and are approved by the Board.

Illustration of application of Remuneration Policy

The following charts illustrate how the total value of remuneration and its composition would vary under different performance scenarios for the current executive Director under the proposed Policy.



The following assumptions have been made:

Fixed pay	› 2021 cash and share salary › 2020 benefits, as provided in the single figure table in section 2.1			
	Minimum	**Target**	**Maximum**	**Maximum with share price growth**
Deferred share bonus	No bonus is paid	Payout at 50% of the maximum	Maximum payout (135% of salary)	As per maximum
LTIP	No LTIP vesting	LTIP award vests at 62.5% of maximum (mid-way between threshold (25% of the award) and maximum (100% of the award))	LTIP award vests at maximum (161% of salary)	As per maximum assuming 50% share price increase over three years

10. REMUNERATION THROUGHOUT THE GROUP

Remuneration of other top management members of JSC TBC Bank is similar to that of the executive members of the Company. Other senior and middle management across the Group including material risk takers, employees who are part of the agile structure, as well as some other key employees receive their entire salary in cash and are also eligible for cash and share bonus variable compensation. The share bonuses granted are subject to 3 years of continued employment condition and holding period gradually lifting the conditions. The long-term incentive plan applies only to executive Directors.

All other employees within the Group receive cash salaries and may be eligible to receive cash bonuses. Executive Director and employee pay is reviewed based on role and experience and determined through the application of appropriate market data, as well as internal and external relativities, usually with input from a compensation consultant.

All employees receive a competitive benefit package in line with Georgian market practice and participate in the mandatory state pension scheme effective from 1 January 2019. According to the scheme, the company pays 2% of the employee's total remuneration as pension contribution to the State.

Discretions retained by the Committee

The Committee operates the Company's incentive plans according to their respective rules and (where applicable) in accordance with relevant legislation. In order to ensure efficient administration of these plans, certain operational discretions are reserved to the Committee.

These include but are not limited to:

- determining who may participate in the plans;
- determining the timing of grants of awards and/or payments under the plans;
- determining the quantum of any awards and/or payments (within the limits set out in the policy table above);
- determining the performance measures and targets applicable to an award (in accordance with the statements made in the policy table below);
- discretion to override formulaic outcomes;
- where a participant ceases to be employed by the Company, determining whether 'good leaver' status shall apply;
- determining the extent of vesting or payment of an award based on assessment of the performance conditions and the overall performance of the Company, including discretion as to the basis on which performance is to be measured if an award vests in advance of normal timetable (on cessation of employment as a 'good leaver' or on the occurrence of corporate events);
- whether, and to what extent, pro-ratio shall apply in the event of cessation of employment as a 'good leaver' or on the occurrence of corporate events;
- discretion to vary shareholding and post-cessation holding requirements in exceptional circumstances;
- whether malus and/or clawback shall be applied to any award and, if so, the extent to which they shall apply;
- making appropriate adjustments to awards on account of certain events, such as major changes in the Company's capital structure.

11. POLICY TABLE: NON-EXECUTIVE DIRECTORS

In the same way as the executives, the non-executive Directors receive their compensation both from the Company and the main subsidiary, JSC TBC Bank, proportionate to the time spent working on the respective entity's Boards and committees.

Fees	
Purposes and link to the strategy of the Group	To provide appropriate compensation for a non-executive Director of the Group, sufficient to attract, retain and motivate high calibre individuals with the relevant skills, knowledge and experience to further the Group's strategy.
Operation	The Group pays fees to non-executive Directors. The fees are determined by the Board. The Chairman is paid an all-inclusive fee for all Board responsibilities. The other non-executive Directors receive a basic Board fee, with additional fees where individuals serve as the Senior Independent Director, member or Chairman of a Committee of the Board. The Board (excluding the non-executive Directors) reserves the right to structure the non-executive Directors' fees differently in its absolute discretion. The Board's (excluding the non-executive Directors) discretion will be exercised fairly and reasonably and with regard to appropriate comparable market practice and business strategy. Fees are generally paid monthly in cash. However, the Board reserves the right to pay the fees on a different basis. Fees are periodically reviewed and adjusted by the Board, having regard to external comparators such as the Group's peer group, the chair or committee roles and responsibilities and other market factors.
Maximum opportunity	The Board will review the amount of each component of fees periodically to assess whether, individually and in aggregate, they remain competitive and appropriate in light of changes in roles, responsibilities and/or time commitment of the non-executive Directors, and to ensure that individuals of the appropriate calibre are retained or appointed. Current fee levels are set out in the Annual Report of Remuneration.
Performance measures	Not performance based.
Malus / clawback	Malus and clawback provisions are not applicable.
Amendments to previous policy	N/A
Benefits and expenses	
Purposes and link to the strategy of the Group	To compensate non-executive Directors for expenses incurred in connection with the performance of their non-executive Director duties and to ensure the Group has the appropriate non-executive Director input as and when required.
Operation	The Group may reimburse non-executive Directors for their expenses incurred in connection with the performance of their duties including attending Board and committee meetings (such as, for example, travel, accommodation, other subsistence expenses and personal security arrangements), Board/committee dinners and functions, Board training sessions, Director's and officers' liability insurance, advice in respect of professional duties and corporate hospitality events (or the Group may pay such expenses directly).
Maximum opportunity	The maximum amount payable depends on the cost of providing such expenses in the location at which the non-executive Director is based. Shareholders should note that the cost of providing comparable expenses in different jurisdictions may vary widely.
Performance measures	N/A
Malus / clawback	N/A
Amendments to previous policy	N/A

Non-executive Directors are not employees do not receive performance-related compensation or benefits. The non-executive Directors are not eligible for performance-based share awards. Awards with performance conditions are not part of the non-executive remuneration package as we do not wish the non-executive Directors to be driven by short-term Group performance so as to maintain their independence accountable for oversight of the Group.

The non-executive Directors are entitled to broad indemnification by the Group pursuant to a deed of indemnity entered into with each Director and are covered by the Group's Directors & Officers' Liability Insurance Policy.

12. RECRUITMENT POLICY

The Remuneration Committee intends that the components of remuneration set out in the above policy tables, and the approach to those components as set out in the policy tables, will (subject to the remainder of this recruitment policy) be equally applicable to the annual package provided to new recruits, i.e. for executive Directors, salary (with cash and share components), discretionary deferred share bonuses (up to 135% of salary), LTIP (up to 161% of salary), pension (up to 2% of salary) and employee benefits; for non-executive Directors, fees and relevant expenses and benefits.

For an internal appointment of an executive or non-executive Director, any pay element awarded in respect of the prior role may either continue on its original terms or be adjusted to reflect the new appointment, as appropriate. In the year of promotion for an internal appointment, additional awards pro-rated for the time served in the new role may be made to the individual within the maximums set out in the policy tables above.

The Remuneration Committee has a preference not to provide a “buy out” arrangement and/or to establish additional or particular arrangements specifically to facilitate the recruitment of the individual. However, where an individual would be forfeiting remuneration or employment terms in order to join the Group, the Remuneration Committee may award appropriate compensation. The Remuneration Committee would require reasonable evidence of the nature and value of any forfeited arrangements and would, to the extent practicable, ensure any compensation was of comparable commercial value and capped as appropriate, taking into account the terms of the previous arrangement being forfeited (for example the form and structure of award, timeframe, performance criteria and likelihood of vesting). Where appropriate, the Remuneration Committee would have a preference for buy-outs to be delivered in the form of shares in the Company. All such awards will be appropriately discounted to ensure that the Group does not, in the view of the Remuneration Committee, over-pay. The Remuneration Committee will also consider the application of performance conditions and/or clawback provisions, as appropriate. Details of any “buy out” awards will be appropriately disclosed, and any arrangements would be made within the context of minimising the cost to the Group. In any case, total value of “buy out” award, should not exceed 100% of the salary (including cash and share salary) paid for the comparable executive position the year immediately preceding to the recruitment.

The Group may make a contribution towards legal fees in connection with agreeing employment terms. The Group may also agree to pay certain expenses and taxes should an executive Director be asked to relocate to a different country, such that the executive Director pays no more than would have been required in the home location.

13. POLICY ON PAYMENTS FOR LOSS OF OFFICE

The following paragraphs describe the Group's general policy on payments for loss of office.

Any compensation payable in the event that the employment of an executive Director is terminated will be determined in accordance with the terms of any service contract between the Group and the executive, as well as the relevant rules governing outstanding deferred bonus share awards, awards under the LTIP and this Policy.

The Remuneration Committee will take all relevant factors into account when considering whether or not the Director is a good leaver (as set out in their service contract or other applicable plan document). The Remuneration Committee will exercise its absolute discretion to determine whether such terms should be included in any new service contract.

In addition to any payment referred to above, the Remuneration Committee reserves discretion as it considers appropriate to continue benefits beyond the date of termination, pay for relocation to previous location, where applicable, make payments in lieu of notice, accelerate the vesting of equity awards, and/or pay for out placement services and/or legal fees. In certain circumstances, the Committee may approve new contractual arrangements with departing executive Directors, potentially including (but not limited to) settlement, confidentiality, restrictive covenants and/or consultancy arrangements; these arrangements would only be entered into where the Committee believes that it is in the best interests of the Company and its shareholders to do so.

Generally, the Group would require a non-compete and confidentiality agreement from the departing executive Director to protect the interests of the Group.

Vesting and lapse of awards

If an executive Director ceases to be employed by any Group company at his/her sole decision before the service contract expires or if the executive Director leaves for a bad leaver reason, the executive Director must return all bonus shares awarded for which applicable holding period requirement has not been met (or as directed by the Company) and/or any nil cost options awarded will lapse and any unvested awards under the LTIP will lapse. Depending on the circumstances, the Remuneration Committee may, at its sole discretion and with regard to any recommendation made by the CEO of the Company (as applicable), allow the executive Director to partially or fully retain such bonus shares and/or LTIP awards.

If the executive Director is determined by the Remuneration Committee to be a good leaver, the executive Director is entitled to receive an award of deferred salary and deferred bonus shares pro-rated for both time and performance during the performance year. All outstanding awards of deferred salary and deferred bonus will continue to vest on their initial terms. Subject to the achievement of the relevant performance criteria, a portion of any outstanding awards under the LTIP may vest, subject to a reduction pro rata to reflect shortened period of employment between grant and the end of the holding period. In general, the original performance period will continue to apply. However, where, in the opinion of the Remuneration Committee, early vesting is appropriate, or where it is otherwise necessary, awards will vest by reference to performance criteria achieved over the period of employment.

If, during the three years after the dismissal of the executive Director as a good leaver, it is established that the executive Director was a bad leaver, the provisions applicable to bad leavers will apply.

Executive Directors - notice periods

Notice periods are set out in the executive Director's service contract. Generally speaking, either party may terminate the service contract by giving the other party not more than one year and not less than seven months' notice and the Group will reserve the right to terminate without notice in certain circumstances. Notice periods will be reviewed by the Board and the Remuneration Committee when contracts are due for renewal with consideration given to business continuity and potential candidates in the market, amongst other factors.

Service contracts and letters of appointment

The service contracts of executive Directors do not have a fixed duration and may be terminated by either party (see further details above under "Notice Periods"). They may contain tailored terms which allow for termination payments to be paid if the executive Director's employment is terminated under certain circumstances, such as following a corporate change, a change in control, involuntary termination, termination without cause, for "good leaver" reasons (including) death or disability, each as defined in the applicable executive Director's service contract. Details of such terms contained in the current executive Directors' service contract are described below (the executive Directors' service contracts and non-executive Directors' letters of appointment are available for inspection at TBC PLC's registered office):

(a) Service contracts of the Group's current executive Director

Service contracts with TBC PLC

On 12 May 2016, TBC PLC entered into a service agreement with Vakhtang Butskhrikidze. The service agreement can be terminated by either party giving to the other party not less than seven months' written notice. In addition, TBC PLC may terminate the service agreement without notice or pay in lieu of notice for cause (as defined in the service contract). The service contract contains non-compete and confidentiality provisions and is governed by English law.

Service contracts with TBC JSC

Vakhtang Butskhrikidze also serves as CEO of TBC JSC. Although it is not strictly required under UK law, we have described the service contract that the Group's executive Director has with TBC JSC below for completeness.

The current service agreement provides for Mr Butskhrikidze to act as CEO of TBC JSC. The service agreement contains non-compete and confidentiality provisions and is governed by Georgian law.

(b) Letters of appointment – non-executive Directors

Each non-executive Director is required to submit himself or herself for annual re-election at the Annual General Meeting. The appointments are for one year, renewable each year following the AGM approval. The letters of appointment 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. Upon termination, the only remuneration a non-executive Director is entitled to is accrued fees as at the date of termination, together with reimbursement of documented incurred expenses incurred prior to the termination date.

Legacy arrangements

The Remuneration Committee reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the Policy set out above, where the terms of that payment were agreed before the Policy came into effect (including, without limitation, pursuant to awards granted before the Policy came into effect), or before the individual became a Director of the Group (provided the payment was not in consideration for the individual becoming a Director). This includes the exercise of any discretion available to the Remuneration Committee in connection with such payments.

14. CONSIDERATION OF EMPLOYMENT CONDITIONS WITHIN THE GROUP

The Company recognises the importance of employee engagement in setting remuneration for the executive Directors, NEDs and senior management. To this end, in 2019, the Board appointed Tsira Kemularia as the designated non-executive Director to enhance the dialogue between the workforce and the Board and to further strength employee engagement on the topic of executive remuneration.

In accordance with prevailing commercial practice, the Remuneration Committee evaluates the compensation and conditions of employees of the Group when determining the Policy with respect to executive Directors. The Remuneration Committee may engage external advisors to assist in analysing remuneration in the Group. Consistent with practice in the industry in which the Group operates, it is not the Group's policy to consult with staff on the pay of its Directors.

15. MINOR CHANGES

The Remuneration Committee may make, without the need for shareholder approval, minor amendments to the Policy for administrative purposes or to take account of changes in legislation.

CHAIRPERSON'S LETTER

Dear shareholders,

I am pleased to introduce the Audit Committee Report for 2020, having taken over as interim Chair of the Audit Committee on 14 February 2021 following the retirement of Nicholas Haag from the role. I have been a member of the Committee since September 2018. On behalf of both the Board and the Supervisory Board of the JSC, I would like to thank Nicholas for his role in shaping the work and the practice standards of the Committee, and the management team for their invaluable support during this interim period.

During this difficult year, which has been marked by extraordinary events following the global COVID-19 pandemic, the Audit Committee has continued to fulfil its responsibilities and meet its key objectives. On behalf of the Board, the Committee has focused on reviewing a number of key accounting judgements relevant to the financial statements, including Expected Credit Loss Allowances to reflect new macroeconomic assumptions and sector specific estimates, whilst continuing to supervise internal management control functions to ensure that the exceptional working environment in 2020 has not impacted on standards. Regarding accounting principles, the Committee reviewed and agreed an accounting policy change with regard to valuing the subsequent measurement of land, buildings and construction in progress, recorded under Premises and Equipment where the Group now applies the cost model (please refer to page 242 for details). I am pleased to note that, thanks to the incredible resilience of TBC Bank Group's management and employees, along with agile adaptation to a new, hybrid way of working, the Group's internal processes and systems have succeeded in maintaining best practice and delivering the expected results.

Ongoing co-operation with the Risk Committee has been essential in obtaining assurance about the Group's long-term viability. The fact that several Directors are joint members of both the Audit Committee and the Risk Committee has been helpful in ensuring the smooth coordination of the oversight function delegated by the Board to the Committees. The Viability Statement required by the Code can be found at pages 159-160. This has been assessed and challenged by both the Audit and Risk Committees.

The Committee also reviewed the management and Internal Audit assessment of the Group's internal controls, which covers all aspects of external statutory and regulatory reporting. The Committee considers all reports in detail and ensures implementation of all actions to address the deficiencies that have been identified. I would draw shareholders' attention to the initiatives that the Committee has undertaken to support Internal Audit in performing information technology audits. Given the increase in the number of digital transactions by our customers as well as the new hybrid working environment implemented to maintain the best safety standards for our employees, cyber security has become highly significant to the business. The Committee has considered an initial review of our cyber security systems, and further reviews will be undertaken in 2021 so that the Board and Management can continue to implement new initiatives towards excellence in this field.

Maria Luisa Cicognani
Chairman of Audit Committee

26 April 2021

COMMITTEE MEMBERS AND MEETINGS

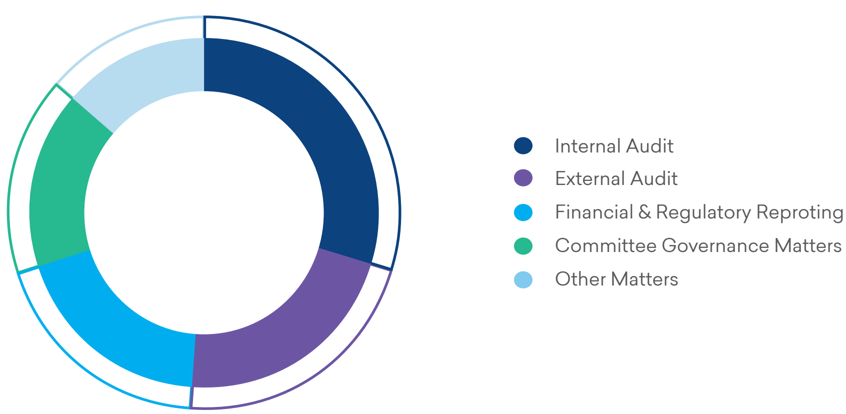
The members of the Audit Committee throughout the year were: Nicholas Haag (Chairman), Maria Luisa Cicognani, Arne Berggren and Tsira Kemularia. On 15 February 2021, Nicholas Haag stepped down as Chairman of the Committee whilst remaining a member, and Maria Luisa Cicognani took over as interim Chair. A search for a new Chair of the Audit Committee is underway and the Board hopes to be able to appoint a new Chair by the end of June 2021. In March 2021, Arne Berggren stepped down from the membership of Audit Committee, further to his appointed as the Chairman of the Board and the Supervisory Board.

As of date of this report, the Audit Committee consists of three independent, non-executive Directors: Maria Luisa Cicognani (interim Chair), Tsira Kemularia and Nicholas Haag.

All members of the Committee were independent non-executive Directors, and there were no changes to the membership of the Committee during the year under review. For the purpose of the UK Corporate Governance Code, Maria Luisa Cicognani, Nicholas Haag, Arne Berggren and Tsira Kemularia all have relevant financial experience. Full biographical details of all Committee members are given on pages 162-165. This depth of experience enables the Committee to deal efficiently with the matters under its remit and challenge management when required.

To maintain a close link with the activities of the Risk Committee, the Chairman of the Audit Committee is also a member of the Risk Committee; Arne Berggren, Tsira Kemularia and Nicholas Haag are also Chairman and members, respectively, of the Risk Committee.

HOW THE COMMITTEE SPENT ITS TIME



The Committee met nine times during the year.

The Committee invites the Chairman, CEO, CFO, CRO, Head of Internal Audit and Head of Compliance to all meetings. Other members of management attended to present relevant matters. Representatives of PwC attended all meetings. The Company Secretary acted as Secretary to the Committee. After each Committee meeting, the Board receives the meeting minutes and a report from the Committee chair.

Members' attendance at the Audit Committee's meetings during the year, at the Company and the Bank levels, are set out in the Directors' Governance statement on page 154.

COMMITTEE RESPONSIBILITIES

The Committee acts independently of management to fulfil its fiduciary duty to shareholders and ensure that their interests are properly protected in relation to financial reporting, to maintaining an appropriate relationship with external auditors, and to the effectiveness of the Group's systems of internal controls and risk management.

The Committee's terms of reference have been adopted by the Board and are available on the Company's website, www.tbcbankgroup.com.
The Committee has a number of key responsibilities, which are, primarily, as follows:

- to monitor the integrity of the financial statements of the Group to ensure that they meet all statutory requirements and appropriate Financial Reporting Standards and that all areas of judgement are fully considered before recommending to the Board that they give a fair, balanced and understandable position of the Company;
- to review the Company's internal financial controls and other internal controls to ensure the effectiveness of the internal control structure and review any recommendations on changes to them, and, in conjunction with the Company's Risk Committee, to assess, manage and monitor the Group's internal control, risk management, compliance and governance functions;
- to consider the effectiveness of the Group's internal audit activities and its relationship with the external auditors; and
- to make recommendations to the Board in relation to the appointment, re-appointment and removal of the Group's external auditors, and approving their remuneration and terms of engagement.

THE COMMITTEE'S EFFECTIVENESS

The Committee undertook an internal assessment of its performance as part of the overall Board evaluation process, as described on pages 151-152. This assessment was led by the Company Secretary and collated the Committee members' responses to an internally developed questionnaire. The outcome of the process indicated the need for the Committee to consider the following in 2021:

- review the processes associated with preparation of financial statements, particularly the annual report, to make the process more streamlined and effective;
- consider the Group's internal control structure holistically and ensure that key control processes are operating effectively;
- review the robustness of the data points used to calculate Key Performance Indicators that generate management variable compensation; and
- consider an ongoing training programme for current members and new appointees.

The Committee has in place a schedule of work that details all of the tasks planned for the year. Before each meeting, the Secretary discusses the agenda with the Committee Chair, and combines planned tasks from the schedule of work with any other matters that have arisen. All papers are circulated to Committee members for review a week prior to the meeting.

The Committee undertakes an assessment at the end of the financial year to ensure that it has covered all the required items detailed in the Committee's terms of reference.

THE COMMITTEE'S AGENDA DURING THE YEAR

During the year under review, the Audit Committee considered the following matters:

Key area of review	Committee review and conclusion
Audited financial statements	› Considering the Group's and the JSC TBC Bank's Consolidated and Separate Financial Statements along with the Independent Auditor's Report for the year ended 31 December 2020; › Ensuring that the statements give a fair, balanced and understandable picture to shareholders of the Group's operations; › Considering and agreeing to any significant accounting judgements proposed by management and taking into account the report of PwC, the Group's Auditors, on the financial statements before recommending their approval to the Boards of the respective companies.
Planning the 2020 financial year audit	› Discussions with the Group's auditors, PwC, over internal control issues arising from the 2019 financial year audit; › Considering the issues impacting on the Group, in particular going concern and viability as a result of the COVID-19 pandemic; › Agreeing an audit plan for 2020 with the auditors.
Interim statements of the Group	› Reviewing the statements for the half-year and first and third quarters, along with the results presentations to investors; and recommending those statements to the Board for approval.
External auditors	› Discussion on external audit fees and agreeing the level of fees paid to the auditors; › Reviewing the level of usage and, where appropriate, approving fees to the auditors for non-audit matters; › Discussing the effectiveness of the audit; considering a range of alternative auditors available to the Group and whether to conduct an audit tender.
Internal audit plan for 2020	› Approving the methodology for identifying areas in need of review by the internal audit team; › Approving the areas requiring review in accordance with regulatory requirements, including, for 2020, the impact of COVID-19 on operational processes across the business; › Agreeing on areas planned for review by the operational risks and compliance teams; › Approving the process that the internal audit follows to determine and report on these key risks, as explained on pages 223-224 of this report.
Cyber risk and other IT issues	› Considering a suitable provider to co-source the internal audit of IT issues across the Group; › Agreeing a scope of works for 2020 and 2021; › Reviewing the results of an audit of the Group's cyber security structure and governance.
Reports from internal audit	› The Committee analyzed and discussed the outcome of 83 audits undertaken in 2020, covering a wide range of areas including the Bank's operations, the loan portfolio, significant risk management and other bank related processes, and IT processes; › The Committee also received reports on internal risk and operational control systems of the Group's key subsidiaries and ecosystems businesses. This was crucial in delivering assurance to the Board in relation to soundness of the Group's risk management, internal controls and governance as a whole; › Where these reports identify areas deemed in need of improvement, the issue is highlighted and the Management's response discussed, alongside their proposed timetable to resolve the issue.

Overseeing the management and operation of the internal audit function	› The Assessment of the Head of Internal Audit's performance and her team; › The effectiveness of the whole function; › The development objectives for the staff members of the team; › A review of the Internal Audit Charter; and › Approving a revised Internal Audit handbook, which incorporates all the recommendations from the Effective Quality Assurance project undertaken in 2019 with the support and advice of one of the Big Four audit companies, which explains the function and role of the department to the Group's management.
Considering Committee matters	› Reviewing the revised terms of reference for both the PLC Audit Committee and JSC TBC Bank Audit Committee and recommending them to their respective Boards; › Ensuring that all actions required by the terms of reference had been completed; agreeing a calendar of items for the forthcoming year; and › Evaluating the performance of the Committee.
Other Items	› Reviewing PwC benchmarking report on impairment and provisioning under IFRS 9; › Considering issues related to the convergence of local accounting standards with IFRS 9 principles.

HOW THE AUDIT COMMITTEE REVIEWED THE FINANCIAL STATEMENTS

The Committee, under the powers delegated to it under its terms of reference, has reviewed the annual report and financial statements with the intention of providing advice to the Board on whether, as required by the UK Corporate Code, "the annual report and accounts, 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".

To make this assessment, the Committee considered the annual report and financial statements in detail to ensure that the key messages of the annual report were aligned with the Group's performance and the strategy being pursued. The significant issues considered by the Committee in relation to the financial statements were consistent with those identified by the Independent Auditors' report on pages 225 to 232.

Prior to the start of the audit, the Committee considered the audit coverage levels and underlying audit materiality levels and agreed them with the external auditors, PwC. The Committee ensured that the materiality levels agreed were sufficient to obtain appropriate audit evidence and that all key risk areas were adequately addressed. Details of the materiality levels agreed are disclosed in the Independent Auditor's report on page 229.

The Committee has considered the range of Alternative Performance Measures (APMs) used by the Group. APMs are used in accordance with ESMA guidelines and the Management highlights any impact on APMs as a result of changes to accounting methods.

In addition, in conjunction with the work undertaken by the Company's Risk Committee, the Committee has satisfied itself that the impact of the COVID-19 global pandemic has been reflected in the analysis of the Group's financial position. This has enabled the Board to be confident in agreeing to prepare the accounts on a Going Concern basis, and approve the Viability Statement prepared in accordance with the UK Corporate Governance code.

In addition, throughout the year the Audit Committee has undertaken a robust review of the financial statements published at the half year and the two quarterly statements.

The Committee has reviewed the various actions that the Company has taken to ensure that all decisions have been taken in accordance with s172 of the UK Companies Act, and that all stakeholder considerations have been taken into account when making key decisions. This has enabled the Board to approve the stakeholder engagement disclosure on pages 70-73 of the Strategic Report.

THE EFFECTIVENESS OF THE EXTERNAL AUDIT PROCESS

In preparation for the audit of the 2020 financial year, the Committee held audit planning meetings with PwC in the fourth quarter. The Committee suggested priority areas for PwC to consider, highlighting any concerns.

The Committee carried out a formal External Auditor Assessment Review for 2020, which confirmed its view that PwC continues to perform satisfactorily. A series of relationship meetings were held with PwC to discuss potential improvements in terms of their delivery to the Group. The Committee, with the concurrence of the Board, concluded that it had reached a satisfactory understanding with PwC both as to the level of fees to be charged in 2020 and the resource base to be made available. A further review to consider whether to hold a formal audit tender will be undertaken in 2021. At present, the Committee considers that PwC continues to offer an independent, professional and cost-effective service, and is satisfied that PwC has a robust process for maintaining independence and monitoring such compliance in accordance with the FRC's 2019 Ethical Standards and the 2019 International Ethics Standards Board for Accountants (IESBA), to which Georgian law also refers.

Due to the structure of the Group, both the Edinburgh and Tbilisi practices of PwC are involved in the external audit process. PwC Georgia is part of PwC's Central and Eastern Europe network. In the opinion of the Committee, this 'double coverage' works well and provides extra reassurance in terms of scrutiny. The cooperation and communication between the two practices is well coordinated and draws, as required, on wider international subject matter experts of the firm, for example in insurance. The London team coordinates the entire audit for the Company with audit instructions issued by London and processes in place to monitor PwC Tbilisi's work.

In 2020, the engagement leader of the Bank's audit was rotated whilst the Group's audit leader was rotated in 2019 and continues his role in the 2020 audit.

SIGNIFICANT ISSUES CONSIDERED IN RELATION TO THE FINANCIAL STATEMENTS AND HOW THEY WERE ADDRESSED

In reviewing and recommending the Group's financial statements for the year to 31 December 2020 to the Board, the Committee considered the following judgements recommended by the management:

Determination of the going concern basis and the impact of COVID-19

In light of the increased uncertainty caused by the COVID-19 pandemic, the Management has performed an assessment of the Group's ability to continue as a going concern, which the Committee and Board reviewed in detail.

The Group posted resilient financial results for the year ended on 31 December 2020. The Committee believes that the Group's robust records of financial results increases its abilities to perform under stress conditions and maintain strong capital, liquidity and funding positions.

In the light of the ongoing COVID-19 pandemic, the management updated its view of the main financial parameters, including profitability, liquidity and capital adequacy ratios, and the impact on them of the COVID-19 pandemic. The Management has performed a stress test exercise to assess the Group's ability to continue as a going concern. The Bank's capital position in the stress scenario has been assessed. The results show that the Bank has enough capital to meet the NBG's regulatory requirements. The test is based on the Bank's expectations of movements in the major macroeconomic parameters of the Georgian economy for the next three years in line with the stress scenario. In addition to the stress test, the Management also performed a reverse test exercise, to see in what scenario its capital adequacy was at risk. The results of the reverse test have indicated that such a scenario would be highly unlikely and that the Bank would recover within one year.

Considering the results of the stress test exercise, the Bank's ability to maintain operational resilience and attract additional necessary funding and the regulatory relief measures introduced by the NBG, the Directors have not identified any material uncertainties that could threaten the going concern assumption and have a reasonable expectation that the Company and the Group have adequate resources to remain operational and solvent for the foreseeable future (which is, for this purpose, a period of 12 months from the date of approval of these financial statements).

Accordingly, the Group's and the Company's consolidated financial statements are prepared in line with the going concern basis of accounting.

Expected credit loss allowance of loans and advances to customers in relation to COVID-19

Expected Credit Losses (ECLs) are a measure of the probability-weighted estimate of credit losses, which the management needs to estimate every year. For the 2020 financial year, this was more significant due to the impact of COVID-19 on the Georgian economy. Following a review, the Committee agreed that the ECL for 2020 should be increased from GEL 312,557 thousand to GEL 606,246 thousand. Note 3 to the Consolidated Financial Statements contains the sensitivity analysis associated with the key drivers that affect the ECL.

The Committee discussed with PwC the current provisioning methodology for ECLs used by the Bank, including: the impact of COVID-19 on creditors; the reasonableness of the assumptions made; and individual, mostly corporate, loan exposures categorised as defaulted and 'watch lists'. Review of the 'watch list' indicated that the overall position was stable with only a limited number of frequent additions that would indicate a deteriorating book or poor 'capture' of problem loans.

The Committee also discussed with the external auditors the governance controls around the model used by the Group for calculating the ECL.

Changes in accounting policy in relation to the measurement of land, buildings and construction in progress

During 2020, the Committee agreed that the Group should change its accounting policy in relation to the subsequent measurement of land, buildings and construction in progress, as recorded under Premises and Equipment. The Group now applies the cost model, whereby assets are carried at cost less accumulated depreciation and any accumulated impairment. Prior to this change, the Group applied a revaluation model that carried land, buildings and construction in progress at a revalued amount being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

In considering this change, the Committee reviewed the impact that it would have on the Group's financial statements and key ratios. As a result of the change, the balance sheet accounts for the affected periods were restated accordingly. In particular, the Group's assets, equity and liabilities decreased by GEL 51.0 million, GEL 48.6 million and GEL 2.4 million, respectively, as at 31 December 2019, whilst the Group's assets, equity and liabilities decreased by GEL 52.0 million, GEL 49.6 million and GEL 2.4 million, respectively, as at 31 December 2018. Note 2 to the Consolidated Financial Statements details the amounts and the impacted financial statement line items. The Committee noted that the change in policy provided a more relevant and consistent basis for the valuation of land, buildings and construction in progress, whilst it also enabled investors to make accurate comparisons across the banking industry, since the application of the cost model is a common and widespread market practice.

THE INDEPENDENCE OF OUR EXTERNAL AUDITOR

In line with its terms of reference the Committee is required to consider: the reappointment of the auditors; the suitability of the lead engagement partner, as well as the wider audit team; their remuneration; and the terms of engagement. PwC has been the auditor of JSC TBC Bank since 2008, and became auditors of TBC Bank Group Plc in 2016 following the Company's premium listing on the London Stock Exchange. Under the UK implementation of the EU Audit Regulations for Public Interest Entities, the audit rotation rules set the date for the 10-year mandatory tendering of the Group audit in 2016; therefore a mandatory audit tender is not required until 2026. Nevertheless, in 2018, the Committee held extensive discussions on the merits and demerits of putting the Group's audit out for tender and embarked on a series of discussions during the year with three other major international accounting firms. The Committee concluded no realistic alternative was available as no other significant audit firm was yet sufficiently well-resourced in the Georgian market, although there is an encouraging trend in this direction. The Committee, however, noted that new regulations from the National Bank of Georgia required a shorter period for rotation of the Bank's auditor to another firm. The Committee will consider the need to tender the whole Group audit prior to 2023, in line with those regulations.

At present, the PwC partner leading the audit across the Group is Allan McGrath, who was rotated into this position in 2019. The engagement leader of the Bank's audit was rotated to Thomas Magill in 2020.

The Committee considers that the Company has complied for the financial year under review, and to the date of this report, with the requirements of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, which relates to the frequency and governance of tenders for the appointment of external auditors and to the scrutiny of a policy on the provision of non-audit services (see below).

In addition to the annual review of effectiveness, the Committee considered the independence and objectivity of PwC through a combination of:

- assurances provided by the External Auditor on the safeguards in place to maintain independence; and
- oversight of the non-audit services policy and fees paid.

PwC have confirmed in writing (in their annual independence letter) both their independence and that only permitted non-audit services were provided over 2020. Reviewing and ensuring the continuation of the independence and objectivity of PwC as our external statutory auditors was an important factor in fulfilling our governance as a Committee and was equally monitored by PwC through their own procedures for pre-approving any non-audit services.

The Group's Non-Audit Services Policy governs the engagement of PwC to provide non-audit services. As defined by the policy, the Committee must approve all non-audit services in advance, following a recommendation by the Group Chief Financial Officer. The policy only permits the use of PwC for non-audit services where there was either a clear synergy with their audit role (i.e. an immediate 'by product' of the audit process), or when required by legislation. The Group monitors all tracking procurement and tendering for all non-audit fees. Amounts approved under the policy are reported at Committee meetings. Overall in 2020, the Group spent US$ 1.28 million (2019 US$ 3.0 million) for work undertaken by various accounting-based professional services firms for both audit and non-audit services.

As for the fees paid specifically to the Group's current audit company, in 2020 the Group contractual fees paid to PwC were US$ 0.95 million, of which US$ 0.94 million was in respect of audit services. This was predominantly for the Bank audit, but included audits of the subsidiaries of both the Bank and PLC, notably TBC Leasing, TBC Insurance and TBC Bank Uzbekistan. PwC's proposed fees were benchmarked against other similar services provided by other suppliers. The Committee concluded that the total amount of non-audit fees, US$ 100,000, paid to PwC were not-material in nature and linked to their audit role. The figure represented 1% of the average fees to the firm for the Group audit services over the preceding three years, which is within the 70% cap required by the Group policy on non-audit services. In 2019, the costs related to the issuance of senior and AT1 bonds and paid to PwC for non-audit services totalled US$ 0.415 million over the year, which represented 53% of the average fees to the firm for the Group audit services over the preceding three years. The figure was still well within the 70% cap required by the Group policy on non-audit services

The Group has a policy of sharing business between suitable audit firms to provide diversification, promote competition and build relationships. In 2020, non-audit work was allocated to 7 different accounting-based firms, in line with a decision to reach out beyond the Big Four. The largest single non-audit contractual spending in 2020 was related to the work performed externally by the international consulting company, to perform the valuation of repossessed real estate for a total fee of GEL 57 thousand.

HOW THE GROUP'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM WORKS

Internal Control

The Board has delegated to the Committee responsibility for reviewing the effectiveness of the system of internal control. This covers all material controls including financial, operational and compliance controls, in addition to the financial reporting process.

A sound system of internal control contributes to safeguarding the best interests of all stakeholders and the Group's assets and liabilities. While the management is responsible for establishing and maintaining adequate internal controls over the capturing, processing and reporting of financial information, the Committee is responsible for ensuring the effectiveness of these controls and for confirming that they are sufficiently robust to cope with changing economic conditions and continued strong growth in the Group. As noted above, Internal Audit provides reports on control weaknesses and breakdowns that include a robust root cause analysis and recommendations for improvements, along with clear ownership/accountability and deadlines for remediation. The Committee regularly reviews progress of this vital function and alerts the CEO, CFO, CRO and divisional heads as well as, if necessary, the full Board if it sees intractable problems and insufficient commitment to continuous process improvement. The Committee was pleased to note that in 2020 there was further improvement in the rate and speed of remediation of identified internal audit report deficiencies.

The Committee is aware of increased regulatory and stakeholder focus on Internal Control Over Financial Reporting (ICFR) issues and the need for proactive responses from companies and audit committees. Much of the finance function involves data gathering, the vast majority of which is system generated. The Group is increasing its automation of remaining manual controls, which reduces the risks of human error or malpractice and also delivers cost-saving benefits. The Group's finance function is also considering how both data analytics and artificial intelligence can deliver improved predictive insights relevant to the Group's reporting system and provisioning schedule. In 2021, the Committee will continue to monitor the Group's finance function during its transformation strategy, considering the risk of change inherent in the process.

The Committee is also monitoring the impact on the Group of the planned international expansion and diversification, and is taking steps to ensure that the finance function has sufficient resources in place to cope with the extra workload involved.

The Committee has reviewed the opinions of both PwC and the Internal Audit team on the robustness of the Group's internal controls, risk management and governance systems. The Committee considers that there is a proper system and allocation of responsibilities for day to day monitoring of financial and other controls within the Group, with no significant systemic failings or weaknesses. It has also considered the risk of executive override of controls, and discussed with PwC their assessment of this mandatory significant audit risk.

Following every noted fraud event larger than US$ 20,000, the Management conducts a full review, which is presented to the Committee and, if appropriate, to the full Board, along with the Management's recommendations to avoid any future repeat events. During 2020, two cases of internal fraud were identified and further escalated to Internal Audit for investigation. The Committee has directly discussed all larger frauds with senior management and is confident that the CEO and his deputies have taken full ownership of the issues and rectified any arising vulnerabilities.

The Committee reviewed PwC's management letter from the 2019 audit, and discussed the management's responses to it. The committee is satisfied that there are no major issues raised therein. We are also content with the PwC's requested management representation letter (signed by the CEO and CFO) in relation to the 2020 audit.

Internal Control and Risk Management effectiveness

Following the Committee's review and recommendation, the Board agreed that the system of internal control (including risk management) continues to be effective.

During the year, Internal Audit has conducted several engagements in the Risk Management and the Cyber Security functions. Taking into account the actions taken, the Committee also confirms that no significant failings or weaknesses have been identified during the year and up to the date of this Annual Report. Processes are in place to ensure that necessary action is taken, and progress is monitored where areas for improvement have been identified.

Regulatory compliance

The Committee provided oversight of the Group's compliance with:

- All necessary regulatory requirements, including requirements for the performance of internal audits of certain processes within the Group; and
- All necessary regulatory reporting.

HOW INTERNAL AUDIT FUNCTIONS

Internal Audit provides an objective and professionally challenging review of how the Group handles both key financial and non-financial reporting and data management tasks, to protect the assets, reputation and sustainability of the organisation. While primary responsibility to manage risk under the Group's risk model resides with the Management, Internal Audit's role, as the "third line of defence", is to identify potential problems and recommend ways of improving risk management and internal controls. Internal Audit has unrestricted access and scope for review across the whole organisation.

The Head of Internal Audit attends all Committee meetings, as well as Risk Committee meetings. The Committee meets regularly with the Head of Internal Audit (Chief Audit Executive) with no management present.

Internal Audit undertakes audits of all of the Group's key operating units on a regular basis with a rolling audit plan agreed in advance with the Committee. In 2020, 99% of all pre-agreed internal audit assignments were completed. The Head of Internal Audit reports the outcome of all audits and identifies any deficiencies to the Committee, which then considers the issue both in terms of severity and underlying trends, noting management's proposed remediation. Appropriate follow-up is then monitored by the Committee. Operational units of the Group that have showed continuing weaknesses are routinely re-inspected to confirm if improvements have been made and the Committee advised. Despite the further improvement in the rate and speed of remediation of deficiencies, the CEO has confirmed that although all deficiencies will be addressed and will be prioritised according to the potential systemic risk they represent.

Internal Audit delivers an annual assurance statement to the Committee, which sets out the Head of Internal Audit's opinion, together with summarised reports of the internal audit work performed in comparison to the plan during the year, and an assessment of compliance with auditing standards.

The hiring and retention of local Georgian internal auditors remains a challenge and, whilst attracting new talent, the Group also embraces alternative and more flexible staffing models. The Committee is, nevertheless, satisfied that Internal Audit has sufficient human and financial resources to perform its role and the Committee has the correct training and tools (e.g. specialist software) to ensure that team members can function effectively. All managerial Internal Audit executives are currently training to achieve the relevant, internationally recognised qualification (Certified Internal Auditor); at present, two team members are certified.

There is a particular shortage of IT internal auditors in Georgia. Given the importance of mitigating IT risk, the Committee decided to co-source these skills from EY to carry out appropriate reviews and, at the same time, educate our own audit staff to gain experience in this key risk area for the Group. The co-sourcing practice arrangement will continue into 2021. It is planned by then to recruit and train a number of suitably qualified IT internal auditors.

Internal Audit's Charter was reviewed and approved in March 2020, ensuring its appropriateness for the Group. The Committee routinely reviews Internal Audit's remit and the annual and rolling five-year plan of audits in place. The plan allows for some flexibility to allow urgent matters or emerging risks to be reviewed. The Committee undertakes a formal assessment of Internal Audit and ensures that it is effective and suitably embedded in the organisation. The Head of Internal Audit attends all monthly Management Board meetings to identify developments in the business that might need review.

The Committee determines both the IA budget for the Group and compensation, including variable bonus payments, for the staff. The Committee is also responsible for supervising the annual personal performance assessment of the Head of Internal Audit, drawing on input from peers, direct reports and senior management, including the CEO and CFO.

The Committee considers, with corroboration from an External Quality Assessment (EQA), that Internal Audit has established its arms-length independence from the management and is free from any interference in determining the scope and performance of its work and the communication of its results.

The Committee is overseeing a project to move the Internal Audit function towards a more 'agile' approach. Internal Audit is seeking to use robust root cause analysis to develop more themed reports, prioritising the higher risk areas of the Group and responding rapidly to emerging issues, undertaking special deep-dive investigations (particularly arising from situations where the Group may have heightened vulnerability or has been the victim of fraud) and ensuring that Internal Audit is able to add more strategic value.

In addition to its regular workload, the Committee commissioned Internal Audit to undertake a number of special assignments, including: investigations of particular fraud events; and some of the Bank's significant subsidiaries, in particular TBC Pay, TBC Insurance and TBC Leasing as well as My.ge (which is TBC's only material digital ecosystem).

In addition, Internal Audit maintained its focus on the identification/reporting processes around capturing and disclosing related party lending and anti-money laundering procedures within the Group, in line with regulatory requirements in Georgia.

Internal Audit assessed the Bank's compliance with ISO 14001:2015 requirements for its Environmental and Social Risk Management Systems.

External Assessment and the Evolution of Internal Audit

In early 2019, the Committee supervised the completion of an External Quality Assessment (EQA) of the Group's Internal Audit department assessing Internal Audit's function in terms of "efficiency and effectiveness in matters of Governance, People, Infrastructure and Operations". The benchmark was the Code of Ethics and International Standards for the Professional Practice of Internal Auditing and the Chartered Institute of Internal Auditors' ("IIA") September 2017 Guidance on Effective Internal Audit in the Financial Services Sector. The exercise was conducted by EY and included a benchmarking analysis against peers according to the IIA's Audit Intelligence Suite Benchmarking Report. It was the first time that the Group has conducted an EQA exercise, and not only were the results reassuring, but the unit also benefited from the feedback and the assessment process itself. The conclusion gave Internal Audit a "generally conforms" score (the highest available ranking), concluding that "in general there is a high degree of compliance with IIA standards' requirements", with the function being "well aligned with the Bank's operations and its people". The recommendations issued during this exercise have in the main been put in place by Internal Audit during 2020.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF TBC BANK GROUP PLC

Report on the audit of the financial statements

Opinion

In our opinion, TBC Bank Group PLC's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2020 and of the group's and company's profit and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with International accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: Consolidated and Separate Statements of Financial Position as at 31 December 2020; Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated and Separate Statements of Cash Flows and Consolidated and Separate Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 2 to the financial statements, the group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 34 to the financial statements, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of components and other qualitative factors (including history of misstatement through fraud or error).

- Our scoping was primarily driven by legal entity contribution to profit before tax and other key financial metrics. This approach also ensures that we align our resources with the location of the key financial reporting functions and material operations of the group. We also considered overall coverage in assessing the appropriateness of our scoping.

Key audit matters

- Expected credit loss allowance on loans and advances to customers (group)
- Impact of COVID-19 (group and parent)

Materiality

- Overall group materiality: GEL 23.5 million (2019: GEL 29.3 million) based on 5% of the average profit before tax for the last three years (2019: 5% of profit before tax).
- Overall company materiality: GEL 16.2 million (2019: GEL 15.7 million) based on 1% of total assets.
- Performance materiality: GEL 17.6 million (group) and GEL 12.2 million (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the rules of the National Bank of Georgia, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias through judgements and assumptions in significant accounting estimates . The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Enquiries of management, including the group's Chief Legal Counsel, and Internal Audit, in relation to known or suspected instances of non-compliance with laws and regulations and fraud.
- Evaluation and testing of the operating effectiveness of management's controls designed to prevent and detect fraud and errors in financial reporting.
- Assessment of matters reported on the group's whistleblowing helpline and the results of management's investigation of such matters.
- Attendance at and inquiry of selected key governance committees and reviewing management information presented at these meetings.
- Reading key correspondence with regulatory authorities and legal advisors.
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the expected credit loss allowance on loans and advances to customers.
- Identifying and testing journal entries meeting specific risk criteria.
- Incorporated unpredictability into the nature, timing and/or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, 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.

This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Expected credit loss allowance on loans and advances to customers (group) Refer to pages 214 to 224 (Audit Committee Chair's report), pages 241 to 261 (Significant accounting policies), page 261 to 263 (Critical accounting estimates and judgements in applying accounting policies), and pages 270 to 293 (note 9: Loans and Advances to customers). We focused on this area as the management estimates regarding the expected credit loss ('ECL') allowance are complex and require a significant degree of judgement. Under IFRS 9 management is required to determine the credit loss allowance expected to occur over either a 12 month period or the remaining life of an asset, depending on the categorisation of the individual asset. This categorisation is determined by assessing whether or not there has been a significant increase in credit risk ('SICR') or default of the borrower since loan origination. Additionally, certain events in course of the year (e.g. payment holidays) resulted in necessity for management to apply judgement in determination of the stage of credit quality of the exposure. It is also necessary to consider the impact of different future macroeconomic conditions in the determination of ECLs. The impact of COVID-19 on the economy has further increased the level of uncertainty in the macroeconomic forecasts. Management has designed and implemented a number of models to achieve compliance with the requirements of IFRS 9. Among others, management has applied judgement to the models in situations where past experience was not considered to be reflective of future outcomes due to limited or incomplete data. We consider the appropriateness of the model methodologies and the following judgements used in the determination of the modelled ECL allowance to be significant: › Setting of appropriate staging criteria including identification of SICR and default, taking into consideration the impact of payment holidays granted to the borrowers due to COVID-19 pandemic ; › Critical assumptions applied in the determination of loss given default ('LGD') and probability of default ('PD'); › Assessment of model limitations and use of post model adjustments ('PMAs') if required to address such risks; and › Assessment of the key assumptions related to forward-looking information ('FLI') including the appropriateness of scenario weightings and macro economic variables in light of COVID-19 impact.	We understood and evaluated the design of the key controls over the determination of ECL allowance and tested their operating effectiveness. These controls included among others: › Controls over model performance monitoring, including periodic reviews of the policy and models, testing model estimates against actual outcomes and approval of model methodology changes ; › Review and approval of the key judgements and assumptions used for determining staging criteria, LGDs, PDs and FLI; › Controls over key parameters calculation by the calculation engine; › Controls over regular monitoring of the financial standing of the borrowers; › Controls over assignment of staging criteria to exposures; › Controls over ECL calculation and analysis of results; and › The Management Risk Committee's review and approval of judgemental assumptions and assessment of ECL modelled outputs. We noted no exceptions in the design or operating effectiveness of the above controls. We assessed whether the IFRS 9 ECL model methodologies developed by management are appropriate, engaging our credit risk modelling specialists and our industry knowledge. This included an evaluation of the criteria set by management for determining whether there had been a SICR or default, and the critical judgements and assumptions applied in determination of LGDs, PDs and FLI. We concluded that management's judgements in deriving staging, LGDs, PDs and FLI were reasonable. We independently verified the calculation of ECL and assessed whether the ECL calculations were consistent with the approved model methodologies. We critically evaluated key aspects of model monitoring and validation ("backtesting" of projected ECL) performed by management relating to model performance and stability and critically assessed the monitoring results. The test results of statistical models were interpreted in the context of COVID-19 circumstances and explanations were obtained for deviations from the expectation. We challenged management in respect of the appropriateness of the macroeconomic models as well as weightings applied to each macroeconomic scenario. We are satisfied that macroeconomic assumptions and scenario weightings used by the Bank are reasonable.

	We challenged management in respect of the completeness and ongoing appropriateness of PMAs recognised. We assessed the PMAs applied including judgements and assumptions used and calculations involved. As a result, we deem that the impact of COVID-19 pandemic is appropriately addressed by applying PMAs where existing models were not able to capture the emerging risks, and management's judgements are reasonable.
Impact of COVID-19 (group and parent) Refer to page 214-224 (Audit Committee Chair's report) and pages 4 to 145 (Strategic Report). The impact of the Covid-19 pandemic has resulted in unprecedented economic conditions and resulting government support programmes and regulatory interventions to support businesses and people. The Covid-19 pandemic has also changed the way that companies operate their businesses, with one of most substantial impacts being the transition to remote working. A substantial proportion of the group's employees have been working remotely during 2020. Our audit team has also been working remotely for most of 2020. The impact of the Covid-19 pandemic and resulting uncertainty has impacted a number of the estimates in the Group and parent Company financial statements.	Our planning and execution of the audit has given specific consideration to the impact of COVID-19. This included adopting a different basis for determining materiality to take account of the significant reduction in profits due to expected credit losses. We engaged with the Board and management in a manner consistent with our previous audits, albeit remotely using video and telephone calls. The information and audit evidence we need for the audit was provided in electronic format in most of the cases. While our team ensured that certain physical presence was still maintained and inspection of physical evidence was still performed, audit procedures were mostly performed virtually. We understood and assessed the transition of Group employees to working remotely on the control environment relevant to financial reporting, and reflected this in our audit approach for new or changed processes and controls. Our work in relation to expected credit losses, the most significant accounting judgements with COVID-19 impact, is set out in the Key Audit Matter 'expected credit loss allowance on loans and advances to customers' above. We have reviewed management's going concern assessment and conclusions are included in the section 'Conclusions relating to going concern' later in this opinion. We assessed the disclosures made in the Group and parent company financial statements. We are satisfied that these disclosures are appropriate and in compliance with the accounting requirements.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

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

JSC TBC Bank is the largest subsidiary of the group. Its main operations are Retail and Commercial banking, with all significant operations based in Georgia. Accounting functions and management of JSC TBC Bank are primarily based in Georgia, and represent 98% of the group assets and 94% of revenue. We performed audit procedures over this component which is considered financially significant in the context of the group, using a materiality of GEL 22 million (2019: GEL 27.8 million). We also performed other audit procedures including testing information technology general controls and other relevant controls related to financial reporting, to mitigate the risk of material misstatement.

Our audit approach and team was also designed to reflect the structure of the group, and we therefore used component auditors from PwC in each of the relevant territories, all of whom are familiar with the relevant businesses in their geographical locations, to audit the relevant component that was in scope for the group audit. As part of the planning and execution of the audit, given COVID-19 restrictions, the UK audit team held remote meetings via video-conference with the significant component in Georgia on several occasions, in order to ensure that the procedures performed to support the group audit were sufficient for our purposes. Specific audit procedures were also performed at the UK parent company, mainly related to the presentation of the group financial statements, the consolidation process, taxation and elements of laws and regulations specific to the UK. Based on the procedures we performed over the reporting units our audit scoping/coverage accounted for 98% of revenue and 99% of total assets of the group.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - group	Financial statements - company
Overall materiality	GEL 23.5 million (2019: GEL 29.3 million).	GEL 16.2 million (2019: GEL 15.7 million).
How we determined it	5% of the average profit before tax for the last three years (2019: 5% of profit before tax)	1% of total assets
Rationale for benchmark applied	Profit before tax is a primary measure used by the shareholders in assessing the performance of the group and is a generally accepted benchmark for determining audit materiality. We have considered the economic impact of the COVID-19 pandemic in the Group's results. Whilst profit before tax is still considered to be a suitable benchmark, we used a three year average, to eliminate the volatility introduced by COVID-19.	The parent company is a holding company with investments in the subsidiaries within the Group. The parent company's performance is measured primarily on the value of these investments, and therefore total assets is considered an appropriate materiality benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between GEL 22 million and GEL 23.5 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to GEL 17.6 million for the group financial statements and GEL 12.2 million for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above GEL 1.1 million (group audit) (2019: GEL 1.4 million) and GEL 0.8 million (company audit) (2019: GEL 0.8 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- A risk assessment to identify factors that could impact the going concern basis of accounting, including the current and forecast financial performance, regulatory metrics and the sector in which the group operates;
- Evaluation of the reasonableness of the group's forecasts, including their assessment of macro scenarios, budget planning, recovery planning, stress testing and estimated financing pipeline;
- Review of the group's regulatory correspondence and reports provided to governance forums; and
- Reviewing the appropriateness of the disclosures in the Annual report.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Directors' report is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement 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 group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment including any related disclosures drawing attention to any necessary qualifications or assumptions

Our review of the directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 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 company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities . This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 11 August 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 31 December 2016 to 31 December 2020.

Allan McGrath (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
26 April 2021

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in thousands of GEL	Note	31 December2020	31 December 2019 (as restated)*	31 December 2018 (as restated)*
ASSETS				
Cash and cash equivalents	6	1,635,405	1,003,583	1,166,911
Due from other banks	7	50,805	33,605	47,316
Mandatory cash balances with National Bank of Georgia	8	2,098,506	1,591,829	1,422,809
Loans and advances to customers	9	14,594,274	12,349,399	10,038,452
Investment securities measured at fair value through other comprehensive income	10	1,527,268	985,293	1,005,239
Bonds carried at amortised cost	11	1,089,801	1,022,684	654,203
Net investments in leases	13	271,660	256,660	203,802
Investment properties	17	68,689	72,667	84,296
Current income tax prepayment		69,888	25,695	2,116
Deferred income tax asset	35	2,787	2,173	2,097
Other financial assets	12	171,302	133,736	167,518
Other assets	14	266,960	255,712	192,792
Premises and equipment	15	372,956	334,728	315,502
Right of use assets	16	53,927	59,693	–
Intangible assets	15	239,523	167,597	109,220
Goodwill	18	59,964	61,558	31,286
Investments in associates		4,090	2,654	2,432
TOTAL ASSETS		**22,577,805**	**18,359,266**	**15,445,991**
LIABILITIES				
Due to credit institutions	19	4,486,373	3,593,901	3,031,503
Customer accounts	20	12,572,728	10,049,324	9,352,142
Other financial liabilities	23	227,432	113,608	98,714
Current income tax liability		853	1,634	63
Deferred income tax liability	35	13,088	18,888	19,793
Debt securities in issue	21	1,496,497	1,213,598	13,343
Provision for liabilities and charges	22	25,335	23,128	18,767
Other liabilities	24	87,842	95,162	104,337
Lease Liabilities	16	58,983	59,898	–
Subordinated debt	25	672,740	591,035	650,919
TOTAL LIABILITIES		**19,641,871**	**15,760,176**	**13,289,581**
EQUITY				
Share capital	26	1,682	1,682	1,650
Shares held by trust	26	(33,413)	(27,516)	–
Share premium	26	848,459	848,459	796,854
Retained earnings		2,281,428	1,961,231	1,531,562
Group reorganisation reserve		(162,167)	(162,167)	(162,167)
Share based payment reserve	27	(20,568)	(17,803)	(16,294)
Fair value reserve		11,158	(6,476)	8,680
Cumulative currency translation reserve		(2,124)	(6,850)	(6,937)
Net assets attributable to owners		**2,924,455**	**2,590,560**	**2,153,348**
Non-controlling interest	39	11,479	8,530	3,062
TOTAL EQUITY		**2,935,934**	**2,599,090**	**2,156,410**
TOTAL LIABILITIES AND EQUITY		**22,577,805**	**18,359,266**	**15,445,991**

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

The consolidated and the separate financial statements on pages 233 to 372 were approved by the Board of Directors on 26 April 2021 and signed on its behalf by:

Vakhtang Butskhrikidze
Chief Executive Officer

The notes set out on pages 240 to 372 form an integral part of these consolidated and the separate financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

in thousands of GEL	Note	31 December 2020	31 December 2019 (as restated)*	31 December 2018 (as restated)*
Interest income	30	1,667,999	1,436,843	1,284,235
Interest expense	30	(853,516)	(663,860)	(506,213)
Net interest gains on currency swaps	30	20,950	28,556	–
Net interest income		**835,433**	**801,539**	**778,022**
Fee and commission income	31	314,177	293,431	235,701
Fee and commission expense	31	(131,410)	(106,141)	(78,171)
Net fee and commission income		**182,767**	**187,290**	**157,530**
Net insurance premiums earned		53,359	38,199	23,601
Net insurance claims incurred and agents' commissions		(33,874)	(19,689)	(11,326)
Insurance profit		**19,485**	**18,510**	**12,275**
Net gains from currency derivatives, foreign currency operations and translation	2	98,018	101,187	107,047
Net (losses)/gains from disposal of investment securities measured at fair value through other comprehensive income		(624)	169	2
Other operating income	32	20,512	18,916	31,438
Share of profit of associates		–	632	1,154
Other operating non-interest income		**117,906**	**120,904**	**139,641**
Credit loss allowance for loans to customers	9	(330,811)	(82,030)	(143,723)
(Credit loss allowance)/Credit loss allowance reversal for investments in leases	13	(8,398)	582	(1,765)
Credit loss allowance reversal /(Credit loss allowance) for performance guarantees and credit related commitments	22	3,238	(2,156)	(4,056)
Credit loss allowance for other financial assets	12	(14,067)	(8,098)	(16,609)
Credit loss allowance for financial assets measured at fair value through other comprehensive income		(1,809)	(290)	(86)
Operating income after expected credit losses		**803,744**	**1,036,251**	**921,229**
Staff costs	33	(244,043)	(247,803)	(220,354)
Depreciation and amortization	15,16,17	(68,392)	(59,478)	(45,740)
Provision for liabilities and charges	22	(2,706)	(1,264)	(4,000)
Administrative and other operating expenses	34	(128,482)	(142,181)	(140,935)
Operating expenses		**(443,623)**	**(450,726)**	**(411,029)**
Losses from modifications of financial instruments		(41,015)	–	–
Profit before tax		**319,106**	**585,525**	**510,200**
Income tax credit/(expense)	35	3,383	(45,184)	(72,765)
Profit for the year		**322,489**	**540,341**	**437,435**
Other comprehensive income/ (expense) for the year				
Items that may be reclassified subsequently to profit or loss:				
Movement in fair value reserve	10	17,633	(15,156)	6,949
Exchange differences on translation to presentation currency		4,707	85	425
Other comprehensive income/ (expense) for the year		**22,340**	**(15,071)**	**7,374**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**344,829**	**525,270**	**444,809**
Profit is attributable to:				
– Shareholders of TBCG		317,752	537,895	435,080
– Noncontrolling interest		4,737	2,446	2,355
Profit for the year		**322,489**	**540,341**	**437,435**
Total comprehensive income is attributable to:				
– Shareholders of TBCG		340,092	522,843	442,454
– Noncontrolling interest		4,737	2,427	2,355
Total comprehensive income for the year		**344,829**	**525,270**	**444,809**
Earnings per share for profit attributable to the owners of the Group:				
– Basic earnings per share (in GEL)	28	5.8	9.8	8.1
– Diluted earnings per share (in GEL)	28	5.8	9.8	8.0

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

The notes set out on pages 240 to 372 form an integral part of these consolidated and separate financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in thousands of GEL	Note	Share Capital	Shares held by trust	Share premium	Group reorganisa-tion reserve	Share based payments reserve	Revalu-ation reserve for premises	Fair value reserve	Cumulative currency translation reserve	Retained earnings	Total equity excluding non-con-trolling interests	Non-con-trolling interest	Total Equity
Balance as of 1 January 2018 (as originally presented)		**1,605**	**–**	**714,651**	**(162,167)**	**9,828**	**70,045**	**1,731**	**(7,360)**	**1,169,937**	**1,798,270**	**28,536**	**1,826,806**
Effect of change in accounting policy	2	–	–	–	–	–	(70,045)	–	–	28,953	(41,092)	(63)	(41,155)
Balance as of 1 January 2018 (as restated)*		**1,605**	**–**	**714,651**	**(162,167)**	**9,828**	**–**	**1,730**	**(7,359)**	**1,198,890**	**1,757,179**	**28,473**	**1,785,652**
Profit for the year		–	–	–	–	–	–	–	–	435,080	435,080	2,355	437,435
Other comprehensive income (as restated)*		–	–	–	–	–	–	6,949	425	–	7,374	–	7,374
Total comprehensive income for 2018 (as restated)*		**–**	**–**	**–**	**–**	**–**	**–**	**6,949**	**425**	**435,080**	**442,452**	**2,355**	**444,809**
Share issue	26	23	–	42,031	–	(38,669)	–	–	–	–	3,385	–	3,385
Share based payment	27	–	–	–	–	12,547	–	–	–	–	12,547	(879)	11,668
Purchase of additional interest from NCI		–	–	–	–	–	–	–	–	4,380	4,380	(4,415)	(35)
Dividends declared		–	–	–	–	–	–	–	(2)	(88,952)	(88,952)	(116)	(89,068)
Conversion of shares	27	22	–	40,172	–	–	–	–	–	(17,838)	22,356	(22,356)	–
Balance as of 31 December 2018 (as restated)*		**1,650**	**–**	**796,854**	**(162,167)**	**(16,294)**	**–**	**8,680**	**(6,937)**	**1,531,562**	**2,153,348**	**3,062**	**2,156,410**
Profit for the year		–	–	–	–	–	–	–	–	537,895	537,895	2,446	540,341
Other comprehensive income (as restated)*		–	–	–	–	–	–	(15,156)	85	–	(15,071)	–	(15,071)
Total comprehensive income for 2019 (as restated)*		**–**	**–**	**–**	**–**	**–**	**–**	**(15,156)**	**85**	**537,895**	**522,824**	**2,446**	**525,270**
Business Combination		–	–	–	–	–	–	–	2	2	4	3,134	3,136
Share issue	26	32	–	51,605	–	(35,306)	–	–	–	–	16,331	–	16,331
Shar buy-back		–	(27,516)	–	–	–	–	–	–	–	(27,517)	–	(27,517)
Share based payment	27	–	–	–	–	33,797	–	–	–	–	33,797	(35)	33,762
Purchase of additional interest from NCI		–	–	–	–	–	–	–	–	–	–	(19)	(19)
Dividends declared		–	–	–	–	–	–	–	–	(108,622)	(108,622)	–	(108,622)
Other movements		–	–	–	–	–	–	–	–	394	394	(58)	336
Balance as of 31 December 2019 (as restated)*		**1,682**	**(27,516)**	**848,459**	**(162,167)**	**(17,803)**	**–**	**(6,476)**	**(6,850)**	**1,961,231**	**2,590,560**	**8,530**	**2,599,090**
Profit for the year		–	–	–	–	–	–	–	–	317,752	317,752	4,737	322,489
Other comprehensive income		–	–	–	–	–	–	17,633	4,707	–	22,340	–	22,340
Total comprehensive income for 2020		**–**	**–**	**–**	**–**	**–**	**–**	**17,633**	**4,707**	**317,752**	**340,092**	**4,737**	**344,829**
Share based payment	27	–	–	–	–	18,342	–	–	–	–	18,342	13	18,355
Delivery of SBP shares to employees		–	19,596	–	–	(21,107)	–	–	–	–	(1,511	–	(1,511)
Share buy-back		–	(25,493)	–	–	–	–	–	–	–	(25,493)	–	(25,493)
Other movements		–	–	–	–	–	–	1	19	2,445	2,465	(1,801)	664
Balance as of 31 December 2020		**1,682**	**(33,413)**	**848,459**	**(162,167)**	**(20,568)**	**–**	**11,158**	**(2,124)**	**2,281,428**	**2,924,455**	**11,479**	**2,935,934**

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

The notes set out on pages 240 to 372 form an integral part of these consolidated and separate financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

in thousands of GEL	Note	31 December 2020	31 December 2019 (as restated)	31 December 2018 (as restated)
Cash flows from/(used in) operating activities				
Interest received		1,462,815	1,360,296	1,224,606
Interest received on currency swaps		20,950	28,556	–
Interest paid		(839,258)	(647,427)	(501,984)
Fees and commissions received		297,024	282,715	235,508
Fees and commissions paid		(133,385)	(106,526)	(78,140)
Insurance and reinsurance received		86,447	76,101	54,682
Insurance claims paid		(27,139)	(21,787)	(15,174)
(Expense)/income from trading in foreign currencies		(92,191)	79,287	91,678
Other operating income received		48,402	44,248	11,407
Staff costs paid		(238,577)	(216,465)	(202,897)
Administrative and other operating expenses paid		(134,348)	(169,582)	(136,670)
Income tax paid		(46,268)	(70,413)	(34,918)
Cash flows from operating activities before changes in operating assets and liabilitie		**404,472**	**639,003**	**648,098**
Net change in operating assets				
Due from other banks and mandatory cash balances with the National Bank of Georgia		(353,975)	(22,009)	(343,772)
Loans and advances to customers		(1,059,684)	(2,013,577)	(1,718,446)
Net investments in leases		(2,902)	(43,719)	(54,784)
Other financial assets		(41,774)	47,128	(35,570)
Other assets		33,109	1,577	(4,486)
Net change in operating liabilities				
Due to other banks		(32,294)	(1,938)	69,755
Customer accounts		1,432,051	272,023	1,371,675
Other financial liabilities		115,370	(8,267)	(12,136)
Other liabilities and provision for liabilities and charges		(8,153)	5,816	3,618
Net cash flows from/(used in) operating activities (as restated)		**486,220**	**(1,123,963)**	**(76,048)**
Cash flows from/ (used in) investing activities				
Acquisition of investment securities measured at fair value through other comprehensive income	10	(763,531)	(1,781,816)	(717,729)
Proceeds from disposal of investment securities measured at fair value through other comprehensive income	10	287,917	240,603	14,781
Proceeds from redemption at maturity of investment securities measured at fair value through other comprehensive income	10	165,632	1,598,536	370,571
Dividends received		694	–	–
Acquisition of subsidiaries, net of cash acquired		–	(36,301)	809
Acquisition of bonds carried at amortised cost	11	(668,477)	(613,383)	(395,717)
Proceeds from redemption of bonds carried at amortised cost	11	413,038	216,871	200,658
Acquisition of premises, equipment and intangible assets	15	(164,379)	(120,333)	(89,263)
Proceeds from disposal of premises, equipment and intangible assets		3,627	13,225	813
Proceeds from disposal of investment properties		13,513	13,338	42,515
Net cash used in investing activities		**(711,966)**	**(469,260)**	**(572,562)**
Cash flows from/(used in) financing activities				
Proceeds from other borrowed funds		4,036,810	1,819,899	1,776,489
Redemption of other borrowed funds		(3,324,230)	(1,392,897)	(1,515,562)
Repayment of principal of lease liabilities		(13,251)	(6,453)	–
Proceeds from subordinated debt		–	–	255,900
Redemption of subordinated debt		–	(104,079)	(60,910)
Acquisition of treasury shares		(25,493)	(27,516)	–
Proceeds from debt securities in issue		104,838	1,176,049	–
Redemption of debt securities in issue		–	(14,296)	(7,596)
Dividends paid		(1,344)	(91,928)	(85,484)
Net cash flows from financing activities (as restated)		**777,330**	**1,358,779**	**362,837**
Effect of exchange rate changes on cash and cash equivalents		80,238	71,116	21,207
Net increase/(decrease) in cash and cash equivalents		**631,822**	**(163,328)**	**(264,566)**
Cash and cash equivalents at the beginning of the year	6	**1,003,583**	**1,166,911**	**1,431,477**
Cash and cash equivalents at the end of the year	**6**	**1,635,405**	**1,003,583**	**1,166,911**

The notes set out on pages 240 to 372 form an integral part of these consolidated and separate financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION

in thousands of GEL	Note	31 December 2020	31 December 2019	31 December 2018
ASSETS				
Cash and cash equivalents		10,444	5,546	2,204
Due from other banks		27,700	40,815	79,135
Other financial assets		108	278	170
Investments in subsidiaries	2	1,588,662	1,519,922	1,473,168
Other assets		478	465	3
TOTAL ASSETS		**1,627,392**	**1,567,026**	**1,554,680**
LIABILITIES				
Other financial liabilities		5,095	1,751	2,334
Debt securities in issue		76,985	–	–
TOTAL LIABILITIES		**82,080**	**1,751**	**2,334**
EQUITY				
Share capital	26	1,682	1,682	1,650
Shares held by trust	26	(33,413)	(27,516)	–
Share premium	27	848,459	848,459	796,854
Retained earnings		781,678	681,048	668,364
(Loss)/profit for the year		(12,476)	100,630	121,306
Share based payment reserve	27	(40,618)	(39,028)	(35,828)
TOTAL EQUITY		**1,545,312**	**1,565,275**	**1,552,346**
TOTAL LIABILITIES AND EQUITY		1,627,392	1,567,026	1,554,680

The consolidated and separate financial statements on pages 233 to 372 were approved by the Board of Directors on 26 April 2021 and signed on its behalf by:

Vakhtang Butskhrikidze
Chief Executive Officer

Registered No. 10029943

The notes set out on pages 240 to 372 form an integral part of these consolidated and separate financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY

in thousands of GEL	Note	Share Capital	Shares held by trust	Share premium	Share based payment reserve	Retained earnings	Total
Balance as of 1 January 2018		**1,605**	**–**	**714,651**	**(8,828)**	**757,233**	**1,464,661**
Profit for the year		–	–	–	–	121,306	121,306
Total comprehensive income for 2018		**–**	**–**	**–**	**–**	**121,306**	**121,306**
Share issue	26	45	–	82,203	(38,668)	–	43,580
Dividends declared	26	–	–	–	–	(88,869)	(88,869)
Share based payment	27	–	–	–	11,668	–	11,668
Balance as of 31 December 2018		**1,650**	**–**	**796,854**	**(35,828)**	**789,670**	**1,552,346**
Profit for the year		–	–	–	–	100,630	100,630
Total comprehensive income for 2019		**–**	**–**	**–**	**–**	**100,630**	**100,630**
Share issue	26	32	–	51,605	(34,941)	–	16,696
Share buy-back	26	–	(27,516)	–	–	–	(27,516)
Dividends declared	26	–	–	–	–	(108,622)	(108,622)
Share based payment	27	–	–	–	31,741	–	31,741
Balance as of 31 December 2019		**1,682**	**(27,516)**	**848,459**	**(39,028)**	**781,678**	**1,565,275**
Loss for the year		–	–	–	–	(12,476)	(12,476)
Total comprehensive loss for 2020		**–**	**–**	**–**	**–**	(12,476)	(12,476)
Share buy-back	26	–	(25,493)	–	–	–	(25,493)
Shares award to employees under share based payment scheme		–	19,596	–	(19,596)	–	–
Share based payment	27	–	–	–	18,006	–	18,006
Balance as of 31 December 2020		**1,682**	**(33,413)**	**848,459**	**(40,618)**	**769,202**	**1,545,312**

The notes set out on pages 240 to 372 form an integral part of these consolidated and separate financial statements.

SEPARATE STATEMENT OF CASH FLOWS

in thousands of GEL	31 December 2020	31 December 2019 (as restated)	31 December 2018 (as restated)
Cash flows from/(used in) operating activities			
Interest received	3,179	9,933	1,908
Interest paid	(447)	(42)	–
Fees and commissions paid	(11)	(17)	(12)
Staff costs paid	(3,738)	(4,520)	(3,797)
Administrative and other operating expenses paid	(5,582)	(10,439)	(3,569)
Other operating income received	256	215	16
Cash flows used in operating activities before changes in operating assets and liabilities	**(6,343)**	**(4,870)**	**(5,454)**
Net change in operating assets			
Other financial assets	161	(10)	5
Other assets	(16)	(101)	3
Net change in operating liabilities			
Other financial liabilities	2,274	360	(161)
Net cash used in operating activities	**(3,924)**	**(4,621)**	**(5,607)**
Cash flows from/(used in) investing activities			
Acquisition of subsidiaries, net of cash acquired	–	(40,162)	–
Cash contribution to subsidiaries	(76,546)	(8,857)	(800)
Dividends received	6,155	99,662	124,561
Income from recharge agreement	25,749	43,521	8,955
Dividends paid	–	(91,925)	(85,484)
Placement of deposits	(85,368)	(153,369)	(88,054)
Withdrawal of deposits	99,066	187,376	48,499
Net cash flows from investing activities (as restated)	**(30,945)**	**36,246**	**7,677**
Cash flows from/used in financing activities			
Acquisition of treasury shares	(25,493)	(27,516)	–
Proceeds from debt securities in issue	73,237	–	–
Net cash used in financing activities (as restated)	**47,744**	**(27,516)**	**–**
Effect of exchange rate changes on cash and cash equivalents	(7,977)	(1,037)	(76)
Net increase in cash and cash equivalents	**4,898**	**3,342**	**1,994**
Cash and cash equivalents at the beginning of the year	**5,546**	**2,204**	**210**
Cash and cash equivalents at the end of the year	**10,444**	**5,546**	**2,204**

The notes set out on pages 240 to 372 form an integral part of these consolidated and separate financial statements.

1. INTRODUCTION

Principal activity. TBC Bank Group PLC is a public limited liability company, incorporated in England and Wales. TBC Bank Group PLC held 99.88% of the share capital of JSC TBC Bank (hereafter the "Bank") as at 31 December 2020 (2019: 99.88%, 2018: 99.88%), thus representing the Bank's ultimate parent company. The Bank is a parent of a group of companies incorporated in mainly in Georgia, Azerbaijan and Uzbekistan, their primary business activities include providing banking, leasing, brokerage and card processing services to corporate and individual customers. TBC Bank Group PLC and its subsidiaries is referred as "TBCG" or "Group". The Group's list of subsidiaries is provided in Note 2.

The shares of TBCG ("TBCG Shares") were admitted to the Premium Listing segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange PLC's Main Market for listed securities effective on 10 August 2016 (the "Admission"). TBC Bank Group PLC's registered legal address is Elder House St Georges Business Park, 207 Brooklands Road, Weybridge, Surrey, KT13 0TS. Registered number of TBC Bank Group PLC is 10029943. The Bank is the Group's main operating unit and it accounts for most of the Group's activities.

JSC TBC Bank was incorporated on 17 December 1992 and is domiciled in Georgia. The Bank is a joint stock company limited by shares and was set up in accordance with Georgian regulations. The Bank's registered address and place of business is 7 Marjanishvili Street, 0102 Tbilisi, Georgia.

The Bank's principal business activity is universal banking operations that include corporate, small and medium enterprises, retail and micro operations within Georgia. The Bank has been operating since 20 January 1993 under a general banking license issued by the National Bank of the Georgia ("NBG"). In 2018, the Bank launched fully-digital bank, Space.

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

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

	% of ownership interest held as of 31 December		
Shareholders	**2020**	**2019**	**2018**
European Bank for Reconstruction and Development	5.05%	8.04%	8.18%
Dunross & Co.	7.42%	6.61%	5.51%
Schroder Investment Management	3.12%	6.48%	7.08%
JPMorgan Asset Management	4.56%	6.22%	8.40%
Badri Japaridze*	6.00%	6.00%	6.08%
Liquid Crystal International S.A.R.L.	5.04%	5.55%	5.64%
Mamuka Khazaradze*	3.60%	4.71%	6.19%
Other**	65.21%	56.39%	52.92%
Total	**100.00%**	**100.00%**	**100.00%**

* Represents direct ownership of the shares for Mamuka Khazaradze and Badri Japaridze. Mamuka Khazaradze has beneficial ownership of 8.64% (2019: 10.26%, 2018: 13.54%) and Badri Japaridze has beneficial ownership of 6.00%, (2019: 6.00%; 2018: 6.77%). Beneficial ownerships of major shareholders are presented in Directors Report above.

** Other includes individual as well as corporate shareholders.

Operating environment of the Group. Georgia, where groups most activities are located, displays certain characteristics of an emerging market. Its economy is particularly sensitive mostly to tourism. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 38). The Georgian economy continues to be negatively impacted by ongoing political tension in the region.

On 12 March 2020, the World Health Organisation declared the outbreak of COVID-19 a global pandemic. In response to the pandemic, the Georgian authorities implemented numerous measures attempting to contain the spreading and impact of COVID-19, such as travel bans and restrictions, lockdowns and limitations on business activity, including closures. The above measures were in place for the most period during 2020 but gradually relaxed in 2021. These measures have, among other things, severely restricted economic activity

1. INTRODUCTION CONTINUED

in Georgia and have negatively impacted, and could continue to negatively impact businesses, market participants, clients of the Group, as well as the Georgian and global economy for an unknown period of time.

Management is taking necessary measures to ensure sustainability of the Group's operations and support its customers and employees.

The future effects of the current economic situation and the above measures are difficult to predict and management's current expectations and estimates could differ from actual results.

For the purpose of measurement of expected credit losses ("ECL") the Group uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Note 37 provides more information of how the Group incorporated forward-looking information in the ECL models.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

In accordance with the exemption permitted under section 408 of the Companies Act 2006, the standalone statement of comprehensive income of TBCG is not presented as part of these separate financial statements. TBCG's income for the year is disclosed within the separate statement of financial position and the separate statement of changes in equity.

The consolidated financial statements of the Group and the separate financial statements of TBC Bank Group PLC, together referred as "financial statements", have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and, for the group, international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The consolidated and separate financial statements have been prepared under the historical cost convention, as modified by the certain financial assets and liabilities (including derivative instruments) which are measured at fair value. The principal accounting policies applied in the preparation of the consolidated and separate financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated below.

Changes in presentation of the net gains from currency derivatives, foreign currency operations and translation

To further foster clarity of the consolidated statement of comprehensive income, the Group has re-considered the presentation of the net gains from currency derivatives, foreign currency operations and translation. As a result of reclassification, management has combined "Net gains/(losses) from trading in foreign currencies", "Net gains/(losses) from foreign exchange translation" and "Net gains/(losses) from derivative financial instruments", under one financial statement line item "Net gains from currency derivatives, foreign currency operations and translation". Management believes, that such presentation will allow the Group to present the results of foreign currency operations clearly and allow the users to understand the effectiveness of the Group's foreign currency management. The presentation of comparative figures has been adjusted to confirm to the presentation of the current period amounts:

in thousands of GEL	**31 December 2019 (as originally presented)**	**Reclassification**	**31 December 2019 (as reclassified)**
Net gains/(losses) from trading in foreign currencies	79,279	(79,279)	-
Net gains/(losses) from foreign exchange translation	22,188	(22,188)	-
Net gains/(losses) from derivative financial instruments	(280)	280	-
Net gains from currency derivatives, foreign currency operations and translation	-	101,187	101,187

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

in thousands of GEL	31 December 2018 (as originally presented)	Reclassification	31 December 2018 (as reclassified)
Net gains/(losses) from trading in foreign currencies	91,678	(91,678)	-
Net gains/(losses) from foreign exchange translation	15,196	(15,196)	-
Net gains/(losses) from derivative financial instruments	173	(173)	-
Net gains from currency derivatives, foreign currency operations and translation	-	107,047	107,047

For disclosure purposes, net gains from currency derivatives, foreign currency operations and translation for 2020 is composed of following line items:

in thousands of GEL	2020
Net gains/(losses) from trading in foreign currencies	(92,110)
Net gains/(losses) from foreign exchange translation	190,120
Net gains/(losses) from derivative financial instruments	8
Total net gains from currency derivatives, foreign currency operations and translation	**98,018**

Changes in accounting policies, IAS 16

In 2020, the Group changed the accounting policy in relation to subsequent measurement for land, buildings and construction in progress. The Group now applies the cost model, where assets are carried at cost less accumulated depreciation and any accumulated impairment. Prior to this change, the Group applied revaluation model: it carried land, buildings and construction in progress at a revalued amount being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The Group believes that the cost model provides more relevant and consistent information, as well as it enables investors to make accurate comparisons across the banking industry, since the application of the cost model is a common and widespread market practice. The balance sheet accounts for the affected periods were restated accordingly, while the prior period income statement accounts remained the same, due to the fact that the change did not have material impact on them. Change did not have material effect on EPS amounts.

Effects on respective periods are disclosed below:

In thousands of GEL	31 December 2019 (as originally presented)	Change in accounting policy	31 December 2019 (as restated)
Assets:			
Premises and equipment	385,736	(51,008)	334,728
Liabilities:			
Deferred income tax liability	21,332	(2,444)	18,888
Equity:			
Retained earnings	1,953,421	7,810	1,961,231
Revaluation reserve for premises	56,374	(56,374)	-

In thousands of GEL	31 December 2018 (as originally presented)	Change in accounting policy	31 December 2018 (as restated)
Assets:			
Premises and equipment	367,503	(52,001)	315,502
Liabilities:			
Deferred income tax liability	22,237	(2,444)	19,793
Equity:			
Retained earnings	1,523,879	7,683	1,531,562
Revaluation reserve for premises	57,240	(57,240)	-

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Changes in presentation of the consolidated ans separate statement of cash flows

To further foster clarity and understandability of the consolidated and separate statements of cash flows, the Group has separately presented the cash spent on acquisition of treasury shares both for 2020 and 2019 years. The following adjustments were made in the consolidated and separate statement of cash flows for 2019 to reflect the changes:

- For consolidated statement of cash flows – the amount spent on acquisition of treasury shares have been separated from "Other financial assets" (operating activity) and transferred to the financing cash flow under the caption of "Acquisition of treasury shares";
- For separate statement of cash flows – the amount spent on acquisition of treasury shares have been transferred from "Income received from recharge agreement" (investing activities) to the financing cash flow under the caption of "Acquisition of treasury shares".

Under previous classification, the Group has reflected the amounts from the perspective of the intercompany recharge agreement, according to which cash is transferred from TBC Bank JSC to TBC Bank Group Plc for acquisition of shares and further distribution to management under share based payment schemes. Management thinks, that previously disclosed amounts were misclassified and believes, that by separating such amounts and disclosing them into the cash flow from financing activities would add clarity for the users on the amounts spent for share acquisitions.

Effect on consolidated statement of cash flows

in thousands of GEL	**31 December 2019 (as originally presented)**	**Restatement**	**31 December 2019 (as restated)**
Cash flows from operating activities: change in other financial assets	19,612	27,516	47,128
Cash flows used in financing activities: acquisition of treasury shares	-	(27,516)	(27,516)

Effect on separate statement of cash flows

in thousands of GEL	**31 December 2019 (as originally presented)**	**Restatement**	**31 December 2019 (as restated)**
Cash flows from investing activities: income received from recharge agreement	16,005	27,516	43,521
Cash flows used in financing activities: acquisition of treasury shares	-	(27,516)	(27,516)

As a result of above restatement, sub-totals for respective activities in the consolidated and separate statement of cash flows have been updated accordingly.

Going Concern. The Board of Directors of TBC Bank Group PLC has prepared these financial statements on a going concern basis. In making this judgement, management considered the Group's financial position, current intentions, profitability of operations and access to financial resources. Management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. In reaching this assessment, the directors have specifically considered the implications of the COVID-19 pandemic upon the Group's performance and projected funding and capital position and also taken into account the impact of further stress scenarios. On this basis, the directors are satisfied that the Group will maintain adequate levels of funding and capital for the foreseeable future.

Presentation currency. These consolidated financial statements are presented in thousands of Georgian Lari ("GEL thousands"), except per-share amounts and unless otherwise indicated.

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because it (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than the majority of voting power in it. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

Subsidiaries and associates. The TBC Bank Group PLC holds 99.88% of the Bank as of 31 December 2020. The consolidated financial statements include the following principal subsidiaries

	Proportion of voting rights and ordinary share capital held as of 31 December					
Subsidiary name	2020	2019	2018	Principal place of business or incorporation	Year of incorporation	Principal activities
JSC TBC Bank	99.88%	99.88%	99.88%	Tbilisi, Georgia	1992	Banking
United Financial Corporation JSC	99.53%	99.53%	98.67%	Tbilisi, Georgia	1997	Card processing
TBC Capital LLC	100.00%	100.00%	100.00%	Tbilisi, Georgia	1999	Brokerage
TBC Leasing JSC	100.00%	100.00%	99.61%	Tbilisi, Georgia	2003	Leasing
TBC Kredit LLC	100.00%	100.00%	100.00%	Baku, Azerbaijan	1999	Non-banking credit institution
Banking System Service Company LLC	N/A	N/A	100.00%	Tbilisi, Georgia	2009	Information services
TBC Pay LLC	100.00%	100.00%	100.00%	Tbilisi, Georgia	2009	Processing
TBC Invest LLC	100.00%	100.00%	100.00%	Ramat Gan,Israel	2011	PR and marketing
Index LLC	100.00%	100.00%	100.00%	Tbilisi, Georgia	2011	Real estate management
JSC TBC Insurance	100.00%	100.00%	100.00%	Tbilisi, Georgia	2014	Insurance
Redmed LLC	100.00%	100.00%	N/A	Tbilisi, Georgia	2019	Insurance
TBC Ecosystem companies LLC[1]	100.00%	100.00%	N/A	Tbilisi, Georgia	2019	Asset management
Swoop JSC	100.00%	100.00%	100.00%	Tbilisi, Georgia	2010	Retail Trade
Online Tickets LLC	55.00%	55.00%	N/A	Tbilisi, Georgia	2015	Computer and Software Services
TKT UZ	75.00%	75.00%	N/A	Tashkent, Uzbekistan	2019	Retail Trade
My.Ge LLC	65.00%	65.00%	N/A	Tbilisi, Georgia	2019	E-Commerce
Mypost LLC	100.00%	100.00%	N/A	Tbilisi, Georgia	2019	Postal Service
Billing Solutions LLC	51.00%	51.00%	N/A	Tbilisi, Georgia	2019	Software Services
Vendoo LLC (Geo)	100.00%	100.00%	N/A	Tbilisi, Georgia	2019	Retail Leasing
Allproperty.ge LLC	90.00%	90.00%	N/A	Tbilisi, Georgia	2013	Real estate management
F Solutions LLC	100.00%	100.00%	N/A	Tbilisi, Georgia	2019	Software Services
TBC Connect	100.00%	N/A	N/A	Tbilisi, Georgia	2020	Software Services
Inspired LLC	51.00%	51.00%	N/A	Tashkent, Uzbekistan	2011	Processing
VENDOO LLC (UZ Leasing)	100.00%	100.00%	N/A	Tashkent, Uzbekistan	2019	Retail Leasing
TBC Concept LLC	100.00%	N/A	N/A	Tbilisi, Georgia	2020	Food and Bavarage
TBC Bank UZ	100.00%	N/A	N/A	Tashkent, Uzbekistan	2020	Banking
TBC Group Support LLC	100.00%	N/A	N/A	Tbilisi, Georgia	2020	Risk Monitoring

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The Group has investments in the following associates:

Associate name	Proportion of voting rights and ordinary share capital held as of 31 December 2020	2019	2018	Principal place of business or incorporation	Year of incorporation	Principal activities
CreditInfo Georgia JSC	21.08%	21.08%	21.08%	Tbilisi, Georgia	2005	Financial intermediation
Tbilisi Stock Exchange JSC	28.87%	28.87%	N/A	Tbilisi, Georgia	2019	Finance, Service
Georgian Central Securities Depository JSC	22.87%	27.70%	N/A	Tbilisi, Georgia	2019	Finance, Service
Georgian Stock Exchange JSC	17.33%	17.33%	N/A	Tbilisi, Georgia	2019	Finance, Service
Kavkasreestri JSC	10.03%	10.03%	N/A	Tbilisi, Georgia	2019	Finance, Service
Online Tickets LLC[2]	N/A	N/A	26.00%	Tbilisi, Georgia	2015	Computer and Software Services

The country of registration or incorporation is also the principal area of operation of each of the above subsidiaries.

The Group's corporate structure consists of a number of related undertakings, comprising subsidiaries and associates, which are not consolidated or equity accounted due to immateriality. A full list of these undertakings, the country of incorporation and the ownership of each share class is set out below[i].

Company name	Proportion of voting rights and ordinary share capital held as of 31 December 2020	2019	2018	Principal place of business or incorporation	Year of incorporation	Principal activities
TBC Invest International Ltd[3]	100.00%	100.00%	100.00%	Tbilisi, Georgia	2016	Investment Vehicle
University Development Fund[3]	33.33%	33.33%	33.33%	Tbilisi, Georgia	2007	Education
Natural Products of Georgia LLC[3]	25.00%	25.00%	25.00%	Tbilisi, Georgia	2001	Trade, Service
Mobi Plus JSC[3]	14.81%	14.81%	14.81%	Tbilisi, Georgia	2009	Data monitoring and processing
GRDC	1.75%	1.75%	1.75%	Tbilisi, Georgia	2008	Investment Real Estate
Georgian Card JSC	0.15%	0.15%	0.15%	Tbilisi, Georgia	1997	Plastic Card Services
Georgian Securities Central Depositor	0.003%	0.05%	0.05%	Tbilisi, Georgia	1999	Finance, Service
JSC Givi Zaldastanishvili American Academy In Georgia	14.48%	14.48%	14.48%	Tbilisi, Georgia	2001	Education
United Clearing Centre	18.75%	18.75%	18.75%	Tbilisi, Georgia	2008	Clearing Centre
Banking and Finance Academy of Georgia[3]	16.67%	16.67%	16.67%	Tbilisi, Georgia	1998	Education
Tbilisi's City JSC[3]	1.80%	1.80%	1.80%	Tbilisi, Georgia	2007	Education
TBC Trade[3]	100.00%	100.00%	100.00%	Tbilisi, Georgia	2008	Trade, Service
Mineral Oil Distribution Corporation JSC[3]	9.90%	9.90%	9.90%	Tbilisi, Georgia	2009	Data monitoring and processing
Freeshop.ge LLC[3]	100.00%	100.00%	100.00%	Tbilisi, Georgia	2010	Retail Trade
The.ge LLC[3]	100.00%	100.00%	100.00%	Tbilisi, Georgia	2010	Retail Trade

1 The company was renamed from TBC International LLC to TBC Ecosystem companies LLC in the end of 2020.
2 The group became 55% shareholder of the company in 2019
3 Dormant

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Business combinations and goodwill accounting. Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured at the fair value of the consideration, including contingent consideration, given at the acquisition date. Acquisition-related costs are recognised as an expense in the profit or loss in the period in which they are incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures the non-controlling interest that represents the current ownership's interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquired entity. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the acquiree's net assets from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after the management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services.

Transaction costs incurred for issuing equity instruments are deducted from the equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests that are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Group's equity.

Associates. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 per cent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investments in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Financial instruments – key measurement terms. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or the liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity owned by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (ie an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure the fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not solely based on observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for expected credit losses. Accrued interest includes the amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position. Repayments for loans are accounted for penalties in the first place, then accrued interest and after that principal amount.

The effective interest method is a method of allocating interest income or interest expense over the term of the financial instrument so as to achieve a constant periodic rate of interest (effective interest rate) on

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy). For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

Initial recognition of financial instruments. Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL (expected credit loss) allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame set by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets – classification and subsequent measurement – measurement categories. The Group classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model. The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Group considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the "hold to collect" business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the "hold to collect" business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Group assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Group's control, is not recurring and could not have been anticipated by the Group, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The "hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model's objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI").

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. The judgements applied by the Group in performing the SPPI test for its financial assets is as follows:

The time value of money element may be modified, for example, if a contractual interest rate is periodically reset but the frequency of that reset does not match the tenor of the debt instrument's underlying base interest rate, for example a loan pays three months interbank rate but the rate is reset every month. The effect of the modified time value of money was assessed by comparing relevant instrument's cash flows against a benchmark debt instrument with SPPI cash flows, in each period and cumulatively over the life of the instrument. The Group applied a threshold of 10% to determine whether differences against a benchmark instruments are significantly different. In case of a scenario with cash flows that significantly differ from the benchmark, the assessed instrument's cash flows are not SPPI and the instrument is then carried at FVTPL.

The Group identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset's principal is the fair value at initial recognition less subsequent principal repayments, ie instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual amount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (iii) the fair value of the prepayment feature is immaterial at initial recognition.

Financial assets – reclassification. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Group changed its business model during the current period in relation to certain portfolio of bonds carried at amortized cost. Respective reclassifications will be applied in the financial statements from 1 January 2021 as required by IFRS.

Financial assets impairment - expected credit loss (ECL) allowance. The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Group measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

The Group applies a three stage model for impairment, based on changes in credit quality since initial recognition:

- Stage 1: A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL");
- Stage 2: If the Group identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage2 and its ECL is measured based on ECL on a lifetime basis ("Lifetime ECL"). If a SICR is no longer observed, instrument will move back to Stage 1.Refer to Note 37 for a description of how the Group determines, on a forward-looking basis, when a SICR has occurred;
- Stage 3: Credit impaired assets are transferred to Stage 3 and allowance for Lifetime ECL is recognized. The Group's definition of credit impaired assets and definition of default is based on the occurrence of one or more loss events, described further in Note 37.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Change in ECL is recognized in the statement of profit or loss with a corresponding allowance reported as a decrease in carrying value of the financial asset on the statement of financial position. For financial guarantees and credit commitments, provision for ECL is reported as a liability in Provisions for Liabilities and Charges.

Gross carrying amount and write offs. Gross carrying amount of a financial asset is the amortised cost of a financial asset, before adjusting for any loss allowance. The Group directly reduces the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The latter includes penalties under the local regulation requirements. The loans are collectively assessed for write off based on overdue days criteria or are individually evaluated, depending on the loan segment and product type.

Financial assets- derecognition and modification. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale. The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: change in interest rate due to market environment changes, change in the currency denomination; consolidation of two or more loans into one new loan; change in counterparty; loan with no schedule is replaced with loan with schedule or vice versa; Based on below shown internally developed methodology there are certain qualitative triggers which lead to asset derecognition with no further quantitative testing required. These qualitative criteria are included in the list below:

- Change in contract currency;
- Consolidation of two or more loans into one new loan;
- Change in counterparty;
- Loan with no predetermined payment schedule is changed with loan with schedule or vice versa;
- Change in contractual interest rate due to market environment changes.

The Group compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. It should be assessed whether change in contractual cash flow is significant (significance defined as 10% change). If the test result is above 10% threshold, loan should be derecognized, whereas if the test is passed and result is below or equal to 10%, financial asset can be assessed as modified.

If the risks and rewards do not change, the modified asset will not be substantially different (exceed 10% test) from the original asset and the modification does not result in derecognition. The Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate or, when applicable, the revised effective interest rate and recognises a modification gain or loss in profit or loss. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Payment holidays granted by the Group in response to COVID-19 pandemic are treated as contractual modifications of the respective loans and advances if they do not lead to derecognition as guided by the policy stated above. Their impact of modifications on the gross carrying amount (net modification loss) is presented in profit or loss within losses from modifications of financial instruments.

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

Financial liabilities – derecognition and modification. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, amounts due from the National Bank of Georgia (NBG), excluding mandatory reserves, and all interbank placements and interbank receivables with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

The payments or receipts presented in the statement of cash flows represent the Group's transfers of cash and cash equivalents, including amounts charged or credited to current accounts of the Group's counterparties held with the Group, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represent cash or cash equivalent from the customer's perspective.

Mandatory cash balances with the National Bank of Georgia. Mandatory cash balances with the NBG are carried at AC and represent mandatory reserve deposits that are not available to finance the Group's day to day operations. Hence they are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks. Amounts due from other banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at fair value through profit or loss (FVTPL). Otherwise they are carried at fair value (FV).

Investments in debt securities. Based on the business model and the cash flow characteristics, the Group classifies investments in debt securities as carried at AC, fair value through other comprehensive income (FVOCI) or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss. Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Group may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

Investments in equity securities. Financial assets that meet the definition of equity from the issuer's perspective, i.e. instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets, are considered as investments in equity securities by the Group. Investments in equity securities are measured at FVTPL, except where the Group elects at initial recognition to irrevocably designate an equity investments at FVOCI. The Group's policy is to designate equity investments as FVOCI when those investments are held for strategic purposes other than solely to generate investment returns. When the FVOCI election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses and their reversals, if any, are not measured separately from other changes in fair value. Dividends continue to be recognised in profit or loss when the Group's right to receive payments is established except when they represent a recovery of an investment rather than a return on such investment.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Group classifies loans and advances to customers into one of the following measurement categories: (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

Impairment allowances are determined based on the forward-looking ECL models. Note 37 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporates forward-looking information in the ECL models.

Repossessed collateral. Repossessed collateral represents non-financial assets acquired by the Group to settle overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, investment property or repossessed collateral within other assets depending on their nature and the Group's intention in respect of recovery of these assets and are subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets. Repossessed assets are recorded at the lower of cost or net realisable value.

Loan commitments. The Group issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability.

Financial guarantees. Financial guarantees require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts transfer non-financial performance risk in addition to credit risk. Performance guarantees are initially recognised at their fair value, which is normally

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Group has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as an asset upon transfer of the loss compensation to the guarantee's beneficiary. These fees are recognised within fee and commission income in profit or loss.

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. The lender provides funds to the borrower and receives security as collateral. Securities sold under such sale and repurchase agreements are not derecognized. The securities are not reclassified in the statement of financial position unless the transferee has, by contract, the right or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to credit institutions. The repurchase agreements are short-term in nature. Investment securities at fair value through other comprehensive income or bonds carried at amortised cost reclassified to repurchase receivables continue to be carried at fair value or amortised cost respectively in accordance with the accounting policies for these categories of assets.

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Group, are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties for a fixed fee are retained in the consolidated financial statements in their original category in the statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in other borrowed funds. Based on classification of securities sold under the sale and repurchase agreements, the Group classifies repurchase receivables into one of the following measurement categories: AC, FVOCI, and FVTPL.

Net investments in leases. Where the Group is a lessor in a lease that substantially transfers all risks and rewards incidental to ownership to the lessee, the assets leased out are presented as net investments in leases and carried at the present value of the future lease payments. Net investments in leases are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the early date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the net investments in leases and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the profit or loss.

The ECL is determined in the same way as for loans and advances measured at AC and recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows discounted at the interest rates implicit in the lease investments. There is a 'three stage' approach which is based on the change in credit quality of financial lease receivables since initial recognition. Immediate loss that is equal to the 12-month ECL is recorded on initial recognition of financial leases that are not credit impaired. In case of a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The Group normally structures its finance lease contracts so that the lessee makes a minimum prepayment of 20% of the equipment purchase price at the inception of the lease term. The Group holds title to the leased assets during the lease term. The title to the asset under the finance lease contract is transferred to the lessees at the end of the contracts terms, including full repayment of lease payments. Generally the lease terms are up to five years.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral obtained are:

- Leased assets (inventory and equipment);
- Down payment;
- Real estate properties;
- Third party guarantees.

The financial effect of collateral is presented by disclosing the collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed the assets' carrying value("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the assets' carrying value ("under-collateralised assets").

The Company classifies its portfolio into three stages:

- Stage 1 – assets for which no significant increase of credit risk since initial recognition is identified;
- Stage 2 – assets for which significant increase in credit risk since initial recognition is identified;
- Stage 3 – credit-impaired exposures.

For stage 1 exposures the Company creates 12 months expected credit losses, whereas for stage 2 and stage 3 lifetime expected credit losses are created.

For the Stage 2 classification purposes the Company applies both quantitative and the qualitative criteria including, but not limited to:

- 30 days past due (DPD) overdue;
- Downgrade of the risk category of the borrower since initial recognition;

Default definition includes criteria such as: (i) 90 DPD overdue (ii) distressed restructuring and (iii) other criteria indicating the borrower's unlikeness to repay the liabilities.

The Group incorporates forward looking information (FLI) for both individual and collective assessment. For FLI purposes the Company defines three scenarios, which are:

- Baseline (most likely);
- Upside (better than most likely);
- Downside (worse than most likely).

The Group derives the baseline macro scenario and takes into account projections from various external sources – the National Bank of Georgia, Ministry of Finance, IMF as well as other IFIs - to ensure the alignment to the consensus market expectations. Refer to Note 37 for the description of how the Group incorporates FLI in ECL calculations. Upside and downside scenarios are defined based on the framework developed by the Bank's macroeconomic unit.

The Group calculates expected impairment losses for each scenario. In order to come up with the final expected credit loss figures the bank applies probability weighted average approach where probabilities of each scenario are used as weights.

In relation to COVID-19, payment holidays are accounted on the same basis as disclosed above within paragraph of financial assets- derecognition and modification.

Receivables from terminated leases. The company recognizes receivables from terminated contracts at the moment of lease contract termination. These receivables are recognized at amount comprising difference between fair value of repossessed assets and outstanding balance of net investments in leases. Receivables are accounted for at AC less ECL.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Prepayment for purchase of leasing assets. Prepayment for purchase of leasing assets comprises of advance payments made to purchase assets for transfer into leases. Such advances are accounted for as non-financial assets. On commencement of the leases, advances towards lease contracts are transferred into net investment in finance lease.

Due to credit institutions. Amount due to credit institutions are recorded when counterparty banks advance money or other assets to the Group. The non-derivative liability is carried at AC. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at AC.

Subordinated debt. Subordinated debt can only be paid in the event of a liquidation after the claims of other higher priority creditors have been met and is included in the Bank's "tier 2" capital. Subordinated debt is carried at AC.

Debt securities in issue. Debt securities in issue include promissory notes, bonds, certificates of deposit and debentures issued by the Group. Debt securities are stated at AC. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options are recognized at their fair value. The Group also enters into offsetting deposits with its counterparty banks to exchange currencies. Such deposits, while legally separate, are aggregated and accounted for as a single derivative financial instrument (currency swap) on a net basis where (i) the deposits are entered into at the same time and in contemplation of one another, (ii) they have the same counterparty, (iii) they relate to the same risk and (iv) there is no apparent business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Group does not apply hedge accounting. Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

When derivative instruments are entered into with a view to decrease cost of funding, respective interest effect is presented as a separate line of statement of comprehensive income, within net interest income.

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill, and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation. This is generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

Premises and equipment. Premises and equipment are stated at cost, less accumulated depreciation and provision for impairment, where required. Cost of premises and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount,

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of premises and equipment and right-of-use assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

Premises	30 – 100 years;
Furniture and fixtures	5 – 8 years;
Computers and office equipment	3 – 8 years;
Motor vehicles	4 – 5 years;
Other equipment	2 – 10 years;
Right-of-use assets	the term of the underlying lease; and
Leasehold improvements	the term of the underlying lease or if not defined, not more than 7 years.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment property. Investment property is property that the Groups owns to earn rental income or for capital appreciation, or both, and that it does not occupy.

Investment property is stated at cost less accumulated depreciation and provision for impairment, where required. It is amortised on a straight line basis over an expected useful lives of 30 to 50 years. In case of any indication that the investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Land included in investment property is not depreciated. Depreciation on other items of investment properties is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives of 30 to 50 years. Residual values of investment properties are estimated to be nil.

Earned rental income is recorded in profit or loss for the year within other operating income.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment.

Intangible assets. The Group's intangible assets other than goodwill have definite useful lives and primarily include capitalised computer software. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 2 to 20 years.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Accounting for leases by the Group as a lessee from 1 January 2019. The Group leases office, branches and service centre premises. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is recognised at cost and depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

As an exception to the above, the Group accounts for short-term leases and leases of low value assets by recognising the lease payments as an operating expense on a straight line basis.

In determining the lease term, management of the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The Group applied the Amendment to IFRS 16 to COVID-19 related rent concessions granted by lessors for the period April - June 2020. These concessions were recorded as a reduction in the lease liability and variable rent in the period in which they were granted. The amount was not material to the financial statements.

Accounting for operating leases by the Group as a lessee prior to 1 January 2019. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

Accounting for operating leases by the Group as a lessor. When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Insurance and reinsurance receivables. Insurance and reinsurance receivables are recognised based on insurance policy terms and measured at cost. The carrying value of insurance and reinsurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the consolidated statement of income. Reinsurance receivables primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Insurance premiums are recognised as revenue (earned premiums) proportionally over the period of coverage of respective insurance contracts. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums. Amounts due to reinsurers are estimated in

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance receivables are impaired only if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract that this can be measured reliably.

Liability adequacy test. Liability adequacy tests are performed at each balance sheet date to ensure the adequacy of recognised insurance liabilities net of related deferred acquisition costs. In performing the tests, current best estimates of future contractual cash flows, claims handling and administration costs in respect of claims, as well as investment income from assets backing such liabilities, are used. Where tests highlight a deficiency, insurance liabilities are increased with any deficiency being recognised in the consolidated statement of comprehensive income.

Income taxes. Income taxes are provided in the consolidated financial statements in accordance with the legislation enacted or substantively enacted by the end of reporting period in the respective territories that the Bank and its subsidiaries operate. The income tax charge/credit comprises of current tax and deferred tax and is recognised in profit or loss except if it is recognised directly in other comprehensive income because it relates to transactions that are also recognised, in the same or a different period, directly in other comprehensive income.

Current tax is the amount expected-to-be-paid to or recovered from the tax authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if consolidated financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill that is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of reporting period that are expected to apply to the extent of time when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post-acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by the management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by the management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of reporting period and any known Court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on the management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Material provisions include provision for performance guarantees and credit related commitments.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Share capital. Ordinary shares with discretionary dividends are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue, are disclosed in the subsequent events note.

Income and expense recognition. Interest income and expense are recorded for all debt instruments, other than those at FVTPL, using the effective interest method. As part of interest income or expense this method defers all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. The group does not have Interest income on debt instruments at FVTPL.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at FVTPL.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest income is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

All other fees, commissions and other income and expense items are generally recorded when earned by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Fee and commission income. Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Group's performance. Such income includes recurring fees for recurring fees for account maintenance, account servicing fees, account subscription fees, annual plastic card fees etc. Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur.

Other fee and commission income is recognised at a point in time when the Group satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for arranging a sale or purchase of foreign currencies on behalf of a customer, fees for processing payment transactions, plastic card transactions, merchant fees, fees for cash settlements, collection or cash disbursements, etc..

Foreign currency translation. The Group's presentation currency is the Georgian Lari. TBCG's and the Bank's functional currency is the Georgian Lari. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the territories where the Bank and its subsidiaries operate, at the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

equity investments. The effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

The results and financial position of each group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- Components of equity are translated at the historic rate; and

All resulting exchange differences are recognised in other comprehensive income.

After losing control over a foreign operation, the exchange differences previously recognised in other comprehensive income are reclassified to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. At 31 December 2020 the closing rate of exchange used for translating foreign currency balances was GBP 1 = 4.4529 (2019: GBP 1 = GEL 3.7593; 2018: GBP 1 = GEL 3.3955); USD 1 = 3.2766 (2019: USD 1 = GEL 2.8677; 2018: USD 1 = GEL 2.6766); EUR 1 = 4.0233 (2019: EUR 1 = GEL 3.2095; 2018: EUR 1 = GEL 3.0701).

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Staff costs and related contributions. Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits as well as the cash settled part of the share based payment schemes are accrued in the year in which the associated services are rendered by the Group's employees.

Earnings per share. Earnings per share ("EPS") are determined by dividing the profit or loss attributable to owners of the Group by the weighted average number of participating shares outstanding during the reporting period.

Diluted earnings per share. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. In calculating diluted EPS, non-vested ordinary shares are treated as outstanding on the grant date.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Share based payments. A share-based payment arrangement is an agreement between the entity and another party (including an employee) that entitles the other party to receive cash or other assets of the entity for amounts that are based on the price (or value) of equity instruments (including shares) of the entity or another group entity, or equity instruments (including shares or share options) of the entity or another group entity, provided the specified vesting conditions, if any, are met. Under the share-based compensation plan the Group receives services from the management as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by the reference to the fair value of the equity instruments granted, excluding the impact of any non-market service and performance vesting conditions. Non-market vesting conditions are included in the assumptions about the number of equity instruments that are expected to vest. The total amount expensed is recognised over the vesting

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates of the number of equity instruments that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to equity. Increase in equity on accrued shares resulting from the equity settled scheme is accounted for under share based payment reserve. Upon award of shares to the scheme participants, respective share based payment reserve is transferred to share capital and share premium in case shares are issued on the market. When shares are repurchased from market initially and held via employee benefit trust, these shares are presented as treasury shares under shares held by trust category in the Statement of Financial Position until they are awarded to participants. When award takes place, treasury shares amount are credited with corresponding debit recognized in share based payment reserve. When portions of a single grant vest on two or more dates the entity applies graded vesting for accounting of share based payment arrangement. Vesting period of each tranche of the grant ends when the employee owns the shares with no further service restrictions. Under graded vesting scheme the expense for earlier years is higher than for later years. Each tranche is expensed over its own service period with a credit entry being equity.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on the management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

ECL measurement. Measurement of ECLs is a significant estimate that involves forecasting future economic conditions, longer the term of forecasts more management judgment is applied and those judgements may be the source of uncertainty. Details of ECL measurement methodology are disclosed in Note 37. The following components have a major impact on credit loss allowance: definition of default, definition of significant increase in credit risk (SICR), probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. The Group regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

Significant increase in credit risk ("SICR"). The Bank applies both qualitative and quantitative indicators to determination of SICR considering all reasonable and supportable information available without undue cost and effort, on past events, current conditions and future behavioural aspects of particular portfolios. The Bank tries to identify indicators of increase in credit risk of individual instruments prior to delinquency and incorporates significant assumptions in the model in doing so. One of such judgement is determination of thresholds of significant increase in credit risk. The effects of respective sensitivity are described below:

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES CONTINUED

In thousands of GEL	2020	2019	2018
20% decrease in SICR thresholds	Increase credit loss allowance on loans and advances by GEL 2,543. Change of the Bank's cost of credit risk ratio by 2 basis points.	Increase credit loss allowance on loans and advances by GEL 1,954. Change of the Bank's cost of credit risk ratio by 2 basis points.	Increase credit loss allowance on loans and advances by GEL 2,056. Change of the Bank's cost of credit risk ratio by 2 basis points.
10% increase in Stage 2 exposures	Increase credit loss allowance on loans and advances by GEL 3,311. Change of the Bank's cost of credit risk ratio by 2 basis points.	Increase credit loss allowance on loans and advances by GEL 2,380. Change of the Bank's cost of credit risk ratio by 2 basis points.	Increase credit loss allowance on loans and advances by GEL 2,723. Change of the Bank's cost of credit risk ratio by 3 basis points.

Risk parameters: Probability of default (PD) and Loss given default (LGD) parameters are one of the key drivers of expected credit losses. The effects of respective sensitivity are described below:

In thousands of GEL	2020	2019	2018
10% increase (decrease) in PD estimates	Increase (decrease) credit loss allowance on loans andadvances by GEL 24,901 (GEL 26,013). Change of the Bank's cost of credit risk ratio by 18 (19) basis points.	Increase (decrease) credit loss allowance on loans and advances by GEL 17,427 (GEL 17,547). Change of the Bank's cost of credit risk ratio by 16 (16) basis points.	Increase credit loss allowance on loans and advances by GEL 18,876 (GEL 18,942). Change of the Bank's cost of credit risk ratio by 21 (21) basis points.
10% increase (decrease) in LGD estimates	Increase (decrease) credit loss allowance on loans and advances by GEL 50,719 (GEL 53,813). Change of the Bank's cost of credit risk ratio by 37 (39) basis points.	Increase (decrease) credit loss allowance on loans and advances by GEL 24,758 (GEL 26,604). Change of the Bank's cost of credit risk ratio by 22 (24) basis points.	Increase credit loss allowance on loans and advances by GEL 28,185 (GEL 28,012). Change of the Bank's cost of credit risk ratio by 31 (31) basis points.

Macroeconomic scenarios: The Bank incorporates forward-looking information with three macro-economic scenarios to calculate unbiased and probability weighted ECL. They represent the Baseline scenario (most likely outcome) and two less likely scenarios, referred as the Upside (better than Baseline) and Downside (worse than Baseline).

Due to the prolongation and severity of the COVID-19 pandemic impact, the scenario probabilities were also adjusted to reflect the management's expectations regarding their future realisation. The baseline, upside and downside scenarios were assigned probability weighing of 60%, 10% and 30%, respectively (31 December 2019: 50%, 25% and 25%).

The following table describes the key macroeconomic variables under each scenario for future 3-year period as at 31 December 2020:

	Baseline			Upside			Downside		
Growth rates YoY, %	2021	2022	2023	2021	2022	2023	2021	2022	2023
GDP	4.2%	7.4%	5.3%	4.9%	8.3%	6.5%	2.7%	5.2%	2.6%
USD/GEL rate (EOP)	3.2	3.1	3.0	3.0	2.8	2.7	3.5	3.4	3.3
RE Price (in USD)	(3.5%)	5.2%	7.5%	(2.1%)	4.6%	6.9%	(5.7%)	6.3%	4.2%
Employment	2.6%	1.0%	1.0%	2.8%	1.3%	1.3%	2.4%	0.7%	0.6%

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES CONTINUED

The Bank assessed the impact of changes in GDP growth and unemployment variables on ECL. These two macroeconomic variables were identified as most critical economic factors in ECL assessment. The sensitivity analysis was performed separately for each of the variable to show their significant in ECL assessment, but changes in those variables may not happen in isolation as various economic factors tend to be correlated across the scenarios. The variables were adjusted in all three macroeconomic scenarios and the staging has been maintained unchanged. From the assessment of forward looking scenarios management is comfortable with the scenarios capturing the non-linearity of the losses.

The table below shows the impact of +/-20% change in GDP growth and unemployment variables across all scenarios on the Bank's ECL:

	Change in GDP growth		**Change in unemployment**	
in thousands of GEL	**20% increase**	**20% decrease**	**20% increase**	**20% decrease**
Impact on ECL	(6,973)	7,323	3,899	(3,083)

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following amended standards became effective from 1 January 2020, but did not have any material impact on the Group:

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets).

Definition of material – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020). The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs'). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS CONTINUED

COVID-19-Related Rent Concessions Amendment to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020). The amendment provides lessees with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease.

The application of the amendment did not have any impact on the right-of-use asset and no material effect on lease liabilities and income statement.

5. NEW ACCOUNTING PRONOUNCEMENTS

Minor amendments to IFRSs

The IASB has published a number of minor amendments some of which has not yet been endorsed for use in the EU. The Group has not early adopted any of the amendments effective after 31 December 2020 and it expects they will have an insignificant effect, when adopted, on the consolidated financial statements of the Group and the separate financial statements of TBC Bank Group PLC.

Major new IFRSs

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Group expects to apply the standard to performance guarantees that it issues and is currently assessing the impact of the new standard on its financial statements. Potential impact on insurance products embedded in loans and similar instruments is also under consideration.

Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023). The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:

- *Effective date:* The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.
- *Expected recovery of insurance acquisition cash flows:* An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.

5. NEW ACCOUNTING PRONOUNCEMENTS CONTINUED

- *Contractual service margin attributable to investment services:* Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.
- *Reinsurance contracts held – recovery of losses:* When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.
- *Other amendments:* Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows; and selected transition reliefs and other minor amendments.

The Group is currently assessing the impact of the amendments on its financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. The Group is currently assessing the impact of the amendments on its financial statements.

5. NEW ACCOUNTING PRONOUNCEMENTS CONTINUED

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance. The Group is currently assessing the impact of the amendments on its financial statements.

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022). The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

5. NEW ACCOUNTING PRONOUNCEMENTS CONTINUED

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis. The Group is currently assessing the impact of the amendments on its financial statements.

Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform: For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.
- End date for Phase 1 relief for non contractually specified risk components in hedging relationships: The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.
- Additional temporary exceptions from applying specific hedge accounting requirements: The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.
- Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

The Group is currently assessing the impact of the amendments on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures. The Group is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates. The Group is currently assessing the impact of the amendments on its financial statements.

6. CASH AND CASH EQUIVALENTS

in thousands of GEL	2020	2019	2018
Cash on hand	755,687	650,700	491,928
Cash balances with the National Bank of Georgia (other than mandatory reserve deposits)	102,522	35,132	118,749
Correspondent accounts and overnight placements with other banks	588,409	191,420	371,902
Placements with and receivables from other banks with original maturities of less than three months	188,867	126,360	184,429
Total gross amount of cash and cash equivalents	**1,635,485**	**1,003,612**	**1,167,008**
Less: credit loss allowance by stages	(80)	(29)	(97)
Stage 1	(80)	(27)	(97)
Stage 2	-	(2)	-
Stage 3	-	-	-
Total cash and cash equivalents	**1,635,405**	**1,003,583**	**1,166,911**

89% of the correspondent accounts and overnight placements with other banks are placed with OECD (The Organization for Economic Co-operation and Development) banking institutions (31 December 2019: 85%; 31 December 2018: 95%).

As at 31 December 2020 GEL 25,030 thousand was placed on interbank term deposits with one non-OECD bank and GEL 163,838 thousand with one OECD bank (2019: GEL 11,348 thousand with one non-OECD bank and GEL 115,012 thousand with one OECD bank; 2018: GEL13,383 thousand with one non-OECD bank and GEL 171,046 thousand with two OECD banks). Interest rate analysis of cash and cash equivalents is disclosed in Note 37.

The credit-rating of correspondent accounts and overnight placements with other banks is as follows:

in thousands of GEL	2020	2019	2018
AA	–	–	5,883
AA-	1,891	–	–
A+	417,938	66,805	249,802
A	1,896	13,816	4,628
A-	35,753	–	–
BBB+	–	20,286	93,450
BBB	64,985	69,302	–
BBB-	897	–	873
BB+	–	733	241
BB	1,858	3,680	208
BB-	9,088	12,346	16,394
B+	53,688	4,452	381
B	15	–	42
Not rated	400	–	–
Total correspondent accounts and overnight placements with other banks	**588,409**	**191,420**	**371,902**

6. CASH AND CASH EQUIVALENTS CONTINUED

in thousands of GEL	2020	2019	2018
AAA	–	–	10,021
A-	–	115,012	161,025
BBB+	163,838	–	–
BB	–	1,719	–
BB-	25,016	–	–
B+	–	9,629	13,383
Not rated	13	–	–
Total placements with and receivables from other banks with original maturities of less than three months	**188,867**	**126,360**	**184,429**

The table illustrates the ratings by international agencies Standard & Poor's and Fitch Ratings. When different credit ratings are designated by the agencies, the highest designated rating for this asset is used, for those financial institutions which are not assigned credit ratings country ratings are used. As at 31 December 2020 there were no investment securities held as collateral against placements with other banks under the reverse repo agreements (2019: nil; 2018: nil).

7. DUE FROM OTHER BANKS

Amounts due from other banks include placements with original maturities of more than three months that are not collateralised and represent neither past due nor impaired amounts at the end of 2020, 2019 and 2018. Credit ratings of placements with other banks with original maturities of more than three months were as follows:

in thousands of GEL	2020	2019	2018
AA	–	–	8,913
AA-	31	–	–
A+	10,908	9,549	–
BBB+	98	–	80
BBB	–	2,493	3,838
BBB-	2,011	–	–
BB+	–	–	4,388
BB	10,972	9,045	–
BB-	12,041	5,323	26,238
B+	14,744	7,195	3,194
B	–	–	665
Total placements with other banks with original maturities of more than three months	**50,805**	**33,605**	**47,316**

As at 31 December 2020 the Group had no placements, with original maturities of more than three months and with aggregated amounts above GEL 5,000 thousand (2019: nil; 2018: placement with one bank). The total aggregated amount of these placement was GEL 2,012 thousand (2019: Nil; 2018: GEL 19,311 thousand) or 4.0% of the total amount due from other (2019: 40.8 %; 2018: 41 %).

As at 31 December 2020 GEL 11,744 thousand, (2019: GEL 11,836 thousand; 2018: GEL 15,725 thousand) were kept on deposits as restricted cash under an arrangement with a credit card company or credit card related services with other banks. Refer to Note 42 for the estimated fair value of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 37.

For the purpose of ECL measurement due from other banks balances are included in Stage 1. The ECL for these balances as at 31 December 2020 is GEL 8 thousand (2019: GEL 9 thousand; 2018: GEL 39 thousand).

8. MANDATORY CASH BALANCES WITH THE NATIONAL BANK OF GEORGIA

Mandatory cash balances with the National Bank of Georgia ("NBG") represent amounts deposited with the NBG. Resident financial institutions are required to maintain an interest-earning obligatory reserve with the NBG, the amount of which depends on the level of funds attracted by the financial institutions. The Group earned up to 8.0%, (0.25%) and (0.7%) annual interest in GEL, USD and EUR respectively on mandatory reserves with NBG in 2020 (2019: 9.0%, 1.25% and (0.7%) in GEL, USD and EUR respectively; 2018: 6.0%, 0.8% and (0.6%) in GEL, USD and EUR respectively).

In April 2020 Fitch Ratings has affirmed Georgia's long-term foreign and local-currency issuer default ratings (IDRs) at 'BB'. The outlook was revised to negative from stable. The issue ratings on long-term senior unsecured foreign and local-currency bonds were affirmed at 'BB'. The country ceiling was affirmed at 'BBB-' and the short-term foreign and local-currency IDRs at 'B'.

9. LOANS AND ADVANCES TO CUSTOMERS

in thousands of GEL	2020	2019	2018
Corporate loans	5,690,749	4,660,473	3,177,289
Consumer loans	2,011,585	1,884,006	1,989,516
Mortgage loans	3,942,102	3,169,197	2,709,183
Loans to micro, small and medium enterprises	3,556,084	2,948,279	2,496,594
Total gross loans and advances to customers at AC	**15,200,520**	**12,661,955**	**10,372,582**
Less: credit loss allowance	(606,246)	(312,556)	(334,130)
Total loans and advances to customers at AC	**14,594,274**	**12,349,399**	**10,038,452**

As at 31 December 2020 loans and advances to customers carried at GEL 889,353 thousand have been pledged to local banks or other financial institutions as collateral with respect to other borrowed funds (2019: GEL 474,480 thousand; 2018: GEL 228,454 thousand).

In 2020, the Group has reassessed its definition of segments as disclosed in Note 29. Some of the clients were reallocated to different segments. Comparative information has not been updated due to impracticability. However recent period information per old segmentation is disclosed in Note 29.

The following tables disclose the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting period. Below main movements in the table are described:

- Transfers occur between Stage 1, 2 and 3, due to significant increases (or decreases) of credit risk or exposures becoming defaulted in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL. It should be noted, that:
  - Movement does not include exposures, which were issued and repaid during the period;
  - For loans, which existed at the beginning of the period, opening exposures are disclosed as transfer amounts;
  - For newly issued loans, exposures at the beginning of the period are disclosed as transfer amounts;
  - For the exposures which changed stages multiple times during the period, only transfers between starting and ending stage is disclosed.
- New originated or purchased gives us information regarding gross loans issued and corresponding credit loss allowance created during the period (however, exposures which were issued and repaid during the period and issued to refinance existing loans are excluded);
- Derecognised during the period refers to the balance of loans and credit loss allowance at the beginning of the period, which were repaid during the period. Exposures which were issued and repaid during the period, written off or refinanced by other loans, are excluded;
- Net repayments refers to the net changes in gross carrying amounts, which is loan disbursements less repayments;
- Net write offs refer to write off of loans during the period, and net of written off and recoveries of already written off loans for ECL;

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

- Foreign exchange movements refers to the translation of assets denominated in foreign currencies and effect to translation in presentational currency for foreign subsidiary;
- Net remeasurement due to stage transfers and risk parameters changes refers to the movements in ECL as a result of transfer of exposure between stages or changes in risk parameters and forward looking expectations;
- Resegmentation refers to the transfer of loans from one reporting segment to another.

For presentation purposes, amounts are rounded to the nearest thousands of GEL, which in certain cases is disclosed as nil.

	Gross carrying amount				Credit loss allowance			
Total loans in thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 1 January 2020	**11,551,934**	**757,094**	**352,927**	**12,661,955**	**95,689**	**82,687**	**134,180**	**312,556**
Transfers								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(1,834,720)*	*1,871,883*	*(37,163)*	–	*(10,824)*	*23,099*	*(12,275)*	–
– *to credit-impaired (from Stage 1 and Stage 2 to Stage 3)*	*(456,349)*	*(195,488)*	*651,837*	–	*(53,436)*	*(27,314)*	*80,750*	–
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*116,479*	*(115,394)*	*(1,085)*	–	*15,269*	*(14,677)*	*(592)*	–
New originated or purchased	3,361,543	–	–	3,361,543	110,226	–	–	110,226
Derecognised during the period	(922,671)	(83,851)	(23,487)	(1,030,009)	12,225	789	(13,151)	(137)
Net repayments	(982,755)	(60,770)	(42,984)	(1,086,509)	–	–	–	–
Net Write-offs	–	–	(66,028)	(66,028)	–	–	(44,892)	(44,892)
Net remeasurement due to stage transfers and risk parameters changes	–	–	–	–	(45,959)	70,894	165,031	189,966
Foreign exchange movements	1,042,872	280,445	59,792	1,383,109	7,038	7,437	24,052	38,527
Modifications	(15,774)	(5,793)	(1,974)	(23,541)	–	–	–	–
At 31 December 2020	**11,860,559**	**2,448,126**	**891,835**	**15,200,520**	**130,228**	**142,915**	**333,103**	**606,246**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

	Gross carrying amount				Credit loss allowance			
Total loans in thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 1 January 2019	**9,226,512**	**791,969**	**354,101**	**10,372,582**	**96,812**	**95,784**	**141,534**	**334,130**
Transfers								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(646,985)*	*682,879*	*(35,894)*	–	*(22,811)*	*34,649*	*(11,838)*	–
– *to credit-impaired (from Stage 1 and Stage 2 to Stage 3)*	*(151,728)*	*(138,204)*	*289,932*	–	*(11,259)*	*(24,668)*	*35,927*	–
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*269,543*	*(264,141)*	*(5,402)*	–	*28,411*	*(26,682)*	*(1,729)*	–
New originated or purchased	4,403,046	–	–	4,403,046	72,517	–	–	72,517
Derecognised during the period	(535,371)	(165,034)	(183,020)	(883,425)	(1,331)	(16,526)	(23,859)	(41,716)
Net repayments	(1,293,956)	(177,292)	56,480	(1,414,768)	–	–	–	–
Net Write-offs	–	–	(140,161)	(140,161)	–	–	(106,360)	(106,360)
Net remeasurement due to stage transfers and risk parameters changes	–	–	–	–	(67,845)	19,033	94,975	46,163
Foreign exchange movements	280,873	26,917	16,891	324,681	1,195	1,097	5,530	7,822
At 31 December 2019	**11,551,934**	**757,094**	**352,927**	**12,661,955**	**95,689**	**82,687**	**134,180**	**312,556**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Total loans in thousands of GEL	Gross carrying amount				Credit loss allowance			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 1 January 2018	**7,299,871**	**967,528**	**285,822**	**8,553,221**	**74,539**	**100,571**	**116,484**	**291,594**
Transfers								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(626,292)*	*662,877*	*(36,585)*	–	*(52,145)*	*61,498*	*(9,353)*	–
– *to credit-impaired (from Stage 1 and Stage 2 to Stage 3)*	*(199,046)*	*(191,153)*	*390,199*	–	*(36,294)*	*(27,861)*	*64,155*	–
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*284,679*	*(278,844)*	*(5,835)*	–	*18,610*	*(17,041)*	*(1,569)*	–
New originated or purchased	5,875,598	109	20	5,875,727	111,964	–	–	111,964
Derecognised during the period	(2,676,648)	(279,310)	(125,050)	(3,081,008)	(38,195)	(20,991)	(49,298)	(108,484)
Net repayments	(806,531)	(98,415)	(15,349)	(920,295)	–	–	–	–
Other movements	1,225	–	3,792	5,017	–	–	–	–
Net Write-offs	–	–	(147,996)	(147,996)	–	–	(101,317)	(101,317)
Net remeasurement due to stage transfers and risk parameters changes	–	–	–	–	18,306	(417)	122,332	140,221
Foreign exchange movements	73,656	9,177	5,083	87,916	27	25	100	152
At 31 December 2018	**9,226,512**	**791,969**	**354,101**	**10,372,582**	**96,812**	**95,784**	**141,534**	**334,130**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

	Gross carrying amount				Credit loss allowance			
Corporate loans in thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 1 January 2020	**4,434,685**	**104,409**	**121,379**	**4,660,473**	**39,153**	**1,969**	**39,628**	**80,750**
Transfers								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(750,779)*	*750,779*	–	–	*(7,395)*	*7,395*	–	–
– *to credit-impaired (from Stage 1 and Stage 2 to Stage 3)*	*(57,281)*	*(14,021)*	*71,302*	–	*(1,394)*	*(1,307)*	*2,701*	–
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*20,142*	*(20,142)*	–	–	*227*	*(227)*	–	–
New originated or purchased	854,821	–	–	854,821	14,830	–	–	14,830
Derecognised during the period	(285,949)	(20,839)	(7,919)	(314,707)	(3,328)	(1,915)	(3,800)	(9,043)
Net repayments	(145,390)	16,644	(32,056)	(160,802)	–	–	–	–
Resegmentation	21,785	–	–	21,785	76	–	–	76
Net Write-offs	–	–	(5,380)	(5,380)	–	–	(5,047)	(5,047)
Net remeasurement due to stage transfers and risk parameters changes	–	–	–	–	6,388	1,006	1,641	9,035
Foreign exchange movements	484,641	140,115	14,966	639,722	5,438	1,273	10,329	17,040
Modifications	(2,541)	(1,758)	(864)	(5,163)	–	–	–	–
At 31 December 2020	**4,574,134**	**955,187**	**161,428**	**5,690,749**	**53,995**	**8,194**	**45,452**	**107,641**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Corporate loans in thousands of GEL	Gross carrying amount Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Credit loss allowance Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2019	**2,903,313**	**138,715**	**135,261**	**3,177,289**	**32,940**	**4,994**	**43,571**	**81,505**
Transfers								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(126,154)*	*137,126*	*(10,972)*	–	*(2,876)*	*5,184*	*(2,308)*	–
– *to credit-impaired (from Stage 1 and Stage 2 to Stage 3)*	*(27,531)*	*(5,261)*	*32,792*	–	*(2,914)*	*(192)*	*3,106*	–
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*72,484*	*(71,151)*	*(1,333)*	–	*2,806*	*(2,806)*	–	–
New originated or purchased	1,638,709	–	–	1,638,709	25,355	–	–	25,355
Derecognised during the period	1,988	(31,192)	(13,862)	(43,066)	(2,544)	(1,064)	(9,094)	(12,702)
Net repayments	(186,958)	(70,285)	(27,812)	(285,055)	–	–	–	–
Resegmentation	55,356	711	–	56,067	176	76	–	252
Net Write-offs	–	–	–	–	–	–	630	630
Net remeasurement due to stage transfers and risk parameters changes	–	–	–	–	(14,698)	(4,398)	991	(18,105)
Foreign exchange movements	103,478	5,746	7,305	116,529	908	175	2,732	3,815
At 31 December 2019	**4,434,685**	**104,409**	**121,379**	**4,660,473**	**39,153**	**1,969**	**39,628**	**80,750**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Corporate loans in thousands of GEL	Gross carrying amount Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Credit loss allowance Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2018	**2,041,538**	**325,919**	**107,935**	**2,475,392**	**21,208**	**15,036**	**31,719**	**67,963**
Transfers								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(93,957)*	*100,702*	*(6,745)*	–	*(1,811)*	*2,185*	*(374)*	–
– *to credit-impaired (from Stage 1 and Stage 2 to Stage 3)*	*(3,395)*	*(85,409)*	*88,804*	–	*(32)*	*(8,341)*	*8,373*	–
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*129,019*	*(126,886)*	*(2,133)*	–	*3,908*	*(3,908)*	–	–
New originated or purchased	1,787,999	–	–	1,787,999	22,031	–	–	22,031
Derecognised during the period	(873,776)	(53,958)	(14,720)	(942,454)	(9,217)	(3,140)	(21,293)	(33,650)
Net repayments	(145,691)	(25,028)	(39,857)	(210,576)	–	–	–	–
Other movements	2	–	–	2	–	–	–	–
Resegmentation	36,699	488	–	37,187	283	–	–	283
Net Write-offs	–	–	(321)	(321)	–	–	3,269	3,269
Net remeasurement due to stage transfers and risk parameters changes	–	–	–	–	(3,430)	3,162	21,877	21,609
Foreign exchange movements	24,875	2,887	2,298	30,060	–	–	–	–
At 31 December 2018	**2,903,313**	**138,715**	**135,261**	**3,177,289**	**32,940**	**4,994**	**43,571**	**81,505**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Loans to micro, small and medium enterprises in thousands of GEL	Gross carrying amount Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Credit loss allowance Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2020	**2,650,261**	**204,699**	**93,319**	**2,948,279**	**18,341**	**18,593**	**29,211**	**66,145**
Transfers								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(539,299)*	*546,322*	*(7,023)*	–	*(6,860)*	*8,580*	*(1,720)*	–
– *to credit-impaired (from Stage 1 and Stage 2 to Stage 3)*	*(103,564)*	*(83,981)*	*187,545*	–	*(8,258)*	*(9,097)*	*17,355*	–
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*31,201*	*(30,770)*	*(431)*	–	*3,130*	*(2,954)*	*(176)*	–
New originated or purchased	1,033,189	–	–	1,033,189	23,407	–	–	23,407
Derecognised during the period	(303,253)	(33,879)	(5,525)	(342,657)	(1,314)	(157)	(1,759)	(3,230)
Net repayments	(290,204)	(26,683)	(11,097)	(327,984)	–	–	–	–
Resegmentation	(22,888)	–	–	(22,888)	(76)	–	–	(76)
Net Write-offs	–	–	(15,696)	(15,696)	–	–	(8,623)	(8,623)
Net remeasurement due to stage transfers and risk parameters changes	–	–	–	–	(5,102)	29,155	48,679	72,732
Foreign exchange movements	209,565	57,071	22,183	288,819	1,222	2,733	5,600	9,555
Modifications	(3,222)	(1,432)	(324)	(4,978)	–	–	–	–
At 31 December 2020	**2,661,786**	**631,347**	**262,951**	**3,556,084**	**24,490**	**46,853**	**88,567**	**159,910**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Loans to micro, small and medium enterprises in thousands of GEL	Gross carrying amount				Credit loss allowance			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2019	**2,210,617**	**193,157**	**92,820**	**2,496,594**	**19,273**	**22,379**	**29,362**	**71,014**
Transfers								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(181,576)*	*186,581*	*(5,005)*	–	*(3,097)*	*5,142*	*(2,045)*	–
– *to credit-impaired (from Stage 1 and Stage 2 to Stage 3)*	*(51,354)*	*(42,338)*	*93,692*	–	*(2,568)*	*(6,711)*	*9,279*	–
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*49,093*	*(48,292)*	*(801)*	–	*6,191*	*(5,872)*	*(319)*	–
New originated or purchased	1,312,100	–	–	1,312,100	11,981	–	–	11,981
Derecognised during the period	(354,274)	(47,777)	(48,874)	(450,925)	(2,356)	(2,582)	(6,102)	(11,040)
Net repayments	(333,112)	(42,333)	(14,348)	(389,793)	–	–	–	–
Resegmentation	(55,356)	(786)	–	(56,142)	(176)	(78)	–	(254)
Net Write-offs	–	–	(28,963)	(28,963)	–	–	(12,946)	(12,946)
Net remeasurement due to stage transfers and risk parameters changes	–	–	–	–	(11,134)	6,047	10,948	5,861
Foreign exchange movements	54,123	6,487	4,798	65,408	227	268	1,034	1,529
At 31 December 2019	**2,650,261**	**204,699**	**93,319**	**2,948,279**	**18,341**	**18,593**	**29,211**	**66,145**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Loans to micro, small and medium enterprises in thousands of GEL	Gross carrying amount Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Credit loss allowance Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2018	**1,630,103**	**149,799**	**64,770**	**1,844,672**	**9,894**	**11,890**	**24,468**	**46,252**
Transfers								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(142,901)*	*152,463*	*(9,562)*	–	*(13,479)*	*15,630*	*(2,151)*	–
– *to credit-impaired (from Stage 1 and Stage 2 to Stage 3)*	*(83,887)*	*(21,578)*	*105,465*	–	*(6,489)*	*(2,130)*	*8,619*	–
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*31,601*	*(30,683)*	*(918)*	–	*2,973*	*(2,552)*	*(421)*	–
New originated or purchased	1,360,236	–	–	1,360,236	21,595	–	–	21,595
Derecognised during the period	(528,289)	(61,702)	(49,272)	(639,263)	(4,626)	(2,621)	(3,210)	(10,457)
Net repayments	(146,754)	(20,622)	788	(166,588)	–	–	–	–
Other movements	(21)	6	349	334	–	–	–	–
Resegmentation	75,069	23,747	1,725	100,541	4,615	8,399	1,611	14,625
Net Write-offs	–	–	(22,004)	(22,004)	–	–	(5,664)	(5,664)
Net remeasurement due to stage transfers and risk parameters changes	–	–	–	–	4,781	(6,245)	5,997	4,533
Foreign exchange movements	15,460	1,727	1,479	18,666	9	8	113	130
At 31 December 2018	**2,210,617**	**193,157**	**92,820**	**2,496,594**	**19,273**	**22,379**	**29,362**	**71,014**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Consumer loans in thousands of GEL	Gross carrying amount Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Credit loss allowance Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2020	**1,593,262**	**216,817**	**73,927**	**1,884,006**	**36,724**	**52,439**	**44,793**	**133,956**
Transfers								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(165,248)*	*178,014*	*(12,766)*	–	*(3,846)*	*9,861*	*(6,015)*	–
– *to credit-impaired (from Stage 1 and Stage 2 to Stage 3)*	*(114,928)*	*(58,650)*	*173,578*	–	*(24,678)*	*(14,790)*	*39,468*	–
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*40,086*	*(39,544)*	*(542)*	–	*11,333*	*(10,945)*	*(388)*	–
New originated or purchased	669,973	–	–	669,973	62,912	–	–	62,912
Derecognised during the period	(219,243)	(14,197)	(9,175)	(242,615)	11,426	220	(4,949)	6,697
Net repayments	(287,650)	(19,815)	3,789	(303,676)	–	–	–	–
Resegmentation	831	–	–	831	–	–	–	–
Net Write-offs	–	–	(44,356)	(44,356)	–	–	(31,240)	(31,240)
Net remeasurement due to stage transfers and risk parameters changes	–	–	–	–	(45,618)	29,130	83,373	66,885
Foreign exchange movements	45,457	6,440	4,033	55,930	119	437	2,059	2,615
Modifications	(5,981)	(1,769)	(758)	(8,508)	–	–	–	–
At 31 December 2020	**1,556,559**	**267,296**	**187,730**	**2,011,585**	**48,372**	**66,352**	**127,101**	**241,825**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Consumer loans in thousands of GEL	Gross carrying amount Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Credit loss allowance Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2019	**1,641,978**	**265,687**	**81,851**	**1,989,516**	**42,903**	**59,245**	**54,575**	**156,723**
Transfers								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(166,459)*	*176,428*	*(9,969)*	–	*(16,454)*	*21,029*	*(4,575)*	–
– *to credit-impaired (from Stage 1 and Stage 2 to Stage 3)*	*(60,362)*	*(67,012)*	*127,374*	–	*(5,682)*	*(16,168)*	*21,850*	–
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*81,453*	*(80,023)*	*(1,430)*	–	*16,851*	*(16,013)*	*(838)*	–
New originated or purchased	641,207	–	–	641,207	34,363	–	–	34,363
Derecognised during the period	(101,437)	(39,416)	(125,004)	(265,857)	3,706	(11,085)	(7,972)	(15,351)
Net repayments	(460,554)	(42,061)	109,208	(393,407)	–	–	–	–
Resegmentation	2,583	1,092	572	4,247	15	97	184	296
Net Write-offs	–	–	(110,243)	(110,243)	–	–	(97,652)	(97,652)
Net remeasurement due to stage transfers and risk parameters changes	–	–	–	–	(38,995)	15,212	78,558	54,775
Foreign exchange movements	14,853	2,122	1,568	18,543	17	122	663	802
At 31 December 2019	**1,593,262**	**216,817**	**73,927**	**1,884,006**	**36,724**	**52,439**	**44,793**	**133,956**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Consumer loans in thousands of GEL	Gross carrying amount				Credit loss allowance			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 1 January 2018	**1,788,523**	**301,923**	**72,981**	**2,163,427**	**42,066**	**64,309**	**48,195**	**154,570**
Transfers								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(244,838)*	*253,057*	*(8,219)*	–	*(34,737)*	*38,429*	*(3,692)*	–
– *to credit-impaired (from Stage 1 and Stage 2 to Stage 3)*	*(97,030)*	*(64,020)*	*161,050*	–	*(28,073)*	*(16,142)*	*44,215*	–
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*73,142*	*(71,235)*	*(1,907)*	–	*10,012*	*(9,115)*	*(897)*	–
New originated or purchased	1,359,515	109	20	1,359,644	65,303	–	–	65,303
Derecognised during the period	(794,286)	(96,300)	(52,401)	(942,987)	(23,551)	(13,147)	(23,220)	(59,918)
Net repayments	(339,487)	(34,337)	32,155	(341,669)	–	–	–	–
Other movements	1,033	(77)	1,636	2,592	–	–	–	–
Resegmentation	(109,359)	(24,193)	(1,725)	(135,277)	(4,886)	(8,391)	(1,611)	(14,888)
Net Write-offs	–	–	(122,095)	(122,095)	–	–	(100,885)	(100,885)
Net remeasurement due to stage transfers and risk parameters changes	–	–	–	–	16,760	3,298	92,489	112,547
Foreign exchange movements	4,765	760	356	5,881	9	4	(19)	(6)
At 31 December 2018	**1,641,978**	**265,687**	**81,851**	**1,989,516**	**42,903**	**59,245**	**54,575**	**156,723**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Mortgage loans in thousands of GEL	Gross carrying amount Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Credit loss allowance Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2020	**2,873,726**	**231,169**	**64,302**	**3,169,197**	**1,471**	**9,686**	**20,548**	**31,705**
Transfers								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(379,394)*	*396,768*	*(17,374)*	–	*7,277*	*(2,737)*	*(4,540)*	–
– *to credit-impaired (from Stage 1 and Stage 2 to Stage 3)*	*(180,576)*	*(38,836)*	*219,412*	–	*(19,106)*	*(2,120)*	*21,226*	–
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*25,050*	*(24,938)*	*(112)*	–	*579*	*(551)*	*(28)*	–
New originated or purchased	803,560	–	–	803,560	9,077	–	–	9,077
Derecognised during the period	(114,226)	(14,936)	(868)	(130,030)	5,441	2,641	(2,643)	5,439
Net repayments	(259,511)	(30,916)	(3,620)	(294,047)	–	–	–	–
Resegmentation	272	–	–	272	–	–	–	–
Net Write-offs	–	–	(596)	(596)	–	–	18	18
Net remeasurement due to stage transfers and risk parameters changes	–	–	–	–	(1,627)	11,603	31,338	41,314
Foreign exchange movements	303,209	76,819	18,610	398,638	259	2,994	6,064	9,317
Modifications	(4,030)	(834)	(28)	(4,892)	–	–	–	–
At 31 December 2020	**3,068,080**	**594,296**	**279,726**	**3,942,102**	**3,371**	**21,516**	**71,983**	**96,870**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Mortgage loans in thousands of GEL	Gross carrying amount Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Credit loss allowance Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2019	**2,470,604**	**194,410**	**44,169**	**2,709,183**	**1,696**	**9,166**	**14,026**	**24,888**
Transfers								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(172,796)*	*182,744*	*(9,948)*	–	*(384)*	*3,294*	*(2,910)*	–
– *to credit-impaired (from Stage 1 and Stage 2 to Stage 3)*	*(12,481)*	*(23,593)*	*36,074*	–	*(95)*	*(1,597)*	*1,692*	–
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*66,513*	*(64,675)*	*(1,838)*	–	*2,563*	*(1,991)*	*(572)*	–
New originated or purchased	811,030	–	–	811,030	818	–	–	818
Derecognised during the period	(81,648)	(46,649)	4,720	(123,577)	(137)	(1,795)	(691)	(2,623)
Net repayments	(313,332)	(22,613)	(10,568)	(346,513)	–	–	–	–
Resegmentation	(2,583)	(1,017)	(572)	(4,172)	(15)	(95)	(184)	(294)
Net Write-offs	–	–	(955)	(955)	–	–	3,608	3,608
Net remeasurement due to stage transfers and risk parameters changes	–	–	–	–	(3,018)	2,172	4,478	3,632
Foreign exchange movements	108,419	12,562	3,220	124,201	43	532	1,101	1,676
At 31 December 2019	**2,873,726**	**231,169**	**64,302**	**3,169,197**	**1,471**	**9,686**	**20,548**	**31,705**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Mortgage loans in thousands of GEL	Gross carrying amount Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Credit loss allowance Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2018	**1,839,707**	**189,887**	**40,136**	**2,069,730**	**1,371**	**9,336**	**12,102**	**22,809**
Transfers								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(144,596)*	*156,655*	*(12,059)*	–	*(2,118)*	*5,254*	*(3,136)*	–
– *to credit-impaired (from Stage 1 and Stage 2 to Stage 3)*	*(14,734)*	*(20,146)*	*34,880*	–	*(1,700)*	*(1,248)*	*2,948*	–
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*50,917*	*(50,040)*	*(877)*	–	*1,717*	*(1,466)*	*(251)*	–
New originated or purchased	1,367,848	–	–	1,367,848	3,035	–	–	3,035
Derecognised during the period	(480,297)	(67,350)	(8,657)	(556,304)	(801)	(2,083)	(1,575)	(4,459)
Net repayments	(174,599)	(18,428)	(8,435)	(201,462)	–	–	–	–
Other movements	211	71	1,807	2,089	–	–	–	–
Resegmentation	(2,409)	(42)	–	(2,451)	(12)	(8)	–	(20)
Net Write-offs	–	–	(3,576)	(3,576)	–	–	1,963	1,963
Net remeasurement due to stage transfers and risk parameters changes	–	–	–	–	195	(632)	1,969	1,532
Foreign exchange movements	28,556	3,803	950	33,309	9	13	6	28
At 31 December 2018	**2,470,604**	**194,410**	**44,169**	**2,709,183**	**1,696**	**9,166**	**14,026**	**24,888**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

The credit quality of loans to customers carried at amortised cost is as follows at 31 December 2020:

	31 December 2020			
in thousands of GEL	**Stage 1 (12months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Corporate loans risk category				
– Very low	4,324,191	6,178	–	4,330,369
– Low	248,246	913,832	–	1,162,078
– Moderate	1,697	35,177	–	36,874
– Default	–	–	161,428	161,428
Gross carrying amount	**4,574,134**	**955,187**	**161,428**	**5,690,749**
Credit loss allowance	(53,995)	(8,194)	(45,452)	(107,641)
Carrying amount	**4,520,139**	**946,993**	**115,976**	**5,583,108**
Consumer loans risk category				
– Very low	1,010,723	20,041	–	1,030,764
– Low	453,899	64,950	–	518,849
– Moderate	91,937	159,726	–	251,663
– High	–	22,579	–	22,579
– Default	–	–	187,730	187,730
Gross carrying amount	**1,556,559**	**267,296**	**187,730**	**2,011,585**
Credit loss allowance	(48,372)	(66,352)	(127,101)	(241,825)
Carrying amount	1,508,187	200,944	60,629	1,769,760
Mortgage loans risk category				
– Very low	2,852,661	97,936	–	2,950,597
– Low	186,597	334,579	–	521,176
– Moderate	28,822	154,372	–	183,194
– High	–	7,409	–	7,409
– Default	–	–	279,726	279,726
Gross carrying amount	**3,068,080**	**594,296**	**279,726**	**3,942,102**
Credit loss allowance	(3,371)	(21,516)	(71,983)	(96,870)
Carrying amount	**3,064,709**	**572,780**	**207,743**	**3,845,232**
Loans to MSME risk category				
– Very low	2,252,448	145,445	–	2,397,893
– Low	395,733	348,147	–	743,880
– Moderate	13,605	121,925	–	135,530
– High	–	15,830	–	15,830
– Default	–	–	262,951	262,951
Gross carrying amount	**2,661,786**	**631,347**	**262,951**	**3,556,084**
Credit loss allowance	(24,490)	(46,853)	(88,567)	(159,910)
Carrying amount	**2,637,296**	**584,494**	**174,384**	**3,396,174**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

	31 December 2019			
in thousands of GEL	**Stage 1 (12months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Corporate loans risk category				
– Very low	4,094,403	7,882	–	4,102,285
– Low	339,960	75,872	–	415,832
– Moderate	322	19,827	–	20,149
– High	–	828	–	828
– Default	–	–	121,379	121,379
Gross carrying amount	**4,434,685**	**104,409**	**121,379**	**4,660,473**
Credit loss allowance	(39,153)	(1,969)	(39,628)	(80,750)
Carrying amount	**4,395,532**	**102,440**	**81,751**	**4,579,723**
Consumer loans risk category				
– Very low	1,107,490	5,436	–	1,112,926
– Low	330,361	17,620	–	347,981
– Moderate	155,411	176,815	–	332,226
– High	–	16,946	–	16,946
– Default	–	–	73,927	73,927
Gross carrying amount	**1,593,262**	**216,817**	**73,927**	**1,884,006**
Credit loss allowance	(36,724)	(52,439)	(44,793)	(133,956)
Carrying amount	**1,556,538**	**164,378**	**29,134**	**1,750,050**
Mortgage loans risk category				
– Very low	2,668,691	17,970	–	2,686,661
– Low	182,049	80,289	–	262,338
– Moderate	22,986	121,743	–	144,729
– High	–	11,167	–	11,167
– Default	–	–	64,302	64,302
Gross carrying amount	**2,873,726**	**231,169**	**64,302**	**3,169,197**
Credit loss allowance	(1,471)	(9,686)	(20,548)	(31,705)
Carrying amount	**2,872,255**	**221,483**	**43,754**	**3,137,492**
Loans to MSME risk category				
– Very low	2,223,262	23,114	–	2,246,376
– Low	407,106	87,244	–	494,350
– Moderate	19,893	80,947	–	100,840
– High	–	13,394	–	13,394
– Default	–	–	93,319	93,319
Gross carrying amount	**2,650,261**	**204,699**	**93,319**	**2,948,279**
Credit loss allowance	(18,341)	(18,593)	(29,211)	(66,145)
Carrying amount	**2,631,920**	**186,106**	**64,108**	**2,882,134**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Analysis by credit quality of loans outstanding as at 31 December 2018 is as follows:

	31 December 2018			
in thousands of GEL	**Stage 1 (12months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Corporate loans risk category				
– Very low	2,712,885	6,417	–	2,719,302
– Low	189,086	130,798	–	319,884
– Moderate	1,344	1,238	–	2,582
– High	–	260	–	260
– Default	–	–	135,261	135,261
Gross carrying amount	**2,903,315**	**138,713**	**135,261**	**3,177,289**
Credit loss allowance	(32,940)	(4,994)	(43,571)	(81,505)
Carrying amount	**2,870,375**	**133,719**	**91,690**	**3,095,784**
Consumer loans risk category				
– Very low	1,118,057	3,373	–	1,121,430
– Low	349,406	19,874	–	369,280
– Moderate	174,530	212,707	–	387,237
– High	–	29,719	–	29,719
– Default	–	–	81,850	81,850
Gross carrying amount	**1,641,993**	**265,673**	**81,850**	**1,989,516**
Credit loss allowance	(42,903)	(59,245)	(54,575)	(156,723)
Carrying amount	**1,599,090**	**206,428**	**27,275**	**1,832,793**
Mortgage loans risk category				
– Very low	2,268,634	20,051	–	2,288,685
– Low	177,274	62,060	–	239,334
– Moderate	24,695	104,550	–	129,245
– High	–	7,749	–	7,749
– Default	–	–	44,170	44,170
Gross carrying amount	**2,470,603**	**194,410**	**44,170**	**2,709,183**
Credit loss allowance	(1,697)	(9,165)	(14,026)	(24,888)
Carrying amount	**2,468,906**	**185,245**	**30,144**	**2,684,295**
Loans to MSME risk category				
– Very low	1,865,077	16,285	–	1,881,362
– Low	324,306	72,742	–	397,048
– Moderate	21,342	84,520	–	105,862
– High	–	19,502	–	19,502
– Default	–	–	92,820	92,820
Gross carrying amount	**2,210,725**	**193,049**	**92,820**	**2,496,594**
Credit loss allowance	(19,301)	(22,379)	(29,334)	(71,014)
Carrying amount	**2,191,424**	**170,670**	**63,486**	**2,425,580**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

The contractual amounts outstanding on loans to customers that have been written off partially or fully, but are still subject to enforcement activity was principal amount GEL 48 million (31 December 2019: GEL 110 million), accrued interest GEL 11 million (31 December 2019: GEL 28 million) and accrued off balance sheet penalty GEL 135 million (31 December 2019: GEL 114 million).

In 2020, grace periods were granted to customers due to the COVID-19 pandemic. There were 2 major three-month grace periods offering to eligible customers during 2020. First time the approach was of larger coverage, whereas at later stage holidays were granted to narrower focus groups. Payment holidays did not lead to derecognition of financial assets, but rather resulted in total net modification loss of 41 million during the year, out of which GEL 37.1 million was related to losses incurred on loans and advances to customers, whilst GEL 3.9 million was related to losses incurred on investments in leases, reflecting the decrease in the present value of cash flows resulting from the grace periods granted to the borrowers. Furthermore, the COVID-19 effect led to the creation of an additional ECL charge for 2020. The implication of COVID-19 impact on ECL methodology is described in Note 37.

Economic sector risk concentrations within the customer loan portfolio are as follows:

	31 December 2020		31 December 2019		31 December 2018	
in thousands of GEL	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Individual	5,948,346	39%	5,046,804	40%	4,677,328	45%
Real Estate	1,460,821	10%	1,076,102	8%	564,197	5%
Hospitality Restaurants & Leisure	1,368,887	9%	988,467	8%	759,605	7%
Energy & Utilities	1,078,504	7%	1,089,643	9%	776,204	7%
Food Industry	898,597	6%	785,539	6%	570,810	6%
Other	841,850	6%	704,558	5%	483,672	5%
Trade	708,559	5%	616,475	5%	445,290	4%
Construction	667,904	4%	576,923	5%	359,549	3%
Agriculture	642,024	4%	498,783	4%	418,432	4%
Healthcare	369,645	2%	305,152	2%	220,756	2%
Services	268,982	2%	212,661	2%	180,045	2%
Automotive	263,276	2%	183,912	1%	156,241	2%
Metals and Mining	229,368	2%	99,321	1%	100,855	1%
Pawn Shops	168,571	1%	203,633	2%	278,384	3%
Transportation	159,857	1%	134,223	1%	80,075	1%
Financial Services	78,923	1%	96,430	1%	71,617	1%
Communication	46,406	0%	43,329	0%	229,522	2%
Total gross loans and advances to customers	**15,200,520**	**100%**	**12,661,955**	**100%**	**10,372,582**	**100%**

As of 31 December 2020 the Group had 307 borrowers (2019: 239 borrowers; 2018: 170 borrowers) with aggregated gross loan amounts above GEL 5,000 thousand. The total aggregated amount of these loans was GEL 5,598,041 thousand (2019: GEL 4,443,036 thousand; 2018: GEL 3,054,314 thousand) or 36.8% of the gross loan portfolio (2019: 35.1%; 2018: 29.4%).

The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. There are three key types of collateral:

- Real estate;
- Movable property including fixed assets, inventory and precious metals;
- Financial assets including deposits, shares, and third party guarantees.

The financial effect of collateral is presented by disclosing the collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed the assets' carrying value ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the assets' carrying value ("under-collateralised assets").

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

The effect of collateral as at 31 December 2020:

	31 December 2020			
	Over-collateralised Assets		Under-collateralised Assets	
in thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	4,603,143	9,630,768	1,087,606	477,701
Consumer loans	869,317	2,231,778	1,142,268	20,474
Mortgage loans	3,703,164	7,915,172	238,938	158,292
Loans to micro, small and medium enterprises	3,114,829	7,102,534	441,255	157,047
Total	**12,290,453**	**26,880,252**	**2,910,067**	**813,514**

The effect of collateral as at 31 December 2019:

	31 December 2019			
	Over-collateralised Assets		Under-collateralised Assets	
in thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	3,682,456	8,481,849	978,017	310,419
Consumer loans	950,847	2,232,728	933,159	37,658
Mortgage loans	2,949,426	6,171,802	219,771	107,183
Loans to micro, small and medium enterprises	2,579,002	5,983,285	369,277	164,979
Total	**10,161,731**	**22,869,664**	**2,500,224**	**620,239**

The effect of collateral as at 31 December 2018:

	31 December 2018			
	Over-collateralised Assets		Under-collateralised Assets	
in thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	2,857,207	6,516,492	320,082	47,249
Consumer loans	1,213,594	2,543,720	775,922	34,242
Mortgage loans	2,663,362	5,404,518	45,821	28,934
Loans to micro, small and medium enterprises	2,340,847	5,324,290	155,747	68,110
Total	**9,075,010**	**19,789,020**	**1,297,572**	**178,535**

The effect of collateral bv classes as at 31 December 2020:

	31 December 2020			
	Over-collateralised Assets		Under-collateralised Assets	
in thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Cash Cover	332,438	358,847	12,937	39,109
Gold	115,139	158,008	37,856	37,946
Inventory	753,658	2,149,849	24,536	24,498
Other	137,749	849,249	7,960	20,313
Real Estate	10,697,040	23,217,956	428,092	395,398
Third party guarantees	254,429	146,343	310,272	296,250
Unsecured	-	-	2,088,414	-
Total	**12,290,453**	**26,880,252**	**2,910,067**	**813,514**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

The effect of collateral by classes as at 31 December 2019:

	31 December 2019			
	Over-collateralised Assets		Under-collateralised Assets	
in thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Cash Cover	309,228	333,329	25,299	35,507
Gold	140,627	174,531	49,118	66,943
Inventory	794,209	2,221,293	33,916	33,740
Other	146,762	1,256,843	8,558	11,361
Real Estate	8,435,227	18,547,991	225,511	212,902
Third party guarantees	335,677	335,677	259,786	259,786
Unsecured	-	-	1,898,037	-
Total	**10,161,730**	**22,869,664**	**2,500,225**	**620,239**

The effect of collateral by classes as at 31 December 2018:

	31 December 2018			
	Over-collateralised Assets		Under-collateralised Assets	
in thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Cash Cover	221,107	235,578	35,207	35,207
Gold	219,221	257,706	58,054	58,054
Inventory	1,002,308	2,477,727	14,711	14,718
Other	216,433	1,421,488	17	18
Real Estate	6,826,688	14,807,266	68,327	62,760
Third party guarantees	589,254	589,255	7,778	7,778
Unsecured	-	-	1,113,477	-
Total	**9,075,011**	**19,789,020**	**1,297,571**	**178,535**

The financial effect of collateral is determined by comparing the fair value of collateral to outstanding gross loans and advances in the reporting date.

Stage 3 loans presented by segments and collateral classes as at 31 December 2020 are the following:

	31 December 2020			
in thousands of GEL	Corporate	Consumer	Mortgage	Loans to micro, small and medium enterprises
Cash Cover	21	36	38	47
Gold	-	1,717	-	430
Inventory	15,991	8,909	185	4,250
Other	-	-	-	54
Real Estate	97,824	65,645	273,577	231,925
Third party guarantees	5,013	968	2,308	7,347
Unsecured	42,579	110,455	3,618	18,898
Total	**161,428**	**187,730**	**279,726**	**262,951**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Stage 3 loans presented by segments and collateral classes as at 31 December 2019 are the following:

	31 December 2019			
in thousands of GEL	**Corporate**	**Consumer**	**Mortgage**	**Loans to micro, small and medium enterprises**
Cash Cover	18	89	78	724
Gold	-	1,289	-	400
Inventory	9,675	4,819	13	1,702
Other	1,245	-	-	50
Real Estate	92,652	29,084	61,918	82,511
Third party guarantees	1,633	1,805	1,687	4,531
Unsecured	16,156	36,841	606	3,401
Total	**121,379**	**73,927**	**64,302**	**93,319**

Stage 3 loans presented by segments and collateral classes as at 31 December 2018 are the following:

	31 December 2018			
in thousands of GEL	**Corporate**	**Consumer**	**Mortgage**	**Loans to micro, small and medium enterprises**
Cash Cover	614	20	-	313
Gold	-	1,391	-	18,119
Inventory	8,591	11,974	-	1,556
Other	1,043	-	-	-
Real Estate	114,803	23,738	43,279	60,130
Third party guarantees	1,687	4,457	402	8,842
Unsecured	8,523	40,271	488	3,860
Total	**135,261**	**81,851**	**44,169**	**92,820**

The gross carrying amount of loans by stages that have been modified since initial recognition at a time when the loss allowance was measured at an amount equal to lifetime expected credit losses and for which the loss allowance has changed during the reporting period to an amount equal to 12-month expected credit losses loans are the following:

in thousands of GEL	**2020**	**2019**	**2018**
Stage 1	737,197	119,637	169,545
Stage 2	1,602,759	82,754	62,542
Stage 3	293,205	25,513	67,567
Total	**2,633,161**	**227,904**	**299,654**

At the central level a specific unit manages collateral to ensure that they serve as an adequate mitigation for credit risk management purposes. In line with the Group's internal policies, collateral provided to loans are evaluated by the Internal Appraisal Group (external reviewers are used in case of loans to related parties or specific cases when complex objects are appraised). The Internal Appraisal Group is part of the collateral management unit and, in order to ensure adequate and objective appraisal procedures, it is independent from the loan granting process. Real estate collateral of significant value is re-evaluated annually by internal appraisers. Statistical methods are used to monitor the value of real estate collateral that are of non-significant value and other types of collateral such as movable assets and precious metals.

In some instances, where the discounted recovery from the liquidation of collateral (adjusted for the liquidity haircut and discounted for the period of expected workout time) is larger than the estimated exposure at default, no credit loss allowance is recognised.

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Collateral values include the contractual price of third-party guarantees, which, due to their nature, are capped at the loan's carrying value. The values of third-party guarantees in the tables above amounted to GEL 564,701 thousand, GEL 595,464 thousand and GEL 625,719 thousand as of 31 December 2020, 2019 and 2018, respectively. These third-party guarantees are not taken into consideration when assessing the impairment allowance. Refer to Note 42 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 37. Information on related party balances is disclosed in Note 44. For the year ended 31 December 2020 net (losses)/ gains recognised in profit or loss on modifications of loans with lifetime ECL that did not lead to derecognition was GEL (15,523) thousand (31 December 2019: GEL 844 thousand; 31 December 2018: GEL 196 thousand).

10. INVESTMENT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

in thousands of GEL	**2020**	**2019**	**2018**
Corporate bonds	666,133	611,694	549,477
Ministry of Finance of Georgia treasury bills	839,839	330,096	373,447
Ministry of Finance of Uzbekistan treasury bills	1,951	1,596	–
Certificates of deposit of the National Bank of Georgia	21,687	40,346	14,985
Netherlands government bonds	–	–	66,760
Less: credit loss allowance by stages	(3,258)	(1,438)	(1,136)
Stage 1	(3,258)	(1,438)	(1,136)
Stage 2	–	(2)	–
Stage 3	–	–	–
Total debt securities	**1,526,352**	**982,294**	**1,003,533**
Corporate shares – unquoted	916	2,999	1,706
Total investment securities measured at fair value through other comprehensive income	**1,527,268**	**985,293**	**1,005,239**

All debt securities in 2020 and 2019 except for corporate bonds and Uzbekistan treasury bills are issued by the Government of Georgia and National Bank of Georgia. Country rating for Georgia stands at BB with negative outlook (as assigned by international rating agencies in February 2021). Latest country rating for Uzbekistan stands at BB-. 46.9% of corporate bonds are issued by triple A rated international financial institutions, 17.8% of corporate bonds are issued by A- rated international financial institutions and 30.7% of corporate bond are issued at BB- rating, and 4.6% of corporate bonds are issued by B+ and B- rated corporations. The investees have not published recent financial information about their operations, their shares are not quoted and recent trade prices are not publicly accessible. The Group designated investments in corporate shares disclosed in the above table as equity securities at FVOCI. The FVOCI designation was made because the investments are expected to be held for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term.

As at 31 December 2020 investment securities measured at fair value through other comprehensive income carried at GEL 699,483 thousand have been pledged with local banks or financial institutions as a collateral with respect to other borrowed funds (2019: GEL 696,961 thousand; 2018: GEL 613,466 thousand). Refer to Note 19. As at 31 December 2020 the principal equity investment securities measured at fair value through other comprehensive income are as follows:

in thousands of GEL	**Nature of business**	**Country of registration**	**2020**	**2019**	**2018**
JSC GRDC	Property development	Netherlands Antilles	365	365	365
Georgian Stock Exchange	Stock exchange	Georgia	–	2,111	1,004
Other	Various	Various	551	523	337
Total corporate shares			**916**	**2,999**	**1,706**

10. INVESTMENT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME CONTINUED

The movements in investment securities measured at fair value through other comprehensive income are as follows:

in thousands of GEL	Note	2020	2019	2018
Carrying amount as of 1 January		**985,293**	**1,005,239**	**657,938**
Purchases		763,530	1,781,817	717,630
Disposals		(92,103)	(213,362)	(14,781)
Redemption at maturity		(165,632)	(1,598,534)	(370,571)
Revaluation		17,633	(15,156)	6,949
Interest income accrued	30	103,516	74,043	57,057
Interest income received		(93,493)	(58,539)	(48,442)
Effect of translation to presentation currency		11,825	10,087	596
Transfer to investment in associate		(1,480)	–	–
Change in credit loss allowance		(1,821)	(302)	(1,136)
Carrying amount as of 31 December		**1,527,268**	**985,293**	**1,005,240**

11. BONDS CARRIED AT AMORTISED COST

in thousands of GEL	2020	2019	2018
Ministry of Finance treasury bills	1,062,110	1,023,459	654,618
Government notes	19,335	–	–
Certificates of deposit of National Bank of Uzbekistan	9,405	–	–
Corporate bonds	1,118	1,131	500
Total gross amount of bonds carried at amortised cost	**1,091,968**	**1,024,590**	**655,118**
Less: credit loss allowance by stages	(2,167)	(1,906)	(915)
Stage 1	(2,167)	(1,906)	(915)
Stage 2	–	–	–
Stage 3	–	–	–
Total bonds carried at amortised cost	**1,089,801**	**1,022,684**	**654,203**

All debt securities except for corporate bonds are issued by the Government of Georgia, National Bank of Georgia and National Bank of Uzbekistan. Country rating for Georgia stands at BB with negative outlook (as per international rating agencies in February 2021). Latest country ratings for Uzbekistan stands at BB-.

The movements in bonds carried at amortised cost are as follows:

in thousands of GEL	2020	2019	2018
Carring amount at 1 January	**1,022,684**	**654,203**	**449,538**
Disposals	(195,815)	(27,241)	–
Purchases	668,477	614,000	396,217
Redemption at maturity	(413,038)	(216,667)	(200,658)
Interest income accrual	97,122	58,682	40,625
Interest income received	(89,368)	(59,316)	(30,611)
Effect of translation to presentation currency	–	14	7
Change in credit loss allowance	(261)	(991)	(915)
Carrying amount as of 31 December	**1,089,801**	**1,022,684**	**654,203**

11. BONDS CARRIED AT AMORTISED COST CONTINUED

For the disclosure of bonds' fair value carried at amortised cost refer to Note 42. An analysis on interest rate for bonds carried at amortised cost is disclosed in Note 37.

As at 31 December 2020 bonds carried at amortised cost of GEL 843,303 thousand have been pledged to local banks or financial institutions as collateral with respect to other borrowed funds (2019: GEL 579,142 thousand; 2018: GEL 212,337 thousand). Refer to Note 19.

None of the bonds carried at amortised cost as at 31 December 2020, 2019 and 2018 were either overdue or defaulted.

12. OTHER FINANCIAL ASSETS

in thousands of GEL	**2020**	**2019**	**2018**
Receivables from sales of repossessed assets	19,962	32,844	43,671
Receivables on guarantees / letters of credit	1,943	1,695	36,869
Prepayments for purchase of leasing assets	2,266	3,866	32,293
Insurance and reinsurance receivables	21,831	26,177	21,451
Receivables on credit card services and money transfers	25,227	21,895	14,390
Trade receivable	4,203	4,921	8,292
Rental income receivables	3,243	2,833	3,492
Receivable on terminated leases	23,207	21,837	12,651
Foreign exchange forward contracts	28,915	2,087	1,490
Investment held at fair value through profit or loss	17,239	–	–
Advance to promotional service provider	15,766	14,055	–
Other	48,528	32,395	21,013
Total gross amount of other financial assets	**212,330**	**164,605**	**195,612**
Less: credit loss allowance	(41,028)	(30,869)	(28,094)
Total other financial assets	**171,302**	**133,736**	**167,518**

As at 31 December 2020, 2019 and 2018, presentation of other financial assets gross carrying amount, except insurance and reinsurance receivables and credit loss allowance by IFRS 9 stages is as follows:

12. OTHER FINANCIAL ASSETS CONTINUED

Other financial assets in thousands of GEL	Gross carrying amount Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Credit loss allowance Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2020	**121,889**	**25**	**16,514**	**138,428**	**18,207**	**6**	**12,656**	**30,869**
Transfers								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(751)*	*751*	–	–	*(1)*	*1*	–	–
– *to credit-impaired (from Stage 1 and Stage 2 to Stage 3)*	*(484)*	–	*484*	–	*(4)*	–	*4*	–
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*60*	*(10)*	*(50)*	–	*5*	*(4)*	*(1)*	–
New originated or purchased	141,297	–	–	141,297	10,106	–	–	10,106
Derecognised during the period	(97,574)	(6)	(1,988)	(99,568)	(401)	(1)	(1,848)	(2,250)
Net repayments	7,747	(110)	1,936	9,573	845	(2)	1,204	2,047
Foreign exchange movements	525	(15)	259	769	–	–	–	–
Changes to ECL measurement model assumptions	–	–	–	–	103	–	153	256
At 31 December 2020	**172,709**	**635**	**17,155**	**190,499**	**28,860**	–	**12,168**	**41,028**

Other financial assets in thousands of GEL	Gross carrying amount Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Credit loss allowance Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2019	**126,785**	**74**	**47,302**	**174,161**	**13,144**	**14**	**14,936**	**28,094**
Transfers								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(21)*	*23*	*(2)*	–	*(4)*	*4*	–	–
– *to credit-impaired (from Stage 1 and Stage 2 to Stage 3)*	*(55)*	*(15)*	*70*	–	*(1)*	*(15)*	*16*	–
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*47*	*(47)*	–	–	*4*	*(4)*	–	–
New originated or purchased	106,839	–	–	106,839	21,675	–	–	21,675
Derecognised during the period	(115,851)	(11)	(30,852)	(146,714)	(16,642)	13	(2,255)	(18,884)
Net repayments	4,022	–	355	4,377	–	–	–	–
Net Write-offs	–	–	(1,489)	(1,489)	–	–	(1,489)	(1,489)
Foreign exchange movements	123	1	1,130	1,254	–	–	–	–
Changes to ECL measurement model assumptions	–	–	–	–	31	(6)	1,448	1,473
At 31 December 2019	**121,889**	**25**	**16,514**	**138,428**	**18,207**	**6**	**12,656**	**30,869**

12. OTHER FINANCIAL ASSETS CONTINUED

Other financial assets in thousands of GEL	Gross carrying amount				Credit loss allowance			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 1 January 2018	**115,149**	**174**	**33,099**	**148,422**	**9,895**	**32**	**9,112**	**19,039**
Transfers								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(48)*	*48*	–	–	*(3)*	*3*	–	–
– *to credit-impaired (from Stage 1 and Stage 2 to Stage 3)*	*(5,013)*	*(17)*	*5,030*	–	*(81)*	*(4)*	*85*	–
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*210*	*(86)*	*(124)*	–	*57*	*(20)*	*(37)*	–
New originated or purchased	50,343	13	35,855	86,211	4,439	1	5,596	10,036
Derecognised during the period	(26,787)	(44)	(1,243)	(28,074)	(510)	(6)	(1,342)	(1,858)
Net repayments	(6,070)	(14)	(130)	(6,214)	–	–	–	–
Net Write-offs	–	–	(16,772)	(16,772)	–	–	(6,404)	(6,404)
Foreign exchange movements	(999)	–	(8,413)	(9,412)	–	–	219	219
Changes to ECL measurement model assumptions	–	–	–	–	(653)	8	7,707	7,062
At 31 December 2018	**126,785**	**74**	**47,302**	**174,161**	**13,144**	**14**	**14,936**	**28,094**

The credit quality of Other Financial Assets is as follows at 31 December 2020:

in thousands of GEL	31 December 2020			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime EC for credit impaired)**	**Total**
Other Financial Assets risk category				
– Very low	172,362	–	–	172,362
– Low	261	11	–	272
– Moderate	86	624	–	710
– Default	–	–	17,155	17,155
Gross carrying amount	**172,709**	**635**	**17,155**	**190,499**
Credit loss allowance	(28,860)	–	(12,168)	(41,028)
Carrying amount	**143,849**	**635**	**4,987**	**149,471**

12. OTHER FINANCIAL ASSETS CONTINUED

The credit quality of Other Financial Assets is as follows at 31 December 2019:

	31 December 2019			
in thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Other Financial Assets risk category				
– Very low	121,589	1	–	121,590
– Low	219	1	–	220
– Moderate	81	23	–	104
– Default	–	–	16,514	16,514
Gross carrying amount	**121,889**	**25**	**16,514**	**138,428**
Credit loss allowance	(18,207)	(6)	(12,656)	(30,869)
Carrying amount	**103,682**	**19**	**3,858**	**107,559**

The credit quality of Other Financial Assets is as follows at 31 December 2018:

	31 December 2018			
in thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Other Financial Assets risk category				
– Very low	126,540	18	–	126,558
– Low	238	39	–	277
– Moderate	7	17	–	24
– Default	–	–	47,302	47,302
Gross carrying amount	**126,785**	**74**	**47,302**	**174,161**
Credit loss allowance	(13,144)	(14)	(14,936)	(28,094)
Carrying amount	**113,641**	**60**	**32,366**	**146,067**

Impaired receivables include receivables on terminated leases and other receivables for which credit loss allowance was assessed individually. A receivable's overdue status is a primary factor for the Group to consider a receivable as impaired. Receivables on terminated leases individually determined to be impaired are under-collateralised and their estimated fair value of collateral amounts to nil (2019: GEL 1,531 thousand; 2018: GEL 1,484 thousand). The remaining assets are not collateralised.

13. NET INVESTMENTS IN LEASES

As at 31 December 2020 net investments in leases of GEL 271,660 thousand (2019: GEL 256,660 thousand; 2018: GEL 203,802 thousand) are represented by leases of fixed assets excluding land and buildings. Finance lease payments receivable (gross investment in the leases) and their present values are as follows:

in thousands of GEL	Due in 1 year	Due between 1 and 2 year	Due between 2 and 3 year	Due between 3 and 4 year	Due between 4 and 5 year	Due in 5 year or more	Total
Lease payments receivable as at 2020	134,310	102,136	65,085	31,307	13,922	7,662	354,422
Unearned finance income	(32,917)	(20,745)	(10,904)	(4,656)	(1,712)	(986)	(71,920)
Credit loss allowance	(5,439)	(1,829)	(1,886)	(928)	(425)	(335)	(10,842)
Present value of lease payments receivable as at 31 December 2020	**95,954**	**79,562**	**52,295**	**25,723**	**11,785**	**6,341**	**271,660**
Lease payments receivable as at 2019	147,959	97,959	55,978	25,236	9,333	4,637	341,102
Unearned finance income	(41,969)	(23,467)	(10,470)	(3,914)	(1,089)	(748)	(81,657)
Credit loss allowance	(1,430)	(492)	(475)	(222)	(86)	(80)	(2,785)
Present value of lease payments receivable as at 31 December 2019	**104,560**	**74,000**	**45,033**	**21,100**	**8,158**	**3,809**	**256,660**
Lease payments receivable as at 2018	122,056	76,117	42,651	18,647	7,370	3,838	270,679
Unearned finance income	(32,981)	(18,276)	(8,126)	(3,075)	(1,088)	271	(63,275)
Credit loss allowance	(1,789)	(364)	(681)	(307)	(124)	(337)	(3,602)
Present value of lease payments receivable as at 31 December 2018	**87,286**	**57,477**	**33,844**	**15,265**	**6,158**	**3,772**	**203,802**

For fair values refer to Note 42.

The table below illustrates the movements in the credit loss allowance of net investments in leases:

in thousands of GEL	2020	2019	2018
Credit loss allowance at the beginning of the year	**2,785**	**3,602**	**2,237**
Amounts written off during the year as uncollectible	(341)	(235)	(400)
Credit loss allowance /(reversal of loss allowance) during the year	8,398	(582)	1,765
Credit loss allowance at the end of the year	**10,842**	**2,785**	**3,602**

13. NET INVESTMENTS IN LEASES CONTINUED

The following table discloses the changes in the credit loss allowance and gross carrying amount for net investments in leases between the beginning and the end of the reporting period:

	Gross carrying amount				Credit loss allowance			
in thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
At 1 January 2020	**205,615**	**23,799**	**30,031**	**259,445**	**1,999**	**96**	**690**	**2,785**
Transfers								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	3,315	(2,645)	(670)	-	(592)	592	(0)	(0)
– *to credit-impaired (from Stage 1 and Stage 2 to Stage 3)*	(41,908)	42,491	(193)	390	(121)	(148)	477	208
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	(26,117)	(1,642)	28,035	276	(472)	(23)	647	152
New originated or purchased	89,402	18,654	10,101	118,157	1,967	509	433	2,909
Derecognised during the period	(40,360)	(13,560)	(11,171)	(65,091)	(331)	(63)	(323)	(717)
Net repayments	-	-	-	-	(4)	(4)	(56)	(64)
Foreign exchange movements	6,726	3,405	3,559	13,690	(357)	22	348	13
Other movements	(1,436)	43	136	(1,257)	(83)	59	(4)	(28)
Changes due to change in credit quality	-	-	-	-	1,007	2,417	2,160	5,584
Partial repayment	(23,588)	(9,704)	(9,816)	(43,108)	-	-	-	-
At 31 December 2020	**171,649**	**60,841**	**50,012**	**282,502**	**3,013**	**3,457**	**4,372**	**10,842**

13. NET INVESTMENTS IN LEASES CONTINUED

in thousands of GEL	Gross carrying amount Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Credit loss allowance Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2019	**178,171**	**10,861**	**18,372**	**207,404**	**2,045**	**205**	**1,352**	**3,602**
Transfers								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(5,951)*	*6,598*	*(647)*	–	*(14)*	*14*	–	–
– *to credit-impaired (from Stage 1 and Stage 2 to Stage 3)*	*(22,099)*	*(2,941)*	*25,040*	–	*(27)*	*(65)*	*92*	–
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*4,968*	*(2,972)*	*(1,996)*	–	*1*	*(1)*	–	–
New originated or purchased	138,634	18,663	5,836	163,133	1,319	89	81	1,489
Derecognised during the period	(55,562)	(4,849)	(10,407)	(70,818)	(858)	(154)	(1,536)	(2,548)
Net repayments	–	–	–	–	(467)	8	701	242
Foreign exchange movements	2,622	170	1,022	3,814	–	–	–	–
Other movements	3,660	522	2,259	6,441	–	–	–	–
Partial repayment	(38,828)	(2,253)	(9,448)	(50,529)	–	–	–	–
At 31 December 2019	**205,615**	**23,799**	**30,031**	**259,445**	**1,999**	**96**	**690**	**2,785**

in thousands of GEL	Gross carrying amount Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Credit loss allowance Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 1 January 2018	**128,500**	**11,610**	**5,224**	**145,334**	**864**	**445**	**928**	**2,237**
Transfers								
– *to lifetime (from Stage 1 and Stage 3 to Stage 2)*	*(3,996)*	*4,078*	*(82)*	–	*(9)*	*9*	–	–
– *to credit-impaired (from Stage 1 and Stage 2 to Stage 3)*	*(10,605)*	*(4,533)*	*15,138*	–	*(367)*	*(20)*	*387*	–
– *to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)*	*1,052*	*(1,033)*	*(19)*	–	*357*	*(357)*	–	–
New originated or purchased	120,992	7,208	5,165	133,365	1,350	108	256	1,714
Derecognised during the period	(36,040)	(5,372)	(3,541)	(44,953)	(103)	(81)	(717)	(901)
Net repayments	–	–	–	–	(47)	101	498	552
Foreign exchange movements	1,250	94	289	1,633	–	–	–	–
Other movements	2,003	277	1,085	3,365	–	–	–	–
Partial repayment	(24,985)	(1,468)	(4,887)	(31,340)	–	–	–	–
At 31 December 2018	**178,171**	**10,861**	**18,372**	**207,404**	**2,045**	**205**	**1,352**	**3,602**

13. NET INVESTMENTS IN LEASES CONTINUED

All clients from Covid-19 affected sectors, which is in turn determined by TBC Leasing's credit risk department, using sector forecasts derived by Group's macro economists' team, where these sectors show significant declines, are moved to stage 2 unless obviously they fall in stage 3. Also restructurings that where categorized as good before grace period, are not removed from stage 2 pool because of application of grace period.

As at 31 December 2020, credit quality of net investments in leases is analysed below:

	31 December 2020			
in thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Net investments in leases risk category				
– Very low	153,156	423	–	153,579
– Low	18,493	55,259	–	73,752
– Moderate	–	4,810	–	4,810
– High	–	349	–	349
– Default	–	–	50,012	50,012
Gross carrying amount	**171,649**	**60,841**	**50,012**	**282,502**
Credit loss allowance	(3,013)	(3,457)	(4,372)	(10,842)
Carrying amount	**168,636**	**57,384**	**45,640**	**271,660**

As at 31 December 2019, credit quality of net investments in leases is analysed below:

	31 December 2019			
in thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Net investments in leases risk category				
– Very low	175,468	–	–	175,468
– Low	30,147	13,688	–	43,835
– Moderate	–	6,361	–	6,361
– High	–	3,750	–	3,750
– Default	–	–	30,031	30,031
Gross carrying amount	**205,615**	**23,799**	**30,031**	**259,445**
Credit loss allowance	(1,999)	(96)	(690)	(2,785)
Carrying amount	**203,616**	**23,703**	**29,341**	**256,660**

13. NET INVESTMENTS IN LEASES CONTINUED

As at 31 December 2018, credit quality of net investments in leases is analysed below:

	31 December 2018			
in thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Net investments in leases risk category				
– *Very low*	145,220	–	–	145,220
– *Low*	32,951	2,350	–	35,301
– *Moderate*	–	6,712	–	6,712
– *High*	–	1,799	–	1,799
– *Default*	–	–	18,372	18,372
Gross carrying amount	**178,171**	**10,861**	**18,372**	**207,404**
Credit loss allowance	(2,045)	(205)	(1,352)	(3,602)
Carrying amount	**176,126**	**10,656**	**17,020**	**203,802**

The effect of collateral as at 31 December 2020:

	31 December 2020			
	Over-collateralised Assets		Under-collateralised Assets	
in thousands of GEL	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Investments in leases	219,599	363,753	62,903	51,783
Total	**219,599**	**363,753**	**62,903**	**51,783**

The effect of collateral as at 31 December 2019:

	31 December 2019			
	Over-collateralised Assets		Under-collateralised Assets	
in thousands of GEL	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Investments in leases	228,651	365,934	30,794	22,292
Total	**228,651**	**365,934**	**30,794**	**22,292**

The effect of collateral as at 31 December 2018:

	31 December 2018			
	Over-collateralised Assets		Under-collateralised Assets	
in thousands of GEL	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Investments in leases	166,362	253,582	41,042	34,527
Total	**166,362**	**253,582**	**41,042**	**34,527**

14. OTHER ASSETS

in thousands of GEL	2020	2019	2018
Current other assets			
Repossessed collateral	174,197	152,109	120,663
Prepayments for other assets	41,917	33,664	29,027
Prepayments for purchase of leasing assets	11,450	31,426	–
Other inventories	8,725	6,965	4,198
Prepaid taxes other than income tax	2,412	2,890	856
Total current other assets	**238,701**	**227,054**	**154,744**
Non-current other assets			
Assets repossessed from terminated leases	8,619	6,321	10,819
Prepayments for construction in progress	7,625	10,401	2,259
Reinsurance share in insurance reserves	7,559	6,968	14,529
Prepaid insurance of leasing assets	2,805	2,876	2,174
Assets purchased for leasing purposes	157	190	6,985
Other	1,494	1,902	1,282
Total non-current other assets	**28,259**	**28,658**	**38,048**
Total other assets	**266,960**	**255,712**	**192,792**

Repossessed collateral represents real estate assets acquired by the Group in settlement of overdue loans. The Group expects to dispose of the assets in the foreseeable future. The assets do not meet the definition of non-current assets held for sale and are classified as inventories in accordance with IAS 2 "Inventories". The assets were initially recognised at fair value when acquired. In 2020, collateral repossessed for settlement of impaired loans amounted to GEL 51.0 million (2019: GEL 78.9million; 2018: GEL 30 million).

With regards to certain repossessed collateral, the Group has granted previous owners a right to repurchase the repossessed collateral at prices equal to or higher than the carrying value of the loan at the date of repossession. This right is usually effective for a period of 6 to 24 months from the repossession date, during this time the repossessed collateral may not be disposed to third parties. As at 31 December 2020, the carrying value of the repossessed collateral subjected to the repurchase agreement was GEL 26,309 thousand (2019: GEL 62,578 thousand; 2018: GEL 44,024 thousand).

15. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS

in thousands of GEL	**Land, premises and leasehold improvements***	**Office and other equipment**	**Construc-tion in progress***	**Total premises andequip-ment***	**Intangible assets**	**Total***
Cost or valuation as at 31 December 2017	233,118	191,762	90,455	515,335	123,834	639,169
Accumulated depreciation/amortisation including accumulated impairment loss	(35,194)	(113,228)	–	(148,422)	(40,342)	(188,764)
Carrying amount as of 31 December 2017	**197,924**	**78,534**	**90,455**	**366,913**	**83,492**	**450,405**
Accounting policy change effect on gross amount	(41,091)	-	(1,299)	(42,390)	-	(42,390)
Accounting policy change on accumulated Depreciation	1,128	-	-	1,128	-	1,128
Cost as at 1 January 2018 (as restated)	192,027	191,762	89,156	472,945	123,834	596,779
Accumulated depreciation/amortisation including accumulated impairment loss (as restated)	(34,066)	(113,228)	-	(147,294)	(40,342)	(187,636)
Carrying amount as of 1 January 2018 (as restated)	**157,961**	**78,534**	**89,156**	**325,651**	**83,492**	**409,143**
Additions	8,804	46,619	8,538	63,961	42,525	106,486
Business combination	3,607	301	-	3,908	-	3,908
Transfers within premises and equipment	2,661	-	(2,661)	-	-	-
Transfers from investment property	-	-	1,317	1,317	-	1,317
Transfer to investment property	-	-	(32,628)	(32,628)	-	(32,628)
Disposals	(4,159)	(22,945)	-	(27,104)	(603)	(27,707)
Effect of translation to presentation currency - cost	23	23	-	46	11	57
Effect of translation to presentation currency - accumulated depreciation	(22)	35	-	13	(7)	6
Impairment charge	(474)	(21)	(4)	(499)	-	(499)
Depreciation/amortisation charge	(5,754)	(22,548)	-	(28,302)	(16,257)	(44,559)
Elimination of accumulated depreciation/amortisation on disposals	356	8,783	-	9,139	59	9,198
Carrying amount as of 31 December 2018 (as restated)	**163,003**	**88,781**	**63,718**	**315,502**	**109,220**	**424,722**
Cost as at 31 December 2018 (as restated)	202,542	215,741	63,718	482,001	165,766	647,767
Accumulated depreciation/amortisation including accumulated impairment loss (as restated)	(39,539)	(126,960)	-	(166,499)	(56,546)	(223,045)
Additions	4,359	27,862	24,946	57,167	70,319	127,486
Business combination	1,027	857	-	1,884	4,782	6,666
Transfers within premises and equipment	3,597	36	(3,633)	-	-	-
Transfers from investment property	-	-	1,817	1,817	-	1,817
Transfer to financial leases or repossessed assets	-	(1,439)	-	(1,439)	-	(1,439)
Disposals	(5,571)	(11,805)	(4,641)	(22,017)	(753)	(22,770)
Effect of translation to presentation currency - cost	48	75	-	123	23	146
Effect of translation to presentation currency - accumulated depreciation	(48)	(45)	-	(93)	(25)	(118)
Impairment reversal/(charge)	-	44	(6)	38	-	38
Depreciation/amortisation charge	(5,761)	(22,869)	-	(28,630)	(16,604)	(45,234)
Elimination of accumulated depreciation/amortisation on disposals	1,983	8,393	-	10,376	635	11,011

15. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS CONTINUED

in thousands of GEL	**Land, Premises and leasehold improvements***	**Office and other equipment**	**Construction in progress***	**Total Premise and equipment***	**Intangible assets**	**Total***
Carrying amount as of 31 December 2019 (as restated)	**162,637**	**89,890**	**82,201**	**334,728**	**167,597**	**502,325**
Cost as at 31 December 2019 (as restated)	206,125	232,072	82,201	520,398	240,452	760,850
Accumulated depreciation/amortisation including accumulated impairment loss (as restated)	(43,488)	(142,182)	-	(185,670)	(72,855)	(258,525)
Additions	9,649	38,756	27,020	75,425	97,243	172,668
Transfers	5,365	-	(5,365)	-	-	-
Transfer to right of use assets	(2,842)	(310)	-	(3,152)	-	(3,152)
Disposals	(3,658)	(5,455)	(100)	(9,213)	(263)	(9,476)
Effect of translation to presentation currency - cost	170	169	-	339	48	387
Effect of translation to presentation currency - accumulated depreciation	(155)	(97)	-	(252)	(314)	(566)
Impairment charge	(2,016)	(1,204)	-	(3,220)	(676)	(3,896)
Depreciation/amortisation charge	(5,466)	(22,026)	-	(27,492)	(24,149)	(51,641)
Elimination of accumulated depreciation/amortisation on disposals	458	5,769	-	6,227	37	6,264
Transfer to Inventory	(395)	(39)	-	(434)	-	(434)
Carrying amount as of 31 December 2020	**163,747**	**105,453**	**103,756**	**372,956**	**239,523**	**612,479**
Cost as at 31 December 2020	212,398	263,989	103,756	580,143	336,804	916,947
Accumulated depreciation/amortisation including accumulated impairment loss	(48,651)	(158,536)	-	(207,187)	(97,281)	(304,468)

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

**Office and other equipment include furniture and fixtures, computer and office equipment, motor vehicles as well as other equipment.

The depreciation and amortisation charge presented on the face of the statement of profit or loss and other comprehensive income include depreciation and amortisation charge of premises and equipment, investment properties and intangible assets.

Construction in progress consists of construction and refurbishment of branch premises and the Bank's new headquarters. Upon completion, assets are to be transferred to premises.

16. RIGHT OF USE ASSETS AND LEASE LIABILITIES

The Group leases offices, branches and service centres. Rental contracts are typically made for fixed periods of 1 to 15 years.

Until 31 December 2018 leases of premises were classified as operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Group.

The right of use assets by class of underlying items is analysed as follows:

16. RIGHT OF USE ASSETS AND LEASE LIABILITIES CONTINUED

	2020	2019
in thousands of GEL	**Premises**	**Premises**
Carrying amount at 1 January	**59,693**	**61,043**
Additions of new contracts	-	20,437
Increases in value from substantial changes in contractual terms	11,011	-
Disposals	(955)	(8,476)
Depreciation charge	(15,822)	(13,311)
Carrying amount at 31 December	**53,927**	**59,693**

The lease agreements do not impose any covenants, other than the security interests in the leased assets, that are held by the lessor. Leased assets cannot be used as collateral for borrowings.

Extension and termination options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Expenses relating to short-term leases and to leases of low-value assets that are not classified as short-term leases are included in in administrative and other operating expenses:

in thousands of GEL	2020	2019
Expense relating to short-term leases	6,830	7,388
Expense relating to leases of low-value assets	7,023	6,154

17. INVESTMENT PROPERTIES

in thousands of GEL	Note	2020	2019	2018
Cost as of 1 January		76,521	86,884	83,871
Accumulated depreciation and impairment as of 1 January		(3,854)	(2,588)	(4,639)
Carrying amount as of 1 January		**72,667**	**84,296**	**79,232**
Transfer to premises and equipment	15	–	(1,817)	(1,317)
Transfer from repossessed collateral		10,367	4,914	4,625
Acquisition through business combination		–	–	3,157
Addition from foreclosure		–	47	–
Disposals		(13,012)	(13,507)	(36,080)
Depreciation charge		(929)	(933)	(1,181)
Elimination of depreciation on disposal		159	717	3,232
Impairment charge		(563)	(1,050)	–
Transfer from premises and equipment		–	–	32,628
Cost as of 31 December		73,876	76,521	86,884
Accumulated depreciation and impairment as of 31 December		(5,187)	(3,854)	(2,588)
Carrying amount of Investment properties as of 31 December		**68,689**	**72,667**	**84,296**

17. INVESTMENT PROPERTIES CONTINUED

As of 31 December 2020, investment properties comprised of 58 lots (2019: 63 lots; 2018: 73 lots) of land and 111 buildings (2019: 111 buildings; 2018: 127 buildings) located in Tbilisi and other regions of Georgia with the fair value amounting to GEL 120,959 thousand (2019: GEL 123,325 thousand; 2018: GEL 97,425 thousand).

For disclosure purposes a latest fair valuation exercise was carried out for investment properties as of 31 December 2020. The valuation was carried out by external valuators who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. In the process of comparison, they have used three comparative analogues (registered sale and/or offer for sale), in which prices were applied adjustments based on the difference between subject assets and analogues. The assets have been estimated by using the market approach due to the market situation, particularly based on a sufficient number of registered sales and proposals by the date of valuation.

In thousands of GEL (except for range of inputs)	**Fair value as of 31 December 2020 (valuation date)**	**Valuation technique**	**Unobservable inputs**	**Range of unobservable inputs (weighted average)**
Land	59,171	Sales comparison approach	Price per square meter	0.45 – 6,245 (217)
Buildings	61,788	Sales comparison approach	Price per square meter	8 – 9,502 (1,242)

Sensitivity of the input to fair value – increase/(decrease) in the price per square metre by 20% would result in increase/(decrease) in fair value by GEL 698 thousand/ (GEL 2,113 thousand).

Where the Group is the lessor, the future minimum lease payments receivable under non-cancellable operating leases, were as follows. Future operating lease payments receivable for later than 5 years was nil as at 31 December 2020, 2019 and 2018.

in thousands of GEL	**2020**	**2019**	**2018**
Not later than 1 year	82	207	185
Later than 1 year and not later than 5 years	–	230	–
Total operating lease payments receivable	**82**	**437**	**185**

18. GOODWILL

Movements in goodwill arising on the acquisition of subsidiaries are:

in thousands of GEL	**2020**	**2019**	**2018**
Carrying amount as of 1 January	**61,558**	**31,286**	**28,658**
Acquisition of subsidiaries	–	30,272	2,628
Impairment loss	(1,594)	–	–
Carrying amount as of 31 December	**59,964**	**61,558**	**31,286**

18. GOODWILL CONTINUED

Goodwill Impairment Test

Goodwill is allocated to cash-generating units (CGUs, which represent the lowest level within the Group at which the goodwill is monitored by Management and which are not larger than a segment) as follows:

in thousands of GEL	2020	2019	2018
JSC Bank Republic	**24,166**	**24,166**	**24,166**
– *Bank Republic Retail*	*11,088*	*11,088*	*11,088*
– *Bank Republic Corporate*	*7,491*	*7,491*	*7,491*
– *Bank Republic MSME*	*4,791*	*4,791*	*4,791*
– *Bank Republic Other*	*796*	*796*	*796*
LLC My.ge	15,812	15,812	–
LLC Inspired	14,015	14,015	–
LLC Bonaco	2,567	2,567	2,567
JSC TBC Insurance	1,766	1,766	1,766
CGU Micro	769	769	769
JSC United Financial Corporation	695	695	695
LLC TKT.ge	174	175	–
JSC Swoop	–	61	61
LLC TBC Kredit	–	1,262	1,262
LLC F Solution	–	270	–
Total carrying amount of goodwill	**59,964**	**61,558**	**31,286**

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

The pre-tax discount rate applied to the discounted cash flows of LLC TBC Kredit had been 16.25%, in terms of cash flow projection based on financial budged approved by management, the Group impaired the carrying value of goodwill by 1,262,261 GEL.

The pre-tax discount rate applied to the discounted cash flows of LLC Swoop had been 82.92%, in terms of cash flow projection based on financial budged approved by management, the Group impaired the carrying value of goodwill by 61,000 GEL.

The pre-tax discount rate applied to the discounted cash flows of LLC F Solution had been 62.48%, in terms of cash flow projection based on financial budged approved by management, the Group impaired the carrying value of goodwill by 270,000 GEL.

18. GOODWILL CONTINUED

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

in thousands of GEL	12/31/2020	12/31/2019	12/31/2018
JSC Bank Republic**			
Growth rate beyond five years of free cash flow to equity	5.20% p.a.	4.64% p.a.	5.54% p.a.
Pre-tax discount rate	24.56% p.a.	16.5% p.a.	20.27% p.a.
CGU SME / JSC Bank Constanta			
Growth rate beyond five years of free cash flow to equity	5.20% p.a.	4.64% p.a.	5.54% p.a.
Pre-tax discount rate	19.7% p.a.	10.36% p.a.	13.06% p.a.
JSC United Financial Corporation			
Growth rate beyond five years of free cash flow to equity	5.20% p.a.	4.64% p.a.	5.54% p.a.
Pre-tax discount rate	15.05% p.a.	15.51% p.a.	18.31% p.a.
LLC TBC Kredit			
Growth rate beyond five years of free cash flow to equity	N/A	2.7% p.a.	1.3% p.a.
Pre-tax discount rate	N/A	16.37% p.a.	24.57% p.a.
JSC TBC Insurance			
Growth rate beyond five years of free cash flow to equity	5.20% p.a.	4.64% p.a.	5.54% p.a.
Pre-tax discount rate	26.79% p.a.	17.49% p.a.	18.24% p.a.
LLC Bonaco			
Growth rate beyond five years of free cash flow to equity	5.20% p.a.	4.64% p.a.	N/A
Pre-tax discount rate	11.43% p.a.	10.17% p.a.	N/A
LLC My.ge			
Growth rate beyond five years of free cash flow to equity	5.20% p.a.	4.64% p.a.	N/A
Pre-tax discount rate	17.92% p.a.	17.49% p.a.	N/A
LLC Inspired			
Growth rate beyond five years of free cash flow to equity	5.50% p.a.	5.5% p.a.	N/A
Pre-tax discount rate	15.5% p.a.	21.14% p.a.	N/A

*p.a. means per annum.

*Assumptions related to JSC Bank Republic are similar for all related CGU's.

The management determined the budgeted gross margin based on past performance and its market expectations. The weighted average long term growth rates used are consistent with the forecasts included in the industry reports. The discount rates reflect specific risks related to the relevant CGUs.

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Bank Republic Retail had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of goodwill or carrying value of net assets of the CGU. Recoverable amount of Bank Republic Retail CGU exceeds its carrying amount by GEL 619,250 thousand (2019: GEL 3,068,466 thousand; 2018: GEL 84,111 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 35.49% p.a. (2019: 39.87% p.a.; 2018: 21.77% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Bank Republic Corporate had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of Bank Republic Retail CGU exceeds its carrying amount by GEL 410,824 thousand (2019: GEL 2,316,056 thousand; 2018: GEL 850,072 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 30.87% p.a. (2019: 36.34% p.a.; 2018: 38.86% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Bank Republic MSME had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable

18. GOODWILL CONTINUED

amount of Bank Republic Retail CGU exceeds its carrying amount by GEL 389,641 thousand (2019: GEL 1,210,045 thousand; 2018: GEL 461,500 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 35.87% p.a. (2019: 36.52% p.a.; 2018: 35.83% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Micro/JSC Bank Constanta had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of CGU Micro/JSC Bank Constanta CGU exceeds its carrying amount by GEL 370,815 thousand (2019: GEL 732,567 thousand; 2018: GEL 913,325 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 45.25% p.a. (2019: 29.74% p.a.; 2018: 48.53% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of JSC United Financial Corporation had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of goodwill or carrying value of net assets of the CGU. Recoverable amount of JSC United Financial Corporation CGU exceeds its carrying amount by GEL 23,116 thousand (2019: GEL 8,222 thousand; 2018: GEL 13,458 thousand). The CGUs' carrying amount would equal its value in use at a discount rate of 24.23% p.a. (2019: 19.53% p.a.; 2018: 29.8% p.a.)

If the revised estimated pre-tax discount rate applied to the discounted cash flows of JSC TBC Insurance had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of JSC TBC Insurance CGU exceeds its carrying amount by GEL 31,179 thousand (2019: GEL 142,799 thousand; 2018: 208,095). The CGU's carrying amount would equal its value in use at a discount rate of 53.08%p.a. (2019: 62.29% 2018: 111.71%).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of LLC Bonaco had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of LLC Bonaco CGU exceeds its carrying amount by GEL 116,174 thousand (2019: GEL 500,031 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 25.75% p.a. (2019: 49.45%).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of LLC My.ge had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of LLC My.ge CGU exceeds its carrying amount by GEL 46,079 thousand (2019: GEL 48,629 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 37.86% p.a. (2019: 35.31%).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of LLC Inspired had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of LLC Inspired CGU exceeds its carrying amount by GEL 100,925 thousand (2019: GEL 22,965 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 55.26% p.a. (2019: 37.65%)

19. DUE TO CREDIT INSTITUTIONS

in thousands of GEL	2020	2019	2018
Due to other banks			
Correspondent accounts and overnight placements	43,298	27,747	23,273
Deposits from banks	97,496	139,267	136,161
Total due to other banks	**140,794**	**167,014**	**159,434**
Other borrowed funds			
Borrowings from foreign banks and international financial institutions	2,370,656	2,005,900	2,065,560
Borrowing from Ministry of Finance	–	536	1,520
Borrowings from other financial institutions	58,949	41,456	35,078
Borrowings from other local banks and financial institutions	32,684	62,916	63,332
National Bank of Georgia	1,883,290	1,316,079	706,579
Total other borrowed funds	**4,345,579**	**3,426,887**	**2,872,069**
Total amounts due to credit institutions	**4,486,373**	**3,593,901**	**3,031,503**

As of 31 December 2020 for the purposes of maturity analysis of financial liabilities (Note 37) the above-mentioned loans are included within the amounts for which repayment is expected within 3 months.

20. CUSTOMER ACCOUNTS

in thousands of GEL	2020	2019	2018
State and public organisations			
Current/settlement accounts	504,019	616,397	667,553
Term Deposits	590,426	298,177	538,311
Other legal entities			
Current/settlement accounts	3,490,836	3,151,507	2,791,092
Term deposits	722,710	310,558	251,215
Individuals			
Current/settlement accounts	3,487,017	2,712,910	2,426,597
Term deposits	3,777,720	2,959,775	2,677,374
Total customer accounts	**12,572,728**	**10,049,324**	**9,352,142**

20. CUSTOMER ACCOUNTS CONTINUED

State and public organisations include government owned profit orientated businesses. Economic sector concentrations within customer accounts are as follows:

	31 December 2020		31 December 2019		31 December 2018	
in thousands of GEL	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Individual	7,264,737	58%	5,672,685	56%	5,103,971	55%
Trade	873,995	7%	741,385	7%	550,527	6%
Financial services	709,943	6%	288,860	3%	394,336	4%
Government sector	647,856	5%	505,494	5%	531,964	6%
Construction	610,321	5%	596,703	6%	613,973	7%
Other	590,423	5%	572,017	6%	542,770	5%
Services	526,227	4%	446,876	5%	360,084	4%
Energy & utilities	384,660	3%	322,331	3%	397,653	4%
Transportation	332,850	2%	308,268	3%	422,281	5%
Real estate	323,547	3%	322,416	3%	207,227	2%
Healthcare	131,936	1%	98,294	1%	76,464	1%
Hospitality & leisure	99,770	1%	110,816	1%	102,529	1%
Agriculture	58,005	0%	50,915	1%	35,884	0%
Metals and mining	18,458	0%	12,264	0%	12,479	0%
Total customer accounts	**12,572,728**	**100%**	**10,049,324**	**100%**	**9,352,142**	**100%**

As of 31 December 2020 the Group had 452 customers (2019: 359 customers; 2018: 305 customers) with balances above GEL 3,000 thousand. Their aggregate balance was GEL 5,569,608 thousand (2019: GEL 4,327,035 thousand; 2018: GEL 4,117,881 thousand) or 44% of total customer accounts (2019: 43%; 2018: 44%).

As of 31 December 2020 included in customer accounts are deposits of GEL 4,903 thousand and GEL 94,348 thousand (2019: GEL 9,555 thousand and GEL 101,615 thousand; 2018: GEL 6,766 thousand and GEL 158,306 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees issued, respectively. The latter is discussed in Note 37. As of 31 December 2020, deposits held as collateral for loans to customers amounted to GEL 512,637 thousand (2019: GEL 469,205 thousand; 2018: 270,787 thousand).

Refer to Note 42 for the disclosure of the fair value of each class of customer accounts. Information on related party balances is disclosed in Note 44.

21. DEBT SECURITIES IN ISSUE

in thousands of GEL	Currency	Carrying amount as of 31 December 2020	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Irish Stock Exchange	USD	966,793	6/19/2024	5.8%	6.4%
Bonds issued on Irish Stock Exchange	USD	414,216	10/3/2024	10.8%	11.4%
Private placement	USD	44,467	5/27/2023	8.2%	8.99%
Private placement	USD	32,517	3/19/2023	6.5%	7.1%
Bonds issued on Georgian Stock Exchange	GEL	38,504	3/20/2023	TIBR3M+3.25%	12.5%
Total debt securities in issue		**1,496,497**			

in thousands of GEL	Currency	Carrying amount as of 31 December 2019	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Irish Stock Exchange	USD	371,127	10/3/2024	10.8%	11.4%
Bonds issued on Irish Stock Exchange	USD	842,471	6/19/2024	5.8%	6.4%
Total debt securities in issue		**1,213,598**			

in thousands of GEL	Currency	Carrying amount as of 31 December 2018	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Irish Stock Exchange	USD	7,927	7/22/2019	7.3%	8.1%
Bonds issued on Irish Stock Exchange	USD	5,416	5/16/2019	8.0%	8.7%
Total debt securities in issue		**13,343**			

On 27 May 2020 the TBC Bank Group PLC completed the transaction of USD 15 million 3-year 8.20% senior unsecured bonds issue (the "Notes"). The private placement is direct, unsecured and unsubordinated obligations of the Group.

On 20 March 2020, TBC Leasing with the help of TBC Capital placed senior secured bonds of amount GEL 58.4 million on the Georgian Stock Exchange. The percentage of securities is variable, 3.25% added to the 3-month Tbilisi Interbank Interest rate. Fitch rates the bonds 'BB-'.

On 19 March 2020 the TBC Bank Group PLC completed the transaction of a USD 10 million 3-year 6.45% senior unsecured bonds issue. The private placement is direct, unsecured and unsubordinated obligations of the Group.

On 3 July 2019 the Bank completed the transaction of a debut inaugural USD 125 million 10.75% yield Additional Tier 1 Capital Perpetual Subordinated Notes issue ("AT1 Notes"). The AT1 Notes are listed on the regulated market of Euronext Dublin and are rated B- by Fitch. The AT1 Notes have been simultaneously listed on JSC Georgian Stock Exchange, making it the first dual-listed international offering of additional Tier 1 Capital Notes from Georgia.

On 19 June 2019 the Bank completed the transaction of a debut USD 300 million 5-year 5.75% (6% yield) senior unsecured bonds issue. The Notes are listed on the regulated market of Euronext Dublin and are rated Ba2 by Moody's and BB- by Fitch. The Notes have been simultaneously listed on JSC Georgian Stock Exchange, making it the first dual-listed international offering of senior unsecured Notes from Georgia.

22. PROVISION FOR PERFORMANCE GUARANTEES, CREDIT RELATED COMMITMENTS AND LIABILITIES AND CHARGES

Movements in credit loss allowance for performance guarantees, credit related commitment and liabilities and charges are as follows:

in thousands of GEL	Performance guarantees	Credit related commitments	Other	Total
Carrying amount as of 1 January 2018	**2,751**	**3,578**	**2,894**	**9,223**
Charges less releases recorded in profit or loss	1,640	1,846	6,056	9,542
Effect of translation to presentation currency	2	–	–	2
Carrying amount as of 31 December 2018	**4,393**	**5,424**	**8,950**	**18,767**
Charges less releases recorded in profit or loss	3,069	(913)	3,305	5,461
Utilization of provision	–	–	(1,104)	(1,104)
Effect of translation to presentation currency	4	–	–	4
Carrying amount as of 31 December 2019	**7,466**	**4,511**	**11,151**	**23,128**
Charges less releases recorded in profit or loss	(2,644)	(597)	4,334	1,093
Effect of translation to presentation currency	781	333	–	1,114
Carrying amount as of 31 December 2020	**5,603**	**4,247**	**15,485**	**25,335**

Credit related commitments and performance guarantees: Impairment allowance estimation methods differ for (i) letter of credits and guarantees and (ii) undrawn credit lines.

For letter of credits and guarantees allowance estimation purposes the Group applies the staged approach and classifies them in stage 1, stage 2 or stage 3. Significant stage 3 guarantees are assessed individually. Non-significant stage 3 as well as all stage 1 and stage 2 guarantees and letter of credits are assessed collectively using exposure, marginal probability of conversion, loss given default and discount factor. Amount of the expected allowance differs based on the classification of the facility in the respective stage.

For impairment allowance assessment purposes for undrawn exposures the Group distinguishes between revocable and irrevocable loan commitments. For revocable commitments the Group does not create impairment allowance. As for the irrevocable undisbursed exposures the Group estimates utilization parameter (which represents expected limit utilization percentage conditional on the default event) in order to convert off-balance part of the exposure to on-balance.

Once the respective on balance exposure is estimated, the Group applies the same impairment framework approach as the one used for the respective type of on balance exposures.

Additions less releases recorded in profit or loss for "Other" provisions does not include gross change in total reserves for insurance claims in amount of GEL 1,625 thousand (2019: GEL 2,040 thousand; 2018: GEL 1,486 thousand) that are included in net claims incurred. Additions less releases recorded in profit or loss for provision for impairment of credit related commitments include provision for insurance payables in the amount of GEL 106 thousand (2019: GEL 842 thousand; 2018: GEL 570 thousand), that are included in charges less releases recorded in profit or loss for "Other" provision.

23. OTHER FINANCIAL LIABILITIES

Other financial liabilities comprise the following:

in thousands of GEL	Note	2020	2019	2018
Derivative financial liabilities	41	127,204	20,161	2,119
Trade payables		34,957	23,687	24,270
Liabilities related to co-financing of hotels and restaurants sectors		13,771	315	-
Liabilities to asset and service providers of finance leases		10,851	25,924	21,691
Insurance contract liabilities		8,548	7,613	16,839
Debit or credit card payables		6,408	13,259	19,146
Pre payments related to guarantees		1,152	879	413
Payable to deposit insurance agency		930	549	498
Security deposits for net investments in leases		91	1,171	409
Other accrued liabilities		23,520	20,050	13,329
Total other financial liabilities		**227,432**	**113,608**	**98,714**

Refer to Note 42 for disclosure of the fair value of other financial liabilities.

24. OTHER LIABILITIES

Other liabilities comprise the following:

in thousands of GEL	2020	2019	2018
Accrued employee benefit costs	31,148	42,197	48,393
Taxes payable other than on income	13,162	10,730	19,477
Advances received	10,487	11,260	10,867
Unearned insurance premium	25,852	24,156	17,911
Other	7,193	6,819	7,689
Total other liabilities	**87,842**	**95,162**	**104,337**

All of the above liabilities are expected to be settled within twelve months after the year-end.

25. SUBORDINATED DEBT

As of 31 December 2020, subordinated debt comprised of:

in thousands of GEL	Grant Date	Maturity Date	Currency	Outstanding amount in original currency	Outstanding amount in GEL
KfW	6/10/2014	5/8/2021	GEL	6,161	6,161
KfW	5/4/2015	5/8/2021	GEL	6,737	6,737
Green for Growth Fund	12/18/2015	12/18/2025	USD	15,244	49,950
European Fund for Southeast Europe	12/21/2018	12/21/2028	USD	20,079	65,789
European Fund for Southeast Europe	12/18/2015	12/18/2025	USD	7,633	25,010
European Fund for Southeast Europe	3/15/2016	3/15/2026	USD	7,631	25,004
Private Lenders	6/8/2017	12/19/2024	USD	25,217	82,628
Subordinated Bond (Private lender)	8/31/2018	1/25/2023	USD	10,102	33,098
BlueOrchard Microfinance Fund	12/14/2018	12/14/2025	USD	14,949	48,983
BlueOrchard Microfinance Fund	12/14/2018	12/14/2028	USD	14,941	48,956
Asian Developement Bank	10/18/2016	12/31/2026	USD	50,438	165,266
ResponsAbility SICAV (Lux) Micro and SME Finance Fund	11/30/2018	11/30/2028	USD	5,930	19,430
Micro and SME Finance Leaders	11/30/2018	11/30/2028	USD	1,005	3,292
Global Climate Partnership Fund	11/20/2018	11/20/2028	USD	25,096	82,230
ResponsAbility SICAV (Lux) - Financial Inclusion Fund	11/30/2018	11/30/2028	USD	3,115	10,206
Total subordinated debt					**672,740**

25. SUBORDINATED DEBT CONTINUED

As of 31 December 2019, subordinated debt comprised of:

in thousands of GEL	Grant Date	Maturity Date	Currency	Outstanding amount in original currency	Outstanding amount in GEL
KfW	6/10/2014	5/8/2021	GEL	6,162	6,162
KfW	5/4/2015	5/8/2021	GEL	6,739	6,739
Green for Growth Fund	12/18/2015	12/18/2025	USD	15,305	43,890
European Fund for Southeast Europe	12/18/2015	12/18/2025	USD	7,663	21,975
European Fund for Southeast Europe	3/15/2016	3/15/2026	USD	7,662	21,971
Private Lenders	6/8/2017	12/19/2024	USD	25,218	72,317
Subordinated Bond (Private lender)	8/31/2018	1/25/2023	USD	10,101	28,976
BlueOrchard Microfinance Fund	12/14/2018	12/14/2025	USD	14,924	42,798
BlueOrchard Microfinance Fund	12/14/2018	12/14/2028	USD	14,920	42,786
European Fund for Southeast Europe	12/21/2018	12/21/2028	USD	20,074	57,565
Asian Developement Bank	10/18/2016	12/31/2026	USD	50,585	145,064
ResponsAbility Micro and SME finance fund	11/30/2018	11/30/2028	USD	5,935	17,020
Micro and SME Finance Leaders	11/30/2018	11/30/2028	USD	1,006	2,884
Global Climate Partnership Fund	11/20/2018	11/20/2028	USD	25,089	71,948
ResponsAbility SICAV (Lux) Financial Inclusion Fund	11/30/2018	11/30/2028	USD	3,117	8,940
Total subordinated debt					**591,035**

As of 31 December 2018, subordinated debt comprised of:

in thousands of GEL	Grant Date	Maturity Date	Currency	Outstanding amount in original currency	Outstanding amount in GEL
Deutsche Investitions und Entwicklungsgesellschaft MBH	6/26/2013	6/15/2020	USD	7,509	20,100
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	12/19/2013	4/15/2023	USD	29,213	78,191
KfW	6/10/2014	5/8/2021	GEL	6,161	6,161
KfW	5/4/2015	5/8/2021	GEL	6,737	6,737
Green for Growth Fund	12/18/2015	12/18/2025	USD	15,312	40,983
European Fund for Southeast Europe	12/18/2015	12/18/2025	USD	7,666	20,520
European Fund for Southeast Europe	3/15/2016	3/15/2026	USD	7,665	20,516
Asian Development Bank	10/18/2016	12/31/2026	USD	50,617	135,482
Private lenders	6/30/2017	12/19/2024	USD	25,218	67,497
Subordinated Bond (Private lender)	8/31/2018	1/25/2023	USD	10,109	27,057
Global Climate Partnership Fund	11/20/2018	11/20/2028	USD	25,111	67,211
Micro and SME Finance Leaders	11/30/2018	11/30/2028	USD	1,007	2,695
ResponsAbility SICAV (Lux) Financial Inclusion Fund	11/30/2018	11/30/2028	USD	3,121	8,354
ResponsAbility Micro and SME Finance Fund	11/30/2018	11/30/2028	USD	5,943	15,906
BlueOrchard Microfinance Fund	12/14/2018	12/14/2025	USD	14,916	39,923
BlueOrchard Microfinance Fund	12/14/2018	12/14/2028	USD	14,915	39,923
European Fund for Southeast Europe	12/21/2018	12/21/2028	USD	20,049	53,663
Total subordinated debt					**650,919**

The subordinated debt ranks after all other creditors in case of liquidation.

Refer to Note 42 for the disclosure of the fair value of subordinated debt. Information on related party balances is disclosed in Note 44.

26. SHARE CAPITAL

in thousands of GEL	Number of ordinary shares	Share Capital
As of 1 January 2018	**52,931,867**	**1,605**
Shares issued	618,640	21
Scrip dividend issued	58,762	2
Share exchange	635,060	22
As of 1 January 2019	**54,244,329**	**1,650**
Scrip dividend issued	296,392	10
Shares issued	615,175	22
As of 31 December 2019	**55,155,896**	**1,682**
As of 31 December 2020	**55,155,896**	**1,682**

As of 31 December 2020 the total authorised number of ordinary shares was 55,155,896 shares (31 December 2019: 55,155,896 shares; 31 December 2018: 54,244,329 shares). Each share has a nominal value of one British Penny. All issued ordinary shares are fully paid and entitled to dividends.

Part of the shares are held by employee benefit trust (EBT) for the purpose of future employee share based payments plan. The number of shares held by trust as at 31 December 2020 comprised 778,183 shares (31 December 2019: 595,380 shares). The EBT has waived its rights to receive dividends on such shares.

On 21 March 2019, 615,175 new ordinary shares of TBC Bank Group PLC were admitted to the premium segment of the London Stock Exchange. The Offer Shares were issued pursuant to the terms of the TBC PLC group long term incentive plan and rank pari passu in all respects with TBC PLC's existing ordinary shares.

On 24 June 2019, at the Annual General Meeting, TBC Bank Group PLC's shareholders agreed on a dividend of GEL 1.98 per share, based on the 2018 audited financial statements. The dividend was recorded respectively and on 12 July 2019 shareholders received the payment of the total GEL 91,926 thousands. Scrip dividend shares amounted to 296,392 shares and were issued on 12th of July.

On 21 May 2018, at the Annual General Meeting, TBC Bank Group PLC's shareholders agreed on a dividend of GEL 1.64 per share, based on the 2017 audited financial statements. The dividend was recorded on 24 May 2018 of amount GEL 88,869 thousand and was paid on 22 June 2018 out of which scrip dividend shares amounted to 58,762 shares and were issued on 22th of June.

On 24 April 2018, 635,060 new ordinary shares of TBC Bank Group PLC were admitted to the premium segment of the London Stock Exchange. The Offer Shares were issued pursuant to the terms of a private offer to the holders of the ordinary shares of JSC TBC Bank, who have tendered Bank shares pursuant to the Offer. The holders of Bank shares are individuals who did not participate in the tender offer to holders made in 2016 or 2017 by TBC Bank Group PLC. Holders of Bank shares received one Offer Share for each Bank Share tendered pursuant to the Offer.

On 8 March 2018, 618,640 new ordinary shares of TBC Bank Group PLC were admitted to the premium segment of the London Stock Exchange. The Offer Shares were issued pursuant to the terms of the TBC PLC group long term incentive plan and rank pari passu in all respects with TBC PLC's existing ordinary shares.

27. SHARE BASED PAYMENTS

June 2015 arrangement:

In June 2015, the Bank's Supervisory Board approved new management compensation scheme for the top and middle management and it accordingly authorised the issue of a maximum 3,115,890 new shares. The system was enforced from 2015 through 2018. According to the scheme, each year, subject to predefined performance conditions, a certain number of shares were awarded to the Group's top managers and most of the middle ones. The performance features key performance indicators (KPIs) divided into (i) corporate and (ii) individual. The corporate KPIs are mainly related to achieving profitability, efficiency, and portfolio quality metrics set by the Board as well as non-financial indicators with regards to customers' experience and employees' engagement. The individual performance indicators are set on an individual basis and are used to calculate the number of shares to be awarded to each employee. According to the scheme, members of top management also received the fixed number of shares. Once awarded, all shares carry service conditions and, before those conditions are met, are eligible to dividends; however they cannot be sold or transferred to third parties.

Service conditions foresee continuous employment until the gradual transfer of the full title to the scheme participants is complete. Shares for each of the 2015, 2016, 2017 and 2018 tranche gradually ran over on the second, third and fourth year following the performance appraisal. Eighty percent of the shares are vested in 3 years after being awarded. Under this compensation system the total vesting period extends to March 2022.

In 2015 the Group considered 17 June as the grant date. Based on the management's estimate of reached targets, as of 31 December 2015 1,908,960 shares were granted. The shares were gradually awarded to the members as per the described scheme. At the grant date the fair value amounted to GEL 24.64 per share, as quoted on the London Stock Exchange.

Following the listing on the Premium segment of the London Stock Exchange, the share-based payment scheme remained conceptually the same and was only updated to reflect the Group's new structure, whereby TBC Bank Group PLC distributes its shares to the scheme's participants, instead of JSC TBC Bank. The respective shares' value is recharged to JSC TBC Bank. As a result, the accounting of the scheme did not change in the consolidated financial statements.

The Bank also paid personal income tax on behalf of equity settled scheme beneficiaries, which was accounted as cash settled part.

The share based payment scheme for middle management and other eligible employees continues under existing terms for 2019-2020 except for vesting conditions that changed from 10%, 10%, 80% to 33%, 33%, 34% for the 3 year period.

December 2018 arrangements:

A new compensation system was approved by shareholders at the AGM on 21 May 2018 and came into effect on 1 January 2019 and it covers the period 2019-2021 inclusive. On 28 December 2018, the Board of Directors approved the following details for this new compensation schemes for the top management and the Group considers that as a grant date. All the top management schemes are equity settled and accounted respectively.

Deferred share salary plan

Part of the top management salary is paid with shares with the objective of closely promoting the long-term success of the Group and aligning senior executive directors' and shareholders' interests. Shares are usually delivered during the first quarter of the second year (i.e. the year after the performance year) and the exact date is determined by the Board. 50% of the shares have 1 year deferral period and the remaining 50% is deferred for 2 years from the delivery date. The shares are registered in the trustees name as nominee for the participants and the participants are entitled to receive dividends.

Where applicable, deferred share salary is paid in part under the executive director's service contract with TBC JSC and in part under his service contract with TBC PLC, to reflect the executive director's duties to

27. SHARE BASED PAYMENTS CONTINUED

each. Initial salaries are set and approved by the Supervisory Board and Board of Directors. The Remuneration Committee assists both Boards in compensation related matters and makes respective recommendations. Deferred compensation is subject to the Group's malus and clawback policies until the shares are vested and during the holding period. If at any time after making the deferred compensation there is a material misstatement in the financial results for the year in respect of which the compensation was formally granted, the Remuneration Committee has the right to cause some or all of the deferred compensation for that year or any subsequent financial year that is unvested (or unpaid) to lapse (or not be paid).

The number of shares is calculated based on the average share price of the last 10 days preceding the committee decision date.

Deferred Bonus plan

The annual bonus for the top management is determined as to the extent that the annual KPIs have been met. Shares are usually delivered during the first quarter of the second year (i.e. the year after the performance year): and the exact date is determined by the Board. 50% of the shares have 1 year deferral period and the remaining 50% is deferred for 2 years from the delivery date. The shares are registered in the trustees name as nominee for the participants and the participants are entitled to receive dividends.

Annual KPIs are set by the Remuneration Committee at the beginning of each year in relation to that year and approved by the Board. To the extent that the KPIs are achieved, the Remuneration Committee may recommend to the Board whether an award may be made and the amount of such award. The Group does not pay guaranteed bonuses to executive directors. The nature of the KPIs with their specific weightings and targets is disclosed in the published annual report. Awards are subject to the Group's malus and clawback policies until the shares are vested and during the holding period. If at any time after making the award there is a material misstatement in the financial results for the year in respect of which the award was formally granted, the Remuneration Committee can recommend to the Board that some or all of the award for that year or any subsequent financial year that is unvested (or unpaid) to lapse (or not be paid).

The number of shares is calculated based on the average share price of the last 10 days preceding the committee decision date.

Long Term Incentive Plan (LTIP)

Long term incentive plan is used to provide a strong motivational tool to achieve long term performance conditions and to provide rewards to the extent those performance conditions are achieved. Performance conditions are chosen to align the Group's and the Bank's executive directors' interests with strategic objectives of the Group over multi-year periods and encourage a long-term view. In order for the shares to be delivered, the executive directors need to meet rolling performance conditions over the 3 year performance period.

More details about the LTIP and share based payments are given in Remuneration Committee report.

During 2020 the Executive Directors of TBC Bank Group PLC and Management of JSC TBC Bank has forfeited their rights to deferred share bonuses and long-term incentive plan grants attributable to 2020.The above mentioned decision had no effect on the incentive schemes for 2019 and 2021 years. Decision has been agreed with remuneration committee details of which are given in remuneration report above.

27. SHARE BASED PAYMENTS CONTINUED

Tabular information on the schemes is given below:

	31 December 2020	31 December 2019	31 December 2018
Number of unvested shares at the beginning of the period	**3,141,541**	**2,121,129**	**2,284,773**
Number of shares granted			
Number of shares granted - Deferred salary	–	285,047	–
Number of shares granted - Deferred bonus	–	471,778	–
Number of shares granted - LTIP	–	459,751	–
Number of shares granted - Middle management, subsidiaries' management and other eligible employees	528,325	396,525	–
Number of shares granted	**528,325**	**1,613,101**	**–**
Change in estimates of number of shares expected to be granted**			
Change in estimates for 2019-2021 all awards	–	(57,058)	–
Change in estimates for 2020 award for Deferred salary, 2021 awards for Deferred bonus and LTIP	479,580	–	–
Management forfeiture of rights for 2020 bonus	(428,451)	–	–
Change in estimates of number of shares expected to be granted**	**51,129**	**(57,058)**	**–**
Change in estimate of number of shares expected to vest based on performance conditions - 2019 performance	(71,847)	–	–
Change in estimate of number of shares expected to vest based on performance conditions - 2018 performance	–	(16,501)	–
Change in estimate of number of shares expected to vest based on performance conditions - 2017 performance	–	–	166,377
Number of shares vested:			
2014 year award – 80% vesting	–	–	(227,631)
2015 year award – 80% vesting	–	(405,573)	–
2015 year award – 10% vesting	–	–	(50,697)
2016 year award – 80% vesting	(413,544)	–	–
2016 year award – 10% vesting	–	(51,693)	(51,693)
2017 year award – 10% vesting	(105,527)	(61,864)	–
2018 year award – 10% vesting	(101,259)	–	–
Number of shares vested	**(620,330)**	**(519,130)**	**(330,021)**
Number of unvested shares at the end of the period	**3,028,818**	**3,141,541**	**2,121,129**
Value at grant date per share according to June 2015 scheme (GEL)	25	25	25
Value at grant date per share (GEL) middle management and other eligible employees plan	50	50	–
Value at grant date per share (GEL) Deferred share salary plan	50	50	–
Value at grant date per share (GEL) Deferred bonus plan	50	50	–
Value at grant date per share (GEL) LTIP*	50	50	–
Expense on equity-settled part (GEL thousand)	19,448	33,798	11,668
Expense on cash-settled part (GEL thousand)	(950)	59	8,424
Expense recognised as staff cost during the period (GEL thousand)	**18,498**	**33,857**	**20,092**

*Grant date for LTIP plan has been determined for the first award tranche only, which is planned to be awarded in 2022. For remaining tranches expense is accrued based on estimated fair value during the future grant date.

** The maximum amount is fixed for deferred share compensations for top management, the exact number will be calculated as per policy.

*** Represents shares granted to subsidiaries' management.

27. SHARE BASED PAYMENTS CONTINUED

Liability in respect of the cash-settled part of the award amounted to GEL 2,000 thousand as 31 December 2020 (31 December 2019: GEL 3,160 thousand; 31 December 2018: 11,001). Tax part of the existing bonus system for the top management is accounted under equity settled basis.

Staff costs related to equity settled part of the share based payment schemes are recognised in the income statement on a straight line basis over the vesting period of each relevant tranche and corresponding entry is credited to share based payment reserve in equity.

On 31 December 2020 based on level of achievement of key performance indicators the management has reassessed the number of shares that will have to be issued to the participants of the share based payment system by decreasing estimated number of shares to vest by 71,847 (31 December 2019: decreased estimated number of shares to vest by 16,501).

In 2019 the Group established employee benefit trust (EBT) set up Executive Equity Compensation Trustee – Sanne Fiduciary Services Limited (the “Trustee”) which acts as the trustee of the Group’s share based payments plan. It purchases Group’s shares from the open market and holds them before they are awarded to participants and vesting date is due. The number of shares to be purchased and held are instructed by the Group. The shares are presented as treasury shares under shares held by trust category in the statement of financial position until they are awarded to participants. When award takes place, treasury shares amount are credited with corresponding debit recognized in share based payment reserve. As at 31 December 2020 the share number held by Trustee was 778,183 (31 December 2019: 595,380), which represents 1.4% of total outstanding shares (31 December 2019: 1.1%).

28. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit or loss attributable to the owners of the Group by the weighted average number of ordinary shares in issue during the year.

in thousands of GEL	2020	2019	2018
Profit for the period attributable to the owners of the Bank	317,752	537,895	435,080
Weighted average number of ordinary shares in issue	54,399,669	54,684,038	53,906,472
Basic earnings per ordinary share attributable to the owners of the Group (expressed in GEL per share)	**5.8**	**9.8**	**8.1**

Diluted earnings per share are calculated by dividing the profit or loss attributable to owners of the Group by the weighted average number of ordinary shares adjusted for the effects of all dilutive potential ordinary shares during the year. Ordinary shares with dilutive potential represent those shares, that were granted to the participants of the share based payments scheme and are not yet distributed.

in thousands of GEL	2020	2019	2018
Profit for the period attributable to the owners of the Bank	317,752	537,895	435,080
Weighted average number of ordinary shares in issue adjusted for the effects of all dilutive potential ordinary shares during the period	55,206,050	55,129,444	54,415,642
Diluted earnings per ordinary share attributable to the owners of the Group (expressed in GEL per share)	**5.8**	**9.8**	**8.0**

29. SEGMENT ANALYSIS

The Board of Directors is the chief operating decision maker and it reviews the Group's internal reporting in order to assess the performance and to allocate resources. In 2020 the Group made the re-segmentation after which some of the clients were reallocated to different segments – GEL 127 million of loans and customers amount was transferred from MSME to Corporate segment. While GEL 5 million amounts were transferred from Corporate to MSME segment. In the tables below is disclosed the information as of 31 December 2020 both with and without re-segmentation effect.

The operating segments are determined as follows:

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

The Board of Directors assesses the performance of the operating segments based on a measure of profit before income tax.

The reportable segments are the same as the operating segments.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2020, 2019 or 2018.

The vast majority of the Group's revenues are attributable to Georgia. A geographic analysis of origination of the Group's assets and liabilities is given in Note 37.

Allocation of indirect expenses is performed based on drivers identified for each type of cost if possible. If there is no identifiable driver for any type of expense/overhead cost, those expenses are allocated between segments based on the same logic as applied for the expenses with similar nature (e.g. other operating expenses would follow the pattern of closest category of operating expenses).

Intersegment transfer pricing methodology is internally created tool, which is based on matched maturity logics. It is used to manage liquidity and interest rate risks. Corporate centre borrows monetary amounts (deposits) from business segments, therefore, each of segment is compensated on each deposit based on its currency, duration, type and liquidity requirements. Business segments then borrow money from corporate centre, to fund loans, on which each segment pays agreed price to corporate centre, based on each loans currency, type (fixed or floating), duration, capital requirement.

29. SEGMENT ANALYSIS CONTINUED

Segment disclosure below is prepared with the effect of 2020 re-segmentation as described above.

in thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2020					
– Interest income	462,383	617,124	335,161	253,331	1,667,999
– Interest expense	(203,390)	(184,990)	(12,100)	(453,036)	(853,516)
– Net interest gains on currency swaps	-	–	–	20,950	20,950
– Inter-segment interest (expense)/income	34,455	(59,379)	(125,599)	150,523	–
Net interest income	**293,448**	**372,755**	**197,462**	**(28,232)**	**835,433**
– Fee and commission income	57,197	214,377	26,405	16,198	314,177
– Fee and commission expense	(8,575)	(109,822)	(10,896)	(2,117)	(131,410)
Net fee and commission income	**48,622**	**104,555**	**15,509**	**14,081**	**182,767**
– Insurance profit	–	–	–	19,485	19,485
– Net gains /(loss) from derivatives, foreign currency operations and translation	51,443	31,561	27,187	(12,173)	98,018
– Gains less losses from disposal of investment securities measured at FVOCI	–	–	–	(624)	(624)
– Other operating income	1,856	6,901	429	11,326	20,512
Other operating non-interest income and insurance profit	**53,299**	**38,462**	**27,616**	**18,014**	**137,391**
– Credit loss allowance for loans to customers	(29,089)	(201,652)	(100,070)	–	(330,811)
– Credit loss allowance reversal/(credit loss allowance) for performance guarantees and credit related commitments	3,546	(241)	(67)	–	3,238
– Credit loss allowance for net investments in leases	–	–	–	(8,398)	(8,398)
– Credit loss allowance for other financial assets	(5,600)	(1,476)	–	(6,991)	(14,067)
– Credit loss allowance for financial assets – measured at FVOCI	(875)	–	–	(934)	(1,809)
Operating income/(expense) after expected credit losses	**363,351**	**312,403**	**140,450**	**(12,460)**	**803,744**
Losses from modifications of financial instruments	(6,345)	(23,633)	(7,153)	(3,884)	(41,015)
– Staff costs	(35,580)	(110,988)	(48,631)	(48,844)	(244,043)
– Depreciation and amortisation	(4,296)	(45,256)	(11,187)	(7,653)	(68,392)
– Provision for liabilities and charges	(400)	(2,200)	–	(106)	(2,706)
– Administrative and other operating expenses	(13,649)	(66,987)	(22,186)	(25,660)	(128,482)
Operating expenses	**(53,925)**	**(225,431)**	**(82,004)**	**(82,263)**	**(443,623)**
Profit/(loss) before tax	**303,081**	**63,339**	**51,293**	**(98,607)**	**319,106**
– Income tax (expense)/credit	(18,695)	21,360	3,568	(2,850)	3,383
Profit /(loss) for the year	**284,386**	**84,699**	**54,861**	**(101,457)**	**322,489**
Total gross loans and advances to customers reported	5,690,749	5,953,687	3,556,084	–	15,200,520
Total customer accounts reported	3,939,501	7,255,020	1,378,207	–	12,572,728
Total credit related commitments and performance guarantees	3,125,279	189,288	317,790	–	3,632,357

29. SEGMENT ANALYSIS CONTINUED

For comparison purposes segment disclosure for 2020 below is prepared without the effect of 2020 re-segmentation as described above.

in thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2020					
– Interest income	454,364	617,124	343,180	253,331	1,667,999
– Interest expense	(203,165)	(184,990)	(12,325)	(453,036)	(853,516)
– Net interest gains on currency swaps	-	-	-	20,950	20,950
– Intersegment interest (expense) / income	34,455	(59,379)	(125,599)	150,523	-
Net interest income	**285,654**	**372,755**	**205,256**	**(28,232)**	**835,433**
– Fee and commission income	57,197	214,377	26,405	16,198	314,177
– Fee and commission expense	(8,575)	(109,822)	(10,896)	(2,117)	(131,410)
Net fee and commission income	**48,622**	**104,555**	**15,509**	**14,081**	**182,767**
– Insurance profit	–	–	–	19,485	19,485
– Net gains /(loss) from derivatives, foreign currency operations and translation	51,443	31,561	27,187	(12,173)	98,018
– Gains less losses from disposal of investment securities measured at fair value through other comprehensive income	–	–	–	(624)	(624)
– Other operating income	1,856	6,901	429	11,326	20,512
Other operating non-interest income and insurance profit	**53,299**	**38,462**	**27,616**	**18,014**	**137,391**
– Credit loss allowance for loans to customers	(29,089)	(201,652)	(100,070)	–	(330,811)
– Credit loss allowance reversal/ (credit loss allowance) for performance guarantees and credit related commitments	3,546	(241)	(67)	–	3,238
– Credit loss allowance for net investments in leases	–	–	–	(8,398)	(8,398)
– Credit loss allowance for other financial assets	(5,600)	(1,476)	–	(6,991)	(14,067)
– Credit loss allowance for financial assets measured at fair value through OCI	(875)	–	–	(934)	(1,809)
Operating income/(expense) after expected credit losses	**355,557**	**312,403**	**148,244**	**(12,460)**	**803,744**
Losses from modifications of financial instruments	(6,345)	(23,633)	(7,153)	(3,884)	(41,015)
– Staff costs	(35,580)	(110,988)	(48,631)	(48,844)	(244,043)
– Depreciation and amortisation	(4,296)	(45,256)	(11,187)	(7,653)	(68,392)
– Provision for liabilities and charges	(400)	(2,200)	–	(106)	(2,706)
– Administrative and other operating expenses	(13,649)	(66,987)	(22,186)	(25,660)	(128,482)
Operating expenses	**(53,925)**	**(225,431)**	**(82,004)**	**(82,263)**	**(443,623)**
Profit/(loss) before tax	**295,287**	**63,339**	**59,087**	**(98,607)**	**319,106**
– Income tax (expense)/credit	(18,096)	21,360	2,969	(2,850)	3,383
Profit /(loss) for the year	**277,191**	**84,699**	**62,056**	**(101,457)**	**322,489**
– Total gross loans and advances to customers reported	5,690,749	5,953,687	3,556,084	–	15,200,520
– Total customer accounts reported	3,939,501	7,255,020	1,378,207	–	12,572,728
– Total credit related commitments and performance guarantees	3,125,279	189,288	317,790	–	3,632,357

29. SEGMENT ANALYSIS CONTINUED

Segment disclosure below is prepared without the effect of 2020 re-segmentation as described above.

in thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2019					
– Interest income	356,652	582,788	299,451	197,952	1,436,843
– Interest expense	(160,064)	(152,751)	(10,202)	(340,843)	(663,860)
– Net interest gains on currency swaps	–	–	–	28,556	28,556
– Intersegment interest income/(expense)	31,352	(66,951)	(101,424)	137,023	–
Net interest income	**227,940**	**363,086**	**187,825**	**22,688**	**801,539**
– Fee and commission income	49,338	207,258	26,271	10,564	293,431
– Fee and commission expense	(7,069)	(88,679)	(9,081)	(1,312)	(106,141)
Net fee and commission income	**42,269**	**118,579**	**17,190**	**9,252**	**187,290**
– Insurance profit	–	–	–	18,510	18,510
– Net gains /(loss) from derivatives, foreign currency operations and translation	49,851	30,726	24,220	(3,610)	101,187
– Gains less losses from disposal of investment securities measured at FVOCI	–	–	–	169	169
– Other operating income	2,953	9,563	1,093	5,307	18,916
– Share of profit of associates	–	–	–	632	632
Other operating non-interest income and insurance profit	**52,804**	**40,289**	**25,313**	**21,008**	**139,414**
– Credit loss allowance reversal/(credit loss allowance) for loans to customers	3,261	(77,323)	(7,968)	–	(82,030)
– (Credit loss allowance)/ credit loss allowance reversal for performance guarantees and credit related commitments	(2,691)	411	124	–	(2,156)
– Credit loss allowance reversal for net investments in leases	–	–	–	582	582
– Credit loss allowance reversal/(credit loss allowance) for other financial assets	2,211	(3,545)	(11)	(6,753)	(8,098)
– Credit loss allowance for financial assets measured at FVOCI	(141)	–	–	(149)	(290)
Operating income after expected credit losses	**325,653**	**441,497**	**222,473**	**46,628**	**1,036,251**
– Staff costs	(38,360)	(134,143)	(48,018)	(27,282)	(247,803)
– Depreciation and amortisation	(2,571)	(45,522)	(7,210)	(4,175)	(59,478)
– Provision for liabilities and charges	–	–	–	(1,264)	(1,264)
– Administrative and other operating expenses	(17,127)	(77,563)	(21,094)	(26,397)	(142,181)
Operating expenses	**(58,058)**	**(257,228)**	**(76,322)**	**(59,118)**	**(450,726)**
Profit/(loss) before tax	**267,595**	**184,269**	**146,151**	**(12,490)**	**585,525**
– Income tax (expense)/credit	(29,048)	(18,101)	(14,825)	16,790	(45,184)
Profit for the year	**238,547**	**166,168**	**131,326**	**4,300**	**540,341**
Total gross loans and advances to customers reported	4,660,473	5,053,203	2,948,279	–	12,661,955
Total customer accounts reported	3,187,319	5,673,917	1,188,088	–	10,049,324
Total credit related commitments and performance guarantees	2,451,769	205,433	302,648	–	2,959,850

29. SEGMENT ANALYSIS CONTINUED

Segment disclosure below is prepared without the effect of 2020 re-segmentation as described above.

in thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2018					
– Interest income	264,559	609,989	255,833	153,854	1,284,235
– Interest expense	(133,302)	(123,729)	(9,710)	(239,472)	(506,213)
– Intersegment interest income/(expense)	35,531	(78,453)	(83,475)	126,397	–
– **Net interest income**	**166,788**	**407,807**	**162,648**	**40,779**	**778,022**
– Fee and commission income	40,667	170,082	22,498	2,454	235,701
– Fee and commission expense	(6,661)	(64,270)	(6,861)	(379)	(78,171)
Net fee and commission income	**34,006**	**105,812**	**15,637**	**2,075**	**157,530**
– Insurance profit	–	–	–	12,275	12,275
– Net gains from derivatives, foreign currency operations and translation	44,629	28,588	22,002	11,828	107,047
– Gains less losses from disposal of investment securities measured at fair value through other comprehensive income	–	–	–	2	2
– Other operating income	19,691	8,658	748	2,341	31,438
– Share of profit of associates	–	–	–	1,154	1,154
Other operating non-interest income and insurance profit	**64,320**	**37,246**	**22,750**	**27,600**	**151,916**
– Credit loss allowance for loansto customers	(9,826)	(118,043)	(15,854)	–	(143,723)
– Credit loss allowance for performance guarantees and credit related commitments	(2,827)	(412)	(247)	(570)	(4,056)
– Credit loss allowance for net investments in leases	–	–	–	(1,765)	(1,765)
– Credit loss allowance for other financial assets	(8,634)	(3,959)	(2)	(4,014)	(16,609)
– Credit loss allowance for financial assets measured at fair value through OCI	(95)	–	–	9	(86)
Operating income after expected credit losses	**243,732**	**428,451**	**184,932**	**64,114**	**921,229**
– Staff costs	(30,266)	(128,957)	(43,385)	(17,746)	(220,354)
– Depreciation and amortisation	(2,226)	(36,745)	(4,980)	(1,789)	(45,740)
– Provision for liabilities and charges	–	–	–	(4,000)	(4,000)
– Administrative and other operating expenses	(12,616)	(90,329)	(21,184)	(16,806)	(140,935)
Operating expenses	**(45,108)**	**(256,031)**	**(69,549)**	**(40,341)**	**(411,029)**
Profit before tax	**198,624**	**172,420**	**115,383**	**23,773**	**510,200**
– Income tax expense	(29,907)	(22,898)	(17,250)	(2,710)	(72,765)
Profit for the year	**168,717**	**149,522**	**98,133**	**21,063**	**437,435**
– Total gross loans and advances to customers reported	3,177,289	4,698,699	2,496,594	–	10,372,582
– Total customer accounts reported	3,230,653	5,103,971	1,017,518	–	9,352,142
– Total credit related commitments and performance guarantees	1,578,184	246,639	246,824	–	2,071,647

29. SEGMENT ANALYSIS CONTINUED

in thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2020					
– Fee and commission income	57,197	214,377	26,405	16,198	**314,177**
– Other operating income	1,856	6,901	429	11,326	**20,512**
Total	**59,053**	**221,278**	**26,834**	**27,524**	**334,689**
Timing of revenue recognition:					
– At point in time	59,053	218,986	26,834	27,524	**332,397**
– Over a period of time	–	2,292	–	–	**2,292**

in thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2019					
– Fee and commission income	49,338	207,258	26,271	10,564	**293,431**
– Other operating income	2,952	9,563	1,093	5,308	**18,916**
Total	**52,290**	**216,821**	**27,364**	**15,872**	**312,347**
Timing of revenue recognition:					
– At point in time	52,262	215,341	27,359	15,872	**310,834**
– Over a period of time	28	1,480	5	–	**1,513**

in thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2018					
– Fee and commission income	40,667	170,082	22,498	2,454	**235,701**
– Other operating income	19,691	8,658	748	2,341	**31,438**
Total	**60,358**	**178,740**	**23,246**	**4,795**	**267,139**
Timing of revenue recognition:					
– At point in time	56,397	160,555	22,950	4,790	**244,692**
– Over a period of time	3,961	18,185	296	5	**22,447**

29. SEGMENT ANALYSIS CONTINUED

Reportable segments' assets were reconciled to total assets as follows:

in thousands of GEL	31 December 2020	31 December 2019	31 December 2018
Total segment assets (gross loans and advances to customers)	15,200,520	12,661,955	10,372,582
Credit loss allowance on gross loans and advances to customers	(606,246)	(312,556)	(334,130)
Cash and cash equivalents	1,635,405	1,003,583	1,166,911
Mandatory cash balances with National Bank of Georgia	2,098,506	1,591,829	1,422,809
Due from other banks	50,805	33,605	47,316
Investment securities measured at fair value through other comprehensive income	1,527,268	985,293	1,005,239
Bonds carried at amortised cost	1,089,801	1,022,684	654,203
Current income tax prepayment	69,888	25,695	2,116
Deferred income tax asset	2,787	2,173	2,097
Other financial assets	171,302	133,736	167,518
Net investments in leases	271,660	256,660	203,802
Other assets	266,960	255,712	192,792
Premises and equipment	372,956	334,728	315,502
Intangible assets	239,523	167,597	109,220
Investment properties	68,689	72,667	84,296
Goodwill	59,964	61,558	31,286
Right of use assets	53,927	59,693	–
Investments in associates	4,090	2,654	2,432
Total assets per statement of financial position	**22,577,805**	**18,359,266**	**15,445,991**

29. SEGMENT ANALYSIS CONTINUED

Reportable segments' liabilities are reconciled to total liabilities as follows:

in thousands of GEL	31 December 2020	31 December 2019	31 December 2018
Total segment liabilities (customer accounts)	12,572,728	10,049,324	9,352,142
Due to credit institutions	4,486,373	3,593,901	3,031,503
Debt securities in issue	1,496,497	1,213,598	13,343
Current income tax liability	853	1,634	63
Deferred income tax liability	13,088	18,888	19,793
Provisions for liabilities and charges	25,335	23,128	18,767
Other financial liabilities	227,432	113,608	98,714
Other liabilities	87,842	95,162	104,337
Subordinated debt	672,740	591,035	650,919
Lease Liabilities	58,983	59,898	–
Total liabilities per statement of financial position	**19,641,871**	**15,760,176**	**13,289,581**

30. INTEREST INCOME AND EXPENSE

in thousands of GEL	2020	2019	2018
Interest income calculated using effective interest method			
Loans and advances to customers	1,394,033	1,225,196	1,123,972
Bonds carried at amortised cost	97,122	58,682	40,625
Investment securities measured at fair value through OCI	103,516	74,043	57,057
Due from other banks	18,590	29,570	23,744
Other financial assets	1,655	1,418	–
Other interest income			
Investments in leases	53,083	47,934	38,837
Total interest income	**1,667,999**	**1,436,843**	**1,284,235**
Interest expense			
Customer accounts	(397,542)	(320,350)	(266,741)
Due to credit institutions	(289,369)	(226,899)	(196,498)
Subordinated debt	(55,716)	(63,693)	(41,571)
Debt securities in issue	(107,929)	(50,248)	(1,403)
Other interest expense			
Lease Liabilities	(2,960)	(2,670)	–
Total interest expense	**(853,516)**	**(663,860)**	**(506,213)**
Net interest gains on currency swaps	20,950	28,556	–
Net interest income	**835,433**	**801,539**	**778,022**

During 2020 interest accrued on defaulted loans amounted to GEL 69,285 thousand (2019: GEL 14,372 thousand; 2018: GEL 41,373 thousand).

During 2020 capitalized interest expense in the amount of GEL 1,403 thousand (2019: nil, 2018: nil), was attributable to the development of the Group's headquarters. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is weighted average of interest bearing liabilities by currencies: 7.7% in GEL, 3.6% in USD and 1.1% in EUR. (2019: nil, 2018: nil)

In 2019, the Group entered into swap agreements denominated in foreign currencies in order to decrease its cost of funding. As the contracts reached significant volume, the Group revisited the presentation of effects in the consolidated statement of profit or loss and presented respective interest effect within net interest income. 2018 information has not been restated due to immateriality of amounts.

31. FEE AND COMMISSION INCOME AND EXPENSE

In thousands of GEL	2020	2019	2018
Fee and commission income in respect of financial instruments not at fair value through profit or loss:			
– Card operations	146,796	138,620	106,067
– Settlement transactions	99,395	86,967	70,720
– Guarantees issued	35,761	28,701	19,815
– Cash transactions	8,305	13,211	17,147
– Issuance of letters of credit	6,200	5,215	6,463
– Foreign exchange operations	1,978	2,841	2,183
– Other	15,742	17,876	13,306
Total fee and commission income	**314,177**	**293,431**	**235,701**
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:			
– Card operations	101,649	82,583	55,893
– Settlement transactions	13,111	13,739	8,669
– Cash transactions	6,454	4,732	5,180
– Guarantees and letters of credit received	4,052	3,627	2,863
– Other	6,144	1,460	5,566
Total fee and commission expense	**131,410**	**106,141**	**78,171**
Net fee and commission income	**182,767**	**187,290**	**157,530**

32. OTHER OPERATING INCOME

in thousands of GEL	2020	2019	2018
Gain from sale of investment properties	1,003	938	9,781
Revenues from operational leasing	3,172	3,046	6,544
Gain from sale of repossessed collateral	1,568	2,755	2,577
Revenues from sale of cash-in terminals	477	926	1,715
Revenues from non-credit related fines	236	344	683
Gain on disposal of premises and equipment	594	2,440	352
Revenues from e-commerce	6,604	–	–
Other	6,858	8,467	9,786
Total other operating income	**20,512**	**18,916**	**31,438**

Revenue from operational leasing is wholly attributable to investment properties. The carrying value of the repossessed collateral disposed in the year ended 31 December 2020 was GEL 22,423 thousand (2019: GEL 32,306 thousand; 2018: GEL 33,295 thousand).

33. STAFF COSTS

in thousands of GEL	2020	2019	2018
Salaries and bonuses	215,680	201,344	190,304
Share based compensation	18,498	33,857	20,092
Other compensation cost	9,865	12,602	9,958
Salaries and other employee benefits	**244,043**	**247,803**	**220,354**

Share based compensation represents remuneration paid in shares and is excluded as non-cash in the consolidated statement of cash flows. On the other hand, acquisition of treasury shares for share based payment scheme is included as financing activity in the consolidated statement of cash flows.

33. STAFF COSTS CONTINUED

Breakdown of monthly average number of employees by categories is as follows:

in thousands of GEL	2020	2019	2018
Headquarters*	3,228	2,924	2,837
Branches*	3,600	3,638	3,824
Other administrative staff **	1,123	700	509

* Under monthly average number of employees in headquarters and branches employees in JSC TBC Bank, JSC TBC Insurance, TBC Bank Uzbekistan and LLC TBC Kredit's are considered.

** Employees from other subsidiaries are considered under other administrative staff.

In 2020 monthly average number of employees in TBC PLC was 10 individuals (2019: 10; 2018: 10).

34. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

in thousands of GEL	2020	2019	2018
Advertising and marketing services	21,260	22,634	29,575
Professional services	19,649	25,865	13,951
Intangible asset maintenance	15,677	12,885	11,366
Rent*	13,853	13,541	24,389
Taxes other than on income	8,764	6,962	6,757
Utilities services	6,596	6,874	6,491
Premises and equipment maintenance	6,475	9,828	6,098
Communications and supply	6,059	5,960	5,173
Stationery and other office expenses	5,841	5,167	4,841
Security services	1,872	2,035	2,040
Transportation and vehicle maintenance	1,732	2,140	2,043
Insurance	1,706	1,660	4,589
Personnel training and recruitment	1,632	3,120	1,880
Charity	1,530	1,990	1,074
Business trip expenses	720	2,612	2,273
Impairment of intangible assets	676	–	1
Loss on disposal of repossessed collateral	181	1,310	137
Loss on disposal of premises and equipment	148	938	860
Write down of other assets to fair value less cost to sell	524	2,545	567
Reversal of previously written-down other assets to fair value less costs to sell	(525)	(815)	(1,593)
Other	14,112	14,930	18,423
Total administrative and other operating expenses	**128,482**	**142,181**	**140,935**

*2020 and 2019 information within occupancy and rent is reported under IFRS 16 and is not comparable with information presented for 2018 which is reported under IAS 17.

Auditors' remuneration is included within professional services expenses above and comprises:

in thousands of GEL	Audit	Audit Related	Other Services	Total
31 December 2020				
Fees payable to the company's auditors and its associates for the audit of parent company and consolidated financial statements	2,175	–	–	2,175
Audit of the financial statements of the company's subsidiaries	138	–	–	138
Audit-related assurance services	–	334	–	334
Other assurance services	–	–	26	26
Total auditors' remuneration	**2,313**	**334**	**26**	**2,673**

34. ADMINISTRATIVE AND OTHER OPERATING EXPENSES CONTINUED

in thousands of GEL	Audit	Audit Related	Other Services	Total
31 December 2029				
Fees payable to the company's auditors and its associates for the audit of parent company and consolidated financial statements	1,427	–	–	1,427
Audit of the financial statements of the company's subsidiaries	248	–	–	248
Audit-related assurance services	–	561	–	561
Other assurance services	–	–	864	864
Total auditors' remuneration	**1,675**	**561**	**864**	**3,100**

in thousands of GEL	Audit	Audit Related	Other Services	Total
31 December 2018				
Fees payable to the company's auditors and its associates for the audit of parent company and consolidated financial statements	1,894	–	–	1,894
Audit of the financial statements of the company's subsidiaries	241	–	–	241
Audit-related assurance services	–	310	–	310
Other assurance services	–	–	97	97
Total auditors' remuneration	**2,135**	**310**	**97**	**2,542**

Fees presented in the tables above are exclusive of taxes. For the year ended 31 December 2019, GEL 1,125 thousands (included in the table above in other assurance services and audit related assurance services) is attributable to reporting accountant fees related to listing of debt securities on the Irish Stock Exchange.

35. INCOME TAXES

Income tax (credit)/expenses comprise of the following:

in thousands of GEL	2020	2019	2018
Current tax charge	3,022	46,166	52,914
Deferred tax (credit)/charge	(6,405)	(982)	19,851
Total Income tax (credit)/expense for the year	**(3,383)**	**45,184**	**72,765**

The income tax rate applicable to the majority of the Group's income was 15% (2019: 15%; 2018: 15%). The income tax rate applicable to the majority of subsidiaries income ranged from 15% to 20% (2019: 15% - 20%; 2018: 15% - 20%).

Reconciliation between the expected and the actual taxation (credit)/expense is provided below.

in thousands of GEL	2020	2019	2018
Statutory rate	**15% – 20%**	**15% – 20%**	**15% – 20%**
Profit before tax	**319,106**	**585,525**	**510,200**
Theoretical tax charge at statutory rate	46,327	87,829	76,500
Tax effect of items which are not deductible or assessable for taxation purposes:			
– Income which is exempt from taxation	(21,295)	(19,318)	(16,869)
– Nondeductible expenses	(2,322)	(2,083)	(746)
– Expected effects of change in tax legislation	(23,226)	(20,757)	13,833
– Other differences	(2,867)	(487)	47
Total Income tax (credit)/expense for the year	**(3,383)**	**45,184**	**72,765**

35. INCOME TAXES CONTINUED

Differences between IFRS as adopted by the EU and statutory taxation regulations in Georgia and Azerbaijan give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 15% (2019: 15%; 2018: 15%) for Georgia and 20% for Azerbaijan and United Kingdom (2019: 20%; 2018: 20%).

Income which is exempt from taxation includes interest income from placements in NBG, Georgian government Treasury bills and IFI securities. Revaluation of investment securities held at FVOCI does not result in recognition of deferred tax assets/liabilities (since majority of securities are either tax exempt or are not supposed to be sold before Estonian model transition date discussed below) and its tax effect is not recognised in OCI. Non-deductible expenses include penalties paid and charity expenses towards beneficiary which are not registered charity organizations.

On 13 May 2016 the Government of Georgia enacted the changes in the Tax Code of Georgia effective from 1 January 2019, for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops and from 1 January 2017 for other entities. However, during 2018 Georgian Government changed transition date to 1 January 2023 for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops.The new code impacts the recognition and measurement principles of the Group's income tax and it also affects the Group's deferred income tax assets/liabilities. Companies do not have to pay income tax on their profit before tax (earned since 1 January 2017 or 1 January 2023 for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops) until that profit is distributed in a form of dividend or other forms of profit distributions. Once dividend is paid, 15% income tax is payable at the moment of the dividend payment, regardless of whether in monetary or non-monetary form, to the foreign non-resident legal entities and foreign and domestic individuals. The dividends paid out to the resident legal entities are tax exempted. Apart from dividends' distribution, the tax is still payable on expenses or other payments incurred not related to economic activities, free delivery of goods/services and/or transfer of funds and representation costs that exceed the maximum amount determined by the Income Tax Code of Georgia, in the same month they are incurred.

Deferred tax assets/liabilities are re-measured to the amounts that are estimated to be utilized in the period from 1 January 2020 to 31 December 2022.

in thousands of GEL	**1 January 2020**	**Credited/ (charged) to profit or loss**	**31 December 2020**
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards			
Premises and equipment	(11,372)	8,019	(3,344)
Loans and advances to customers	(8,822)	(9,795)	(18,617)
Other financial assets	4,721	(2,119)	2,602
Other assets	–	15	15
Due to credit institutions	(2,487)	803	(1,684)
Other financial liabilities	792	(1,712)	(920)
Other liabilities	(1,800)	(813)	(2,613)
Share based payment	2,253	(885)	1,368
Tax loss carried forward	–	12,892	12,892
Net deferred tax (liability)/asset	**(16,715)**	**6,405**	**(10,301)**
Recognised deferred tax asset	2,173	614	2,787
Recognised deferred tax liability	(18,888)	5,791	(13,088)
Net deferred tax (liability)/asset	**(16,715)**	**6,405**	**(10,301)**

35. INCOME TAXES CONTINUED

in thousands of GEL	1 January 2019	Credited/ (charged) to profit or loss	31 December 2019*
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards			
Premises and equipment	(20,758)	9,386	(11,372)
Loan and advances to customers	2,866	(11,688)	(8,822)
Other financial assets	2,421	2,300	4,721
Due to credit institutions	(3,641)	1,154	(2,487)
Subordinated debt	(70)	70	–
Other financial liabilities	(41)	833	792
Other liabilities	864	(2,664)	(1,800)
Share based payment	663	1,590	2,253
Net deferred tax (liability)/asset	**(17,696)**	**981**	**(16,715)**
Recognised deferred tax asset	2,097	76	2,173
Recognised deferred tax liability	(19,793)	905	(18,888)
Net deferred tax (liability)/asset	**(17,696)**	**981**	**(16,715)**

in thousands of GEL	1 January 2018	Credited/ (charged) to profit or loss	31 December 2018*
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards			
Premises and equipment	(4,289)	(16,460)	(20,749)
Loan and advances to customers	2,401	417	2,866
Other financial assets	2,266	301	2,421
Other assets	29	(29)	–
Investment property	(342)	342	–
Due to credit institutions	(816)	(2,825)	(3,641)
Subordinated debt	(23)	(47)	(70)
Other financial liabilities	(72)	31	(41)
Other liabilities	1,651	(787)	864
Share based payment	1,486	(823)	663
Tax loss carried forward	(29)	29	–
Net deferred tax asset/(liability)	**2,262**	**(19,851)**	**(17,687)**
Recognised deferred tax asset	2,855	(659)	2,097
Recognised deferred tax liability	(593)	(19,192)	(19,793)
Net deferred tax asset/(liability)	**2,262**	**(19,851)**	**(17,687)**

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

In the context of the Group's current structure and Georgian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

36. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below sets out movements in the Group's liabilities from financing activities for each of the periods presented. The items of these liabilities are those that are reported as financing activities in the statement of cash flows.

in thousands of GEL	Other borrowed funds	Debt securities in Issue	Subordinated debt	Lease liabilities	Total
Liabilities from financing activities at 1 January 2018	**2,534,496**	**20,695**	**426,788**	**–**	**2,981,979**
Cash flows	79,390	(9,308)	171,781	–	**241,863**
Foreign exchange adjustments	70,883	554	9,958	–	**81,395**
Other non-cash movements	187,300	1,402	42,392	–	**231,094**
Liabilities from financing activities at 31 December 2018	**2,872,069**	**13,343**	**650,919**	**–**	**3,536,331**
Adoption of IFRS 16, Leases	–	–	–	61,043	**61,043**
Liabilities from financing activities at 1 January 2019	**2,872,069**	**13,343**	**650,919**	**61,043**	**3,597,374**
Cash flows	222,395	1,160,729	(167,847)	(21,417)	**1,193,860**
Foreign exchange adjustments	122,591	37,362	45,533	4,108	**209,594**
Other non-cash movements	209,832	2,164	62,430	16,164	**290,590**
Liabilities from financing activities at 31 December 2019	**3,426,887**	**1,213,598**	**591,035**	**59,898**	**5,291,418**
Cash flows	432,690	111,620	(56,985)	(4,908)	**482,417**
Foreign exchange adjustments	198,957	164,244	82,517	6,655	**452,373**
Other non-cash movements	287,045	7,035	56,173	(2,662)	**347,591**
Liabilities from financing activities at 31 December 2020	**4,345,579**	**1,496,497**	**672,740**	**58,983**	**6,573,799**

37. FINANCIAL AND OTHER RISK MANAGEMENT

Credit Quality

Depending on the type of financial asset the Group may utilize different sources of asset credit quality information including credit ratings assigned by the international rating agencies (Standard & Poor's, Fitch), credit scoring information from credit bureau and internally developed credit ratings. Financial assets are classified in an internally developed credit quality grades by taking into account the internal and external credit quality information in combination with other indicators specific to the particular exposure (e.g. delinquency). The Group defines following credit quality grades:

- Very low risk – exposures demonstrate strong ability to meet financial obligations;
- Low risk – exposures demonstrate adequate ability to meet financial obligations;
- Moderate risk – exposures demonstrate satisfactory ability to meet financial obligations;
- High risk – exposures that require closer monitoring, and
- Default – exposures in default, with observed credit impairment.

The internal credit ratings are estimated by the Group by statistical models with the limited involvement of credit officers. Statistical models include qualitative and quantitative information that shows the best predictive power based on historical data on defaults.

The rating models are regularly reviewed and back tested on actual default data. The Group regularly validates the accuracy of ratings estimates and appraises the predictive power of the models.

Expected credit loss (ECL) measurement

ECL is a probability-weighted estimate of the present value of future cash shortfalls. An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Group: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

Default ("LGD") and Discount Rate. The estimates consider forward looking information, that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk.

The Bank uses is a three-stage model for ECL measurement and classifies its borrowers across three stages: The Bank classifies its exposures as Stage 1 if no significant deterioration in credit quality occurred since initial recognition and the instrument was not defaulted when initially recognized. The exposure is classified to Stage 2 if the significant deterioration in credit quality was identified since initial recognition but the financial instrument is not considered defaulted. The exposures for which the defaulted indicators have been identified are classified as Stage 3 instruments. The Expected Credit Loss (ECL) amount differs depending on exposure allocation to one of the Stages. In the case of Stage 1 instruments, the ECL represents that portion of the lifetime ECL that can be attributed to default events potentially occurring within the next 12 months from the reporting date. In case of Stage 2 instruments, the ECL represents the lifetime ECL, i.e. credit losses that can be attributed to possible default events during the whole lifetime of a financial instrument. Generally, lifetime is set equal to the remaining contractual maturity of the financial instrument. Factors such as existence of contractual repayment schedules, options for extension of repayment maturity and monitoring processes held by the Bank affect the lifetime determination. In case of Stage 3 instruments, default event has already incurred and the lifetime ECL is estimated based on the expected recoveries.

Definition of default

Financial assets for which the Group observed occurrence of one or more loss events are classified in Stage 3. The Group's definition of default for the purpose of ECL measurement, is in accordance with the Capital Requirements Regulation (EU).

The Group uses both quantitative and qualitative criteria for the definition of default. The borrower is classified as defaulted if at least one of the following occurred:

- Any amount of contractual repayments is past due more than 90 days;
- Factors indicating the borrower's unlikeliness-to-pay.

In case of individually significant borrowers the Bank additionally applies criteria including but not limited to: bankruptcy proceedings, significant fraud in the borrower's business that significantly affected its financial condition, breach of the contract terms etc. For SME and corporate borrowers default is identified on the counterparty level, meaning that all the claims against the borrower are treated as defaulted. As for retail and micro exposures, facility level default definition is applied considering additional pulling effect criteria. If the amount of defaulted exposure exceeds predefined threshold, all the claims against the borrower are classified as defaulted. Once financial instrument is classified as defaulted, it remains as such until it no longer meets any of the default criteria for a consecutive period of six months, in which case exposure is considered to no longer be in default (i.e. to have cured). Grace period of six months has been determined on analysis of likelihood of a financial instrument returning to default status after curing. Exposures which are moved to stage 2 from default state are kept there for certain period before transferring to Stage 1 and classified as fully performing instruments again.

As a result of COVID-19, the Group applied additional default criteria to exposures particularly impacted by the pandemic-related restrictions. The criteria include lower days past due threshold and deterioration in debt coverage ratios for the compromised borrowers to facilitate the early identification of impaired exposures.

Significant increase in credit risk ("SICR")

Financial assets for which the Group identifies significant increase in credit risk since its origination are classified in Stage 2. SICR indicators are recognized at financial instrument level even though some of them refer to the borrower's characteristics. The Group uses both quantitative and qualitative indicators of SICR.

Quantitative criteria

On a quantitative basis the Bank assess change in probability of default parameter for each particular exposure since initial recognition and compares it to the predefined threshold. When absolute change in probability of default exceeds the applicable threshold, SICR is deemed to have occurred and exposure is transferred to Stage 2. Quantitative indicator of SICR is applied to retail and micro segments, where the Group has sufficient number of observations.

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

Qualitative criteria

Financial asset is transferred to Stage 2 and lifetime ECLs is measured if at least one of the following SICR qualitative criteria is observed:

- delinquency period of more than 30 days on contractual repayments;
- exposure is restructured, but is not defaulted;
- borrower is classified as "watch".

The Group has not rebutted the presumption that there has been significant increase in credit risk since origination when financial asset becomes more than 30 days past due. This qualitative indicator of SICR together with debt restructuring is applied to all segments. Particularly for corporate and SME segment the Group uses downgrade of risk category since origination of the financial instrument as a qualitative indicator of SICR. Based on the results of the monitoring borrowers are classified across different risk categories. In case there are certain weaknesses present, which if materialized may lead to loan repayment problems, borrowers are classified as "watch" category. Although watch borrowers' financial standing is sufficient to repay obligations, these borrowers are closely monitored and specific actions are undertaken to mitigate potential weaknesses. Once the borrower is classified as "watch" category it is transferred to Stage 2. If any of the SICR indicators described above occur financial instrument is transferred to Stage 2. Financial asset may be moved back to Stage 1, if SICR indicators are no longer observed.

As a result of COVID-19, the Group applied additional SICR criteria to compromised borrowers, facilitating the early identification of increased risk exposures. The criteria is based on the repayment history of the exposures after the second stage grace period and availability of the recent financial monitoring information for the vulnerable business borrowers.

ECL measurement

The Group utilizes two approaches for ECL measurement – individual assessment and collective assessment. Individual assessment is mainly used for stage 2 and stage 3 individually significant borrowers. Additionally, the Bank may arbitrarily designate selected exposures to individual measurement of ECL based on the Bank's credit risk management or underwriting departments' decision.

The Bank uses the discounted cash flow (DCF) method for the determination of recovery amount under individual assessment. In order to ensure the accurate estimation of recoverable amount the Bank may utilize scenario analysis approach. Scenarios may be defined considering the specifics and future outlook of individual borrower, sector the borrower operates in or changes in values of collateral. In case of scenario analysis the Bank forecasts recoverable amount for each scenario and estimates respective losses. Ultimate ECL is calculated as the weighted average of losses expected in each scenario, weighted by the probability of scenario occurring.

As a result of COVID-19 pandemic, the Bank performed individual assessment for the majority of individually significant borrowers operating in vulnerable sectors, such as Hospitality & Leisure and Real Estate. Under an individual assessment, the Bank considered the financial prospects of the borrowers by taking into account the future macroeconomic conditions and analyzing the implications of COVID-19 pandemic on their business and operations.

As for the non-significant and non-impaired significant borrowers the Bank estimates expected credit losses collectively. For the collective assessment and risk parameters estimation purposes the exposures are grouped into a homogenous risk pools based on similar credit risk characteristics. Common credit risk characteristics of the group include but are not limited to: Stage (Stage 1, Stage 2 or Stage 3), type of counterparty (individual vs business), type of product, rating (external or internal), overdue status, restructuring status, months in default category or any other characteristics that may differentiate certain sub-segments for risk parameter's estimation purposes. Number of pools differs for different products/ segments considering specifics of portfolio and availability of data within each pool. Collective ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained below, and discounted to present value using the instrument's effective interest rate.

The key principles of calculating the credit risk parameters:

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

Exposure at default (EAD)

The EAD represents estimation of exposure to credit risk at the time of default occurring during the life of financial instrument. The EAD parameter used for the purpose of the ECL calculation is time-dependent, i.e. the Bank allows for various values of the parameter to be applied to subsequent time periods during the lifetime of an exposure. Such structure of the EAD is applied to all Stage 1 and Stage 2 financial instruments. In case of Stage 3 financial instruments and defaulted POCI assets, the EAD vector is one-element with current EAD as the only value. EAD is determined differently for amortising financial instruments with contractual repayment schedules and for revolving facilities.

For amortising products EAD is calculated considering the contractual repayments of principal and interest over the 12-month period for facilities classified in Stage 1 and over lifetime period for remaining instruments. It is additionally adjusted to include effect of reduction in exposure due to prepayments. In light of the COVID-19 pandemic, the Group expects that prepayment rates will be lower compared to the pre-pandemic levels. In order to reflect this expectation in the EAD modelling, downward adjustment was applied to the prepayment rates for future one-year period. For revolving products, the Group estimates the EAD based on the expected limit utilisation percentage conditional on the default event. Probability of default (PD)

Probability of default parameter describes the likelihood of a default of a facility over a particular time horizon. It provides an estimate of the likelihood that a borrower will be unable to meet its contractual debt obligations. The PD parameter is time-dependent (i.e. has a specific term structure) and is applied to all non-defaulted contracts. Taking into account specific nature of different segments of clients for which the PD is estimated as well as unique characteristics that drive their default propensity, the PD is modelled differently for Retail and Micro segments and Corporate and SME segments. PD assessment approach is also differentiated for different time horizons and is further adjusted due to expected influence of macroeconomic variables as forecasted for the period (see 'Forward Looking Information" section for further details on incorporation of macroeconomic expectations in ECL calculation). Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months marginal PDs over the life of the instrument. The Group uses different statistical approaches such as the extrapolation of 12-month PDs based on migration matrixes, developing lifetime PD curves based on the historical default data and gradual convergence of long-term PD with the long-term default rate.

Loss given default (LGD)

The LGD parameter represents the share of an exposure that would be irretrievably lost if a borrower defaults. For Stage 1 and Stage 2 financial instruments, the LGD is estimated for each period in the instrument's lifetime and reflects the share of the expected EAD for that period that will not be recovered over the remaining lifetime of the instrument after the default date. For Stage 3 financial instruments, the LGD represents the share of the EAD as of reporting date that will not be recovered over the remaining life of that instrument. Assessment of LGD varies by the type of counterparty, segment, type of product, securitization level and availability of historical observations. The general LGD estimation process employed by the Bank is based on the assumption that after the default of the exposure, two mutually exclusive scenarios are possible. The exposure either leaves the default state (cure scenario) or does not leave the default state and will be subject to recovery process (non-cure scenario). The probability that an exposure defaults again in the cure scenario is involved in the estimation process. Risk parameters applicable to both scenarios, i.e. cure rates and recovery rates, are estimated by means of migration matrices approach, where risk groups are defined by consecutive months-in-default. For certain portfolios based on the limitations of observations alternative versions of the general approach may be applied. In light of the COVID-19 pandemic, the Group applied an additional downward adjustment to the collateral values for stage 3 exposures were applicable to capture the expected real estate price drop. Further, the Bank reduced the recovery rates of retail and micro exposures in stage 3 to reflect the expected impact of the pandemic-related restrictions.

Forward-looking information

The measurement of unbiased, probability weighted ECL requires inclusion of forward looking information obtainable without undue cost or effort. For forward-looking information purposes the Bank defines three

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

macro scenarios. The scenarios are defined as baseline (most likely), upside (better than most likely) and downside (worse than most likely) scenarios of the state of the Georgian economy.

To derive the baseline macro-economic scenario, the Group takes into account forecasts from various external sources – the National Bank of Georgia, Ministry of Finance, International Monetary Fund ("IMF") as well as other International Financial Institutions ("IFI"'s) – in order to ensure the to the consensus market expectations. Upside and downside scenarios are defined based on the framework developed by the Bank's macroeconomic unit.

The Bank uses statistical models and historical relationship between the various macroeconomic factors and default observations to derive forward-looking adjustments. In case these models do not provide reasonable results either from statistical or business perspective, the Bank may apply expert judgment or use alternative approach. As at 31 December 2020, the Bank used statistical models to derive forward looking adjustment in all segments except for corporate. In corporate segment, due to the availability of comprehensive borrower-level financial information and insignificance of the statistical models, the Bank used stress test approach instead.

Due to the prolongation and severity of the COVID-19 pandemic impact, the scenario probabilities were also adjusted to reflect the management's expectations regarding their future realisation. The baseline, upside and downside scenarios were assigned probability weighing of 60%, 10% and 30%, respectively (31 December 2019: 50%, 25% and 25%).

The forward looking information is incorporated in both individual and collective assessment of expected credit losses.

Model maintenance and validation

The Group regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual credit loss. Such back-testing is performed at least once a year. As part of the back-testing process, the Group evaluates actual realization of the risk parameters and their consistency with the model estimates. Additionally staging criteria are also analysed within the back-testing process. The results of back-testing the ECL measurement methodology are communicated to the Group Management and further actions for tuning the models and assumptions are defined after discussions between authorised persons.

Geographical risk concentrations.

Assets, liabilities, credit related commitments and performance guarantees have generally been attributed to geographic regions based on the country in which the counterparty is located. Balances legally outstanding to/from off-shore companies which are closely related to Georgian counterparties are allocated to the caption "Georgia". Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The geographical concentration of the Group's assets and liabilities as of 31 December 2020 is set out below by country of incorporation:

in thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	940,076	686,110	9,219	1,635,405
Due from other banks	37,753	13,052	–	50,805
Mandatory cash balances with National Bank of Georgia	2,098,506	–	–	2,098,506
Loans and advances to customers	14,111,683	131,066	351,525	14,594,274
Investment securities measured at fair value through OCI	1,206,673	318,682	1,913	1,527,268
Bonds carried at amortised cost	1,089,801	–	–	1,089,801
Investments in leases	271,314	–	346	271,660
Other financial assets	167,163	3,978	161	171,302
Total financial assets	19,922,969	1,152,888	363,164	21,439,021
Non-financial assets	1,133,766	396	4,622	1,138,784
Total assets	**21,056,735**	**1,153,284**	**367,786**	**22,577,805**
Liabilities				
Due to credit institutions	2,363,147	2,110,307	12,919	4,486,373
Customer accounts	10,647,808	911,146	1,013,774	12,572,728
Debt securities in issue	1,496,497	–	–	1,496,497
Other financial liabilities	227,063	356	13	227,432
Lease liabilities	57,317	–	1,666	58,983
Subordinated debt	115,394	390,941	166,405	672,740
Total financial liabilities	14,907,226	3,412,750	1,194,777	19,514,753
Non-financial liabilities	122,684	63	4,371	127,118
Total liabilities	**15,029,910**	**3,412,813**	**1,199,148**	**19,641,871**
Net balance sheet position	**6,026,825**	**(2,259,529)**	**(831,362)**	**2,935,934**
Performance guarantees	745,511	746,871	258,659	1,751,041
Credit related commitments	1,868,011	4,678	8,627	1,881,316

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The geographical concentration of the Group's assets and liabilities as at 31 December 2019 is set out below by country of incorporation:

in thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	701,993	287,079	14,511	1,003,583
Due from other banks	21,538	12,067	–	33,605
Mandatory cash balances with National Bank of Georgia	1,591,829	–	–	1,591,829
Loans and advances to customers	11,775,027	147,222	427,150	12,349,399
Investment securities measured at fair value through OCI	985,293	–	–	985,293
Bonds carried at amortised cost	1,022,684	–	–	1,022,684
Investments in leases	255,596	–	1,064	256,660
Other financial assets	132,060	1,431	245	133,736
Total financial assets	16,486,020	447,799	442,970	17,376,789
Non-financial assets	978,377	364	3,726	982,477
Total assets	**17,464,407**	**448,163**	**446,696**	**18,359,266**
Liabilities				
Due to credit institutions	1,813,684	1,744,130	36,087	3,593,901
Customer accounts	8,406,484	733,778	909,062	10,049,324
Debt securities in issue	1,213,598	–	–	1,213,598
Other financial liabilities	113,271	329	8	113,608
Lease liabilities	59,898	–	–	59,898
Subordinated debt	100,993	343,861	146,181	591,035
Total financial liabilities	11,707,928	2,822,098	1,091,338	15,621,364
Non-financial liabilities	132,559	830	5,423	138,812
Total liabilities	**11,840,487**	**2,822,928**	**1,096,761**	**15,760,176**
Net balance sheet position	**5,623,920**	**(2,374,765)**	**(650,065)**	**2,599,090**
Performance guarantees	603,910	232,328	622,646	1,458,884
Credit related commitments	1,485,032	4,476	11,459	1,500,967

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The geographical concentration of the Group's assets and liabilities as at 31 December 2018 is set out below by country of incorporation:

in thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	650,575	515,159	1,177	1,166,911
Due from other banks	28,418	12,852	6,046	47,316
Mandatory cash balances with National Bank of Georgia	1,422,809	–	–	1,422,809
Loans and advances to customers	9,526,939	121,713	389,800	10,038,452
Investment securities measured at fair value through OCI	1,004,564	–	675	1,005,239
Bonds carried at amortised cost	654,203	–	–	654,203
Investments in leases	202,850	–	952	203,802
Other financial assets	166,899	329	290	167,518
Total financial assets	13,657,257	650,053	398,940	14,706,250
Non-financial assets	735,895	200	3,646	739,741
Total assets	**14,393,152**	**650,253**	**402,586**	**15,445,991**
Liabilities				
Due to credit institutions	1,154,327	1,811,299	65,877	3,031,503
Customer accounts	7,790,236	697,753	864,153	9,352,142
Debt securities in issue	7,927	–	5,416	13,343
Other financial liabilities	98,379	296	39	98,714
Subordinated debt	94,264	420,031	136,624	650,919
Total financial liabilities	9,145,133	2,929,379	1,072,109	13,146,621
Non-financial liabilities	141,750	525	685	142,960
Total liabilities	**9,286,883**	**2,929,904**	**1,072,794**	**13,289,581**
Net balance sheet position	**5,106,269**	**(2,279,651)**	**(670,208)**	**2,156,410**
Performance guarantees	684,810	291,795	219,207	1,195,812
Credit related commitments	870,446	3,751	1,638	875,835

Market risk. The Bank follows the Basel Committee's definition of market risk as the risk of losses in on- and off-balance sheet positions arising from movements in market prices. This risk is principally made up of (a) risks pertaining to interest rate instruments and equities in the trading book and (b) foreign exchange rate risk (or currency risk) and commodities risk throughout the Bank. The Bank's strategy is not to be involved in trading book activity or investments in commodities. Accordingly, the Bank's exposure to market risk is primarily limited to foreign exchange rate risk in the structural book.

Currency risk. Foreign exchange rate risk arises from the potential change in foreign currency exchange rates, which can affect the value of a financial instrument. This risk stems from the open currency positions created due to mismatches in foreign currency assets and liabilities. The NBG requires the Bank to monitor both balance-sheet and total aggregate (including off-balance sheet) open currency positions and to maintain the later one within 20% of the Bank's regulatory capital. As at 31 December 2020, the Bank maintained an aggregate open currency position of 3.4% of regulatory capital (2019: 0.5%; 2018: 7.6%). The Asset-Liability Management Committee ("ALCO") has set limits on the level of exposure by currency as well as on aggregate exposure positions which are more conservative than those set by the NBG. The Bank's compliance with such limits is monitored daily by the heads of the Treasury and Financial Risk Management Departments.

On 13 August 2018 the NBG introduced new regulation on changes to OCP ("open currency position") calculation method, according to this regulation, from March 2019 special reserves assigned to FC balance-sheet assets would be deductible gradually for OCP calculation purposes. As a result of COVID-19 pandemic, the NBG implemented countercyclical measure in relation to OCP requirements: suspended the phasing in of special reserved planned to be fully implemented by July 2022.

Currency risk management framework is governed through the Market Risk Management Policy, market

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

risk management procedure and relevant methodologies. The Bank has in place the methodology developed for allocating capital charges for FX risk following Basel guidelines. The table below summarises the Group's exposure to foreign currency exchange rate risk at the balance sheet date. While managing open currency position the Group considers part of the provisions to be denominated in the USD, Euro and other currencies. Gross amount of currency swap deposits is included in Derivatives. Therefore total financial assets and liabilities below are not traceable with either balance sheet or liquidity risk management tables, where net amount of gross currency swaps is presented.

As of 31 December 2020

in thousands of GEL	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position
Georgian Lari	8,756,581	7,115,738	159,241	**1,800,084**
US Dollar	8,004,885	10,956,193	2,914,494	**(36,814)**
Euro	4,556,780	1,315,871	(3,227,918)	**12,991**
Other	120,775	126,951	61,164	**54,988**
Total	**21,439,021**	**19,514,753**	**(93,019)**	**1,831,249**

As of 31 December 2019

in thousands of GEL	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position
Georgian Lari	7,502,497	5,706,300	(91,472)	**1,704,725**
US Dollar	6,846,799	8,774,033	1,945,714	**18,480**
Euro	2,970,008	1,035,944	(1,924,793)	**9,271**
Other	57,485	105,087	56,134	**8,532**
Total	**17,376,789**	**15,621,364**	**(14,417)**	**1,741,008**

As of 31 December 2018

in thousands of GEL	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position
Georgian Lari	5,920,867	4,663,312	98,278	**1,355,833**
US Dollar	7,309,173	7,445,413	319,260	**183,020**
Euro	1,375,295	948,398	(417,670)	**9,227**
Other	100,915	89,498	(463)	**10,954**
Total	**14,706,250**	**13,146,621**	**(595)**	**1,559,046**

US Dollar strengthening by 20% (weakening 20%) would decrease Group's profit or loss and equity in 2020 by GEL 7,363 thousand (increase by GEL 7,363 thousand). Euro strengthening by 20% (weakening 20%) would increase Group's profit or loss and equity in 2020 by GEL 2,598 thousand (decrease by GEL 2,598 thousand).

US Dollar strengthening by 20% (weakening 20%) would increase Group's profit or loss and equity in 2019 by GEL 3,696 thousand (decrease by GEL 3,696 thousand). Euro strengthening by 20% (weakening 20%) would increase Group's profit or loss and equity in 2019 by GEL 1,854 thousand (decrease by GEL 1,854 thousand).

US Dollar strengthening by 20% (weakening 20%) would increase Group's profit or loss and equity in 2018 by GEL 36,604 thousand (decrease by GEL 36,604 thousand). Euro strengthening by 20% (weakening 20%) would increase Group's profit or loss and equity in 2018 by GEL 1,845 thousand (decrease by GEL 1,845 thousand).

Interest rate risk. Interest rate risk arises from potential changes in the market interest rates that can adversely affect the fair value or future cash flows of the financial instrument. This risk can arise from maturity mismatches of assets and liabilities, as well as from the re-pricing characteristics of such assets and liabilities.

The Bank's deposits and the part of the loans are at fixed interest rates, while a portion of the Bank's borrowings is at a floating interest rate. In case of need, the Bank also applies for interest rate risk hedging instruments in order to mitigate interest rate risk. Furthermore, many of the Bank's loans to customers contain a clause allowing it to adjust the interest rate on the loan in case of adverse interest rate movements, thereby limiting the Bank's exposure to interest rate risk. The management also believes that the Bank's interest rate margins provide a reasonable buffer to mitigate the effect of possible adverse interest rate movements.

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The Group employs an advanced framework for the management of interest rate risk by establishing appropriate Risk Appetite limits, monitoring compliance with them and preparing forecasts.

From September, 2020 the NBG introduced regulation on interest rate risk and set the limit for Economic Value of Equity (EVE) sensitivity at 15% of NBG Tier 1 Capital. The main principles and assumptions of NBG IRR methodology are in line with Basel standards and EBA guidelines developed for IRR management purposes. As of 31 December 2020 the Bank was in compliance with the regulatory requirement with EVE=3.5%. According to NBG guidelines the net interest income sensitivity under parallel shifts of interest rate scenarios are maintained for monitoring purposes, while EVE sensitivity is calculated under 6 predefined stress scenarios of interest rate changes and the limit is applied for the worst case scenario result.

Interest rate risk is managed by the financial risk management department and is monitored by the ALCO, which decides on actions that are necessary for effective interest rate risk management and follows up on their implementation. The major aspects of interest rate risk management development and the respective reporting are periodically provided to the Management Board, the Supervisory Board and the Risk Committee.

The table below summarises the Group's exposure to interest rate risks internal approaches before introduction of NBG regulation. It illustrates the aggregated amounts of the Group's financial assets and liabilities at the amounts monitored by the management and categorised by the earlier of contractual interest re-pricing or maturity dates. Cross-Currency swaps were not netted when assessing the Group's exposure to interest rate risks. Therefore, total financial assets and liabilities below were not traceable with either balance sheet or other financial risk management tables. The tables considered both reserves placed with NBG and Interest bearing Nostro accounts. Income on NBG reserves and Nostros were calculated as benchmark minus margin whereby for benchmark Federal funds rate and ECB rates were considered in case of USD and EUR respectively. Therefore, they had impact on the TBC's net interest income in case of both upward and downward shift of interest rates.

In thousands of GEL	Less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Total financial assets	6,650,943	5,034,027	1,022,854	5,354,287	**18,062,111**
Total financial liabilities	(6,016,285)	(3,087,372)	(1,026,326)	(6,184,815)	**(16,314,798)**
Net interest sensitivity gap as of 31 December 2019	**634,658**	**1,946,655**	**(3,472)**	**(830,528)**	**1,747,313**
Total financial assets	4,782,800	3,610,949	1,017,711	5,295,712	**14,707,172**
Total financial liabilities	(4,563,135)	(3,337,999)	(948,719)	(4,297,701)	**(13,147,554)**
Net interest sensitivity gap as of 31 December 2018	**219,665**	**272,950**	**68,992**	**998,011**	**1,559,618**

Following main assumptions under NBG IRR Regulation and EBA 2018 guidelines, at 31 December, 2020, if interest rates had been 200 basis points higher, with all other variables held constant, profit would have been GEL 95 million higher, mainly as a result of higher interest income on variable interest assets (2019: GEL 40 million; 2018: GEL 10 million). If interest rates at 31 December, 2020 had been 200 basis points lower with all other variables held constant, profit for the year would have been GEL 31 million lower, mainly as a result of lower interest income on variable interest assets (2019: GEL 39 million; 2018 GEL 10 million).

At 31 December, 2020, if interest rates had been 200 basis points lower, with all other variables held constant, other comprehensive income would have been GEL 24 million higher (2019: GEL 9.4 million; 2018: GEL 8.6 million), as a result of an increase in the fair value of fixed rate financial assets measured at fair value through other comprehensive income and repurchase receivables. If interest rates at 31 December, 2020 had been 200 basis points higher with all other variables held constant, Other comprehensive income would have been GEL 35 million lower (2019: GEL 9.1 million; 2018: GEL 8.2 million), as a result of decrease in the fair value of fixed rate financial assets measured at fair value through other comprehensive income.

The Bank calculates the impact of changes in interest rates using both Net Interest Income and Economic Value sensitivity. Net Interest Income sensitivity measures the impact of a change of interest rates along the various maturities on the yield curve on the net interest revenue for the nearest year.

Economic Value measures the impact of a change of interest rates along the various maturities on the yield curve on the present value of the Group's assets, liabilities and off-balance sheet instruments.

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

When performing Net Interest Income and Economic Value sensitivity analysis, the Bank uses parallel shifts in interest rates as well as number of different scenarios. TBC Bank closely monitors the adverse effect of possible parallel yield curve shift scenarios on net interest income over a one-year period to ensure compliance with the predefined risk appetite of the Bank.

In order to manage interest rate risk the Bank establishes appropriate limits. The Bank monitors compliance with the limits and prepares forecasts. ALCO decides on actions that are necessary for effective interest rate risk management and follows up on the implementation. Periodic reporting is done to Management Board and the Board's Risk, Ethics and Compliance Committee.

Liquidity Risk. The liquidity risk is the risk that TBC Bank either does not have sufficient financial resources available to meet all of its obligations and commitments as they fall due, or can access those resources only at a high cost. The risk is managed by the Financial Risk Management and Treasury Departments and is monitored by the ALCO.

The principal objectives of the TBC Bank's liquidity risk management policy are to: (i) ensure the availability of funds in order to meet claims arising from total liabilities and off-balance sheet commitments, both actual and contingent, at an economic price; (ii) recognise any structural mismatch existing within TBC Bank's statement of financial position and set monitoring ratios to manage funding in line with well-balanced growth; and (iii) monitor liquidity and funding on an on-going basis to ensure that approved business targets are met without compromising the risk profile of the Bank.

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

Funding liquidity risk is the risk that TBC will not be able to efficiently meet both expected and unexpected current and future cash flow and collateral needs without affecting either its daily operations or its financial condition. To manage funding liquidity risk TBC Bank uses the Liquidity Coverage ratio and the Net Stable Funding ratio set forth under Basel III and defined further by the NBG. In addition the Bank performs stress tests and "what-if" scenario analysis. In 2017, for liquidity risk management purposes National Bank of Georgia introduced Liquidity Coverage Ratio ("NBG LCR"), where in addition to Basel III guidelines conservative approaches are applied to the deposits' withdrawal rates depending on the clients group's concentration. From September, 2017 the Bank also monitors compliance with NBG LCR limits. In 2019, for long-term liquidity risk management purposes NBG introduced Net Stable Funding Ratio (""NBG NSFR"). From September, 2019, on a monthly basis the Bank monitors compliance with the set limit for NBG NSFR.

The Liquidity Coverage Ratio is used to help manage short-term liquidity risks. The Bank's liquidity risk management framework is designed to comprehensively project cash flows arising from assets, liabilities and off-balance sheet items over certain time buckets and ensure that NBG LCR limits, are met on a daily basis. TBC Bank also stress tests the results of liquidity through large shock scenarios provided by the NBG.

The Net Stable Funding ratio is used for long-term liquidity risk management to promote resilience over a longer time horizon by creating additional incentives for TBC Bank to rely on more stable sources of funding on a continuous basis. The Bank also monitors deposit concentration for large deposits and set limits for non-Georgian residents deposits share in total deposit portfolio.

The management believes, that a strong and diversified funding structure is one of TBC Bank's differentiators. The Bank relies on relatively stable deposits from Georgia as the main source of funding. In order to maintain and further enhance the liability structure TBC Bank sets the targets for deposits and IFI funding within the Bank's risk appetite.

The loan to deposit and IFI funding ratio (defined as total value of net loans divided by total value of deposits and funds received from International financial institutions) stood at 101.2%, 104.8% and 89.9%, at the 31 December 2020, 2019 and 2018 respectively.

Maturity analysis. The table below summarizes the maturity analysis of the Group's financial liabilities, based on remaining undiscounted contractual obligations as of 31 December 2020 subject-to-notice repayments are treated as if notice were to be given immediately. However, the Group expects, that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The maturity analysis of financial liabilities as of 31 December 2020 is as follows:

in thousands of GEL	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Due to credit institutions	2,138,399	1,156,117	2,678,130	146,205	**6,118,851**
Customer accounts – individuals	4,275,412	1,828,748	1,282,427	53,445	**7,440,032**
Customer accounts – other	4,077,900	502,224	619,298	492,887	**5,692,309**
Other financial liabilities	208,111	10,236	537	–	**218,884**
Lease liabilities	3,098	9,029	35,298	5,849	**53,274**
Subordinated debt	13,998	75,845	1,441,419	1,635,831	**3,167,093**
Debt securities in issue	1,230	59,356	1,451,263	–	**1,511,849**
Gross settled forwards	3,561,859	484,099	90,172	–	**4,136,130**
Performance guarantees	211,607	588,883	937,975	12,610	**1,751,075**
Financial guarantees	318,935	-	-	-	**318,935**
Letters of credit	10,820	90,559	59,463	-	**160,842**
Other credit related commitments	1,401,539	–	–	–	**1,401,539**
Total potential future payments for financial obligations	**16,222,908**	**4,805,096**	**8,595,982**	**2,346,827**	**31,970,813**

The maturity analysis of financial liabilities as of 31 December 2019 is as follows:

in thousands of GEL	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Due to credit institutions	1,590,089	616,417	3,724,084	435,233	**6,365,823**
Customer accounts – individuals	3,407,952	1,658,316	699,554	27,344	**5,793,166**
Customer accounts – other	3,722,452	339,113	250,328	142,043	**4,453,936**
Other financial liabilities	90,944	10,133	4,917	–	**105,994**
Lease liabilities	4,367	12,509	57,058	11,988	**85,922**
Subordinated debt	2,019	55,182	1,255,291	2,330,270	**3,642,762**
Debt securities in issue	–	56,797	1,156,801	–	**1,213,598**
Gross settled forwards	1,476,685	552,630	164,099	–	**2,193,414**
Performance guarantees	115,997	332,833	909,502	100,552	**1,458,884**
Financial guarantees	241,124	-	-	-	**241,124**
Letters of credit	41,132	19,687	48,914	-	**109,733**
Other credit related commitments	1,150,110	–	–	–	**1,150,110**
Total potential future payments for financial obligations	**11,842,871**	**3,653,617**	**8,270,548**	**3,047,430**	**26,814,466**

The maturity analysis of financial liabilities as of 31 December 2018 is as follows:

in thousands of GEL	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Due to credit institutions	950,084	372,517	1,909,587	187,454	**3,419,642**
Customer accounts – individuals	3,152,851	1,408,710	628,831	27,397	**5,217,789**
Customer accounts – other	3,821,862	208,250	137,275	195,007	**4,362,394**
Other financial liabilities	77,522	21,192	–	–	**98,714**
Subordinated debt	5,267	71,519	388,594	588,197	**1,053,577**
Debt securities in issue	366	13,847	–	–	**14,213**
Gross settled forwards	567,259	16,008	–	–	**583,267**
Performance guarantees	119,959	349,354	671,333	55,166	**1,195,812**
Letters of credit	9,932	44,703	51,337	–	**105,972**
Other credit related commitments	769,863	–	–	–	**769,863**
Total potential future payments for financial obligations	**9,474,965**	**2,506,100**	**3,786,957**	**1,053,221**	**16,821,243**

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The undiscounted financial liability analysis gap does not reflect the historical stability of the current accounts. Their liquidation has historically taken place over a longer period than the one indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Term deposits included in the customer accounts are classified based on remaining contractual maturities, according to the Georgian Civil Code, however, individuals have the right to withdraw their deposits prior to maturity, if they partially or fully forfeit their right to accrued interest and the Group is obliged to repay such deposits upon the depositor's demand. Based on the Bank's deposit retention history, the Management does not expect that many customers will require repayment on the earliest possible date; accordingly, the table does not reflect the management's expectations as to actual cash outflows.

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors the liquidity gap analysis based on the expected maturities. In particular, the customers' deposits are distributed in the given maturity gaps following their behavioural analysis.

As at 31 December 2020 the analysis by expected maturities is as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Cash and cash equivalents	1,634,585	820	–	–	**1,635,405**
Due from other banks	11,736	14,600	24,469	–	**50,805**
Mandatory cash balances with National Bank of Georgia	2,098,506	–	–	–	**2,098,506**
Loans and advances to customers	1,555,793	2,512,140	6,117,469	4,408,872	**14,594,274**
Investment securities measures at fair value through OCI	1,527,268	–	–	–	**1,527,268**
Bonds carried at amortised cost	41,168	164,846	559,823	323,964	**1,089,801**
Net investments in leases	23,675	73,284	168,447	6,254	**271,660**
Insurance and reinsurance Receivables	7,641	14,190	–	–	**21,831**
Other financial assets	135,716	2,094	11,652	9	**149,471**
Total financial assets	**7,036,088**	**2,781,974**	**6,881,860**	**4,739,099**	**21,439,021**
Due to credit institutions	2,116,391	1,007,235	1,322,468	40,279	**4,486,373**
Customer accounts	1,267,458	380,992	–	10,924,278	**12,572,728**
Debt securities in issue	121	56,031	1,440,345	–	**1,496,497**
Other financial liabilities	208,111	10,236	537	–	**218,884**
Lease liabilities	4,061	9,061	35,281	10,580	**58,983**
Insurance contract liabilities	1,950	6,598	–	–	**8,548**
Subordinated debt	11,747	16,369	258,110	386,514	**672,740**
Total financial liabilities	**3,609,839**	**1,430,491**	**3,112,772**	**11,361,651**	**19,514,753**
Performance guarantees	4,427	–	–	–	**4,427**
Financial guarantees	5,424	–	–	–	**5,424**
Other credit related commitments	100,214	–	–	–	**100,214**
Credit related commitments and performance guarantees	**110,065**	**–**	**–**	**–**	**110,065**
Net liquidity gap as of 31 December 2020	**3,316,184**	**1,351,483**	**3,769,088**	**(6,622,552)**	**1,814,203**
Cumulative gap as of 31 December 2020	**3,316,184**	**4,667,667**	**8,436,755**	**1,814,203**	

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

As at 31 December 2019 the analysis by expected maturities is as follows:

in thousands of GEL	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Cash and cash equivalents	1,003,583	–	–	–	**1,003,583**
Due from other banks	15,193	3,500	14,912	–	**33,605**
Mandatory cash balances with National Bank of Georgia	1,591,829	–	–	–	**1,591,829**
Loans and advances to customers	1,303,711	2,307,064	5,108,650	3,629,974	**12,349,399**
Investment securities measures at fair value through OCI	985,293	–	–	–	**985,293**
Bonds carried at amortised cost	124,006	215,711	555,379	127,588	**1,022,684**
Net investments in leases	34,448	70,398	148,542	3,272	**256,660**
Insurance and reinsurance receivables	9,072	17,104	–	–	**26,176**
Other financial assets	104,612	2,946	2	–	**107,560**
Total financial assets	**5,171,747**	**2,616,723**	**5,827,485**	**3,760,834**	**17,376,789**
Due to credit institutions	1,573,720	427,794	1,496,459	95,928	**3,593,901**
Customer accounts	1,082,198	174,905	–	8,792,221	**10,049,324**
Debt securities in issue	–	56,797	1,156,801	–	**1,213,598**
Other financial liabilities	90,944	10,133	4,918	–	**105,995**
Lease liabilities	4,394	8,513	38,831	8,160	**59,898**
Insurance contract liabilities	1,850	5,763	–	–	**7,613**
Subordinated debt	331	–	113,497	477,207	**591,035**
Total financial liabilities	**2,753,437**	**627,108**	**2,867,303**	**9,373,516**	**15,621,364**
Performance guarantees	7,466	–	–	–	**7,466**
Financial guarantees	4,511	–	–	–	**4,511**
Other credit related commitments	100,212	–	–	–	**100,212**
Credit related commitments and performance guarantees	**112,189**	**–**	**–**	**–**	**112,189**
Net liquidity gap as of 31 December 2019	**2,306,121**	**1,989,615**	**2,960,182**	**(5,612,682)**	**1,643,236**
Cumulative gap as of 31 December 2019	**2,306,121**	**4,295,736**	**7,255,918**	**1,643,236**	

37. FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

As of 31 December 2018 the analysis by expected maturities is as follows:

in thousands of GEL	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Cash and cash equivalents	1,166,911	–	–	–	**1,166,911**
Due from other banks	27,153	11,075	9,088	–	**47,316**
Mandatory cash balances with National Bank of Georgia	1,422,809	–	–	–	**1,422,809**
Loans and advances to customers	1,090,521	2,056,149	4,152,436	2,739,346	**10,038,452**
Investment securities measures at fair value through OCI	1,005,239	–	–	–	**1,005,239**
Bonds carried at amortised cost	119,489	92,877	368,843	72,994	**654,203**
Net investments in leases	31,133	56,432	113,087	3,150	**203,802**
Other financial assets	131,586	34,268	1,664	–	**167,518**
Total financial assets	**4,994,841**	**2,250,801**	**4,645,118**	**2,815,490**	**14,706,250**
Due to credit institutions	933,511	271,993	1,653,575	172,424	**3,031,503**
Customer accounts	997,594	128,395	–	8,226,153	**9,352,142**
Debt securities in issue	112	13,231	–	–	**13,343**
Other financial liabilities	77,522	21,192	–	–	**98,714**
Subordinated debt	3,048	23,246	182,986	441,639	**650,919**
Total financial liabilities	**2,011,787**	**458,057**	**1,836,561**	**8,840,216**	**13,146,621**
Performance guarantees	4,393	–	–	–	**4,393**
Financial guarantees	5,424	–	–	–	**5,424**
Other credit related commitments	103,029	–	–	–	**103,029**
Credit related commitments and performance guarantees	**112,846**	**–**	**–**	**–**	**112,846**
Net liquidity gap as of 31 December 2018	**2,870,208**	**1,792,744**	**2,808,557**	**(6,024,726)**	**1,446,783**
Cumulative gap as of 31 December 2018	**2,870,208**	**4,662,952**	**7,471,509**	**1,446,783**	

The management believes that the Group has sufficient liquidity to meet its current on- and off-balance sheet obligations.

38. CONTINGENCIES AND COMMITMENTS

Legal proceedings. When determining the level of provision to be set up with regards to such claims, or the amount (not subject to provisioning) to be disclosed in the financial statements, the management seeks both internal and external professional advice. The management believes that the provision recorded in these financial statements is adequate and the amount (not subject to provisioning) need not be disclosed as the probability of material adverse effect on the financial condition or the results of future operations of the Group is remote.

Tax legislation. Georgian and Azerbaijani tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. The management's interpretation of the legislation as applied to the Group's transactions and activity may be challenged by the relevant authorities. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the review period. To respond to the risks, the Group has engaged external tax specialists to carry out periodic reviews of Group's taxation policies and tax filings. The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax and customs positions will be sustained. Accordingly, as of 31 December 2020, 2019 and 2018 no material provision for potential tax liabilities has been recorded.

Compliance with covenants. The Group is subject to certain covenants primarily related to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. During 2020, the bank renegotiated some of its lender covenants to reflect the changes in the operations as a result of the COVID -19. The Group was in compliance with all covenants as of 31 December 2020, 31 December 2019 and 31 December 2018.

38. CONTINGENCIES AND COMMITMENTS CONTINUED

Management of capital. The Bank manages capital requirements under regulatory rules. The Bank complied with all its imposed capital requirements throughout the reporting period.

Credit related commitments and financial guarantees. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Financial guarantees and standby letters of credit, which represent the irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, that are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to prolong credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss is lower than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term ones.

As of 31 December 2020 outstanding credit related commitments presented by stages are as follows:

in thousands of GEL	**Stage 1**	**Stage 2**	**Stage 3**
Undrawn credit lines	1,222,916	165,798	12,825
Letters of credit issued	158,131	1,464	1,247
Financial guarantees issued	303,046	14,571	1,318
Total credit related commitments (before provision)	**1,684,093**	**181,833**	**15,390**
Credit loss allowance for credit related commitments			
Undrawn credit lines	(3,246)	(986)	(15)
Letters of credit issued	(376)	-	-
Financial guarantees issued	(795)	(4)	(2)
Credit loss allowance for credit related commitments	**(4,417)**	**(990)**	**(17)**
Total credit related commitments	**1,679,676**	**180,843**	**15,373**

As of 31 December 2019 outstanding credit related commitments presented by stages are as follows:

in thousands of GEL	**Stage 1**	**Stage 2**	**Stage 3**
Undrawn credit lines	1,124,862	18,548	6,700
Letters of credit issued	109,299	-	434
Financial guarantees issued	240,205	550	369
Total credit related commitments (before provision)	**1,474,366**	**19,098**	**7,503**
Credit loss allowance for credit related commitments			
Undrawn credit lines	(2,096)	(514)	(182)
Letters of credit issued	(473)	-	-
Financial guarantees issued	(1,244)	(2)	-
Credit loss allowance for credit related commitments	**(3,813)**	**(516)**	**(182)**
Total credit related commitments	**1,470,553**	**18,582**	**7,321**

38. CONTINGENCIES AND COMMITMENTS CONTINUED

As of 31 December 2018 outstanding credit related commitments presented by stages are as follows:

in thousands of GEL	Stage 1	Stage 2	Stage 3
Undrawn credit lines	744,047	15,570	10,246
Letters of credit issued	104,590	-	1,382
Financial guarantees issued	-	-	-
Total credit related commitments (before provision)	**848,637**	**15,570**	**11,628**
Credit loss allowance for credit related commitments			
Undrawn credit lines	(2,652)	(736)	(1,347)
Letters of credit issued	(437)	-	(252)
Financial guarantees issued	-	-	-
Credit loss allowance for credit related commitments	**(3,089)**	**(736)**	**(1,599)**
Total credit related commitments	**845,548**	**14,834**	**10,029**

The credit quality of contingencies and commitments is as follows at 31 December 2020:

	31 December 2020			
in thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Undrawn credit lines risk category				
– Very low	1,157,753	3,820	-	1,161,573
– Low	62,193	146,114	-	208,307
– Moderate	2,963	14,723	-	17,686
– High	7	1,141	-	1,146
– Default	-	-	12,825	12,825
Gross carrying amount	**1,222,916**	**165,798**	**12,825**	**1,401,539**
Credit loss allowance	(3,246)	(986)	(15)	(4,247)
Carrying amount	**1,219,670**	**164,812**	**12,810**	**1,397,292**
Letters of credit issued risk category				
– Very low	157,992	-	-	157,992
– Low	139	1,464	-	1,603
– Moderate	-	-	-	-
– High	-	-	-	-
– Default	-	-	1,247	1,247
Gross carrying amount	**158,131**	**1,464**	**1,247**	**160,842**
Credit loss allowance	(376)	-	-	(376)
Carrying amount	**157,755**	**1,464**	**1,247**	**160,466**
Financial guarantees issued risk category				
– Very low	268,333	100	-	268,433
– Low	34,713	14,471	-	49,184
– Moderate	-	-	-	-
– High	-	-	-	-
– Default	-	-	1,318	1,318
Gross carrying amount	**303,046**	**14,571**	**1,318**	**318,935**
Credit loss allowance	(795)	(4)	(2)	(801)
Carrying amount	**302,251**	**14,567**	**1,316**	**318,134**

38. CONTINGENCIES AND COMMITMENTS CONTINUED

The credit quality of contingencies and commitments is as follows at 31 December 2019:

in thousands of GEL	31 December 2019 Stage 1 (12-months ECL)	Stage 2 (lifetime EC for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Undrawn credit lines risk category				
– Very low	1,027,350	2,706	-	1,030,056
– Low	92,030	5,589	-	97,619
– Moderate	5,480	9,455	-	14,935
– High	2	798	-	800
– Default	-	-	6,700	6,700
Gross carrying amount	**1,124,862**	**18,548**	**6,700**	**1,150,110**
Credit loss allowance	(2,096)	(514)	(182)	(2,792)
Carrying amount	**1,122,766**	**18,034**	**6,518**	**1,147,318**
Letters of credit issued risk category				
– Very low	108,476	-	-	108,476
– Low	823	-	-	823
– Moderate	-	-	-	-
– High	-	-	-	-
– Default	-	-	433	433
Gross carrying amount	**109,299**	**-**	**433**	**109,732**
Credit loss allowance	(473)	-	-	(473)
Carrying amount	**108,826**	**-**	**433**	**109,259**
Financial guarantees issued risk category				
– Very low	233,004	-	-	233,004
– Low	7,027	62	-	7,089
– Moderate	174	488	-	662
– High	-	-	-	-
– Default	-	-	370	370
Gross carrying amount	**240,205**	**550**	**370**	**241,125**
Credit loss allowance	(1,244)	(2)	-	(1,246)
Carrying amount	**238,961**	**548**	**370**	**239,879**

38. CONTINGENCIES AND COMMITMENTS CONTINUED

The credit quality of contingencies and commitments is as follows at 31 December 2018:

	31 December 2018			
in thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Undrawn credit lines risk category				
– Very low	679,115	294	-	679,409
– Low	51,770	3,131	-	54,901
– Moderate	13,151	10,836	-	23,986
– High	11	1,309	-	1,321
– Default	-	-	10,246	10,246
Gross carrying amount	**744,047**	**15,570**	**10,246**	**769,863**
Credit loss allowance	(2,652)	(736)	(1,347)	(4,735)
Carrying amount	**741,395**	**14,834**	**8,899**	**765,128**
Letters of credit issued risk category				
– Very low	94,760	-	-	94,760
– Low	7,863	-	-	7,863
– Moderate	1,967	-	-	1,967
– High	-	-	-	-
– Default	-	-	1,382	1,382
Gross carrying amount	**104,590**	**-**	**1,382**	**105,972**
Credit loss allowance	(437)	-	(252)	(689)
Carrying amount	**104,153**	**-**	**1,130**	**105,283**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Non-cancellable commitments as of 31 December 2020 were GEL 579,915 thousand (2019: GEL 472,485 thousand; 2018: GEL 344,360 thousand).

Performance guarantees. Performance guarantees are contracts that provide compensation in case of another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under the performance guarantee contracts is the possibility that the insured event occurs (i.e.: the failure to perform the contractual obligation by another party). The key risks the Group faces are significant fluctuations in the frequency and severity of payments incurred on such contracts, relative to expectations.

Outstanding amount of performance guarantees and respective provision as of 31 December 2020 is GEL 1,751,041 thousand and GEL 4,427 thousand (2019: GEL 1,458,884 thousand and GEL 7,466 thousand, 2018: GEL 1,195,812 thousand and GEL 4,393 thousand).

Fair value of credit related commitments were GEL 5,424 thousand as of 31 December 2020 (2019: GEL 4,511 thousand; 2018: GEL 5,424 thousand). Total credit related commitments and performance guarantees are denominated in currencies as follows:

In thousands of GEL	**2020**	**2019**	**2018**
Georgian Lari	1,208,199	1,155,421	853,965
US Dollar	1,584,878	1,203,296	955,829
Euro	776,307	542,303	218,091
Other	62,973	58,830	43,762
Total	**3,632,357**	**2,959,850**	**2,071,647**

38. CONTINGENCIES AND COMMITMENTS CONTINUED

Capital expenditure commitments. As of 31 December 2020, the Group has contractual capital expenditure commitments amounting to GEL 14,631 thousand (2019: GEL 33,723 thousand; 2018: GEL 12,210 thousand). Out of total amount as at 31 December 2020, contractual commitments related to the head office construction amounted GEL 4,853 thousand (2019: GEL 13,186 thousand).

39. NON-CONTROLLING INTEREST

The following table provides information about each subsidiary with a non-controlling interest as of 31 December 2020:

In thousands of GEL	**Proportion of non-controlling interest's voting rights held**	**Profit attributable to non-controlling interest**	**Accumulated non-controlling interest in the subsidiary**
Inspired LLC	49%	4,164	4,824
TKT Online LLC	45%	(182)	643
TKT UZ	25%	(86)	(26)
My.Ge LLC	35%	507	2,496
Allproperty.ge LLC	10%	9	(27)
Billing Solutions LLC	49%	(108)	61
TBC Bank JSC including:	0.12%	433	3,508
United Financial Corporation JSC	0.47%	22	105
Total Non-Controlling		**4,737**	**11,479**

The following table provides financial information about each subsidiary with a non-controlling interest as of 31 December 2020:

In thousands of GEL	**Current assets**	**Non-current assets**	**Current liabilities**	**Non-current liabilities**	**Revenue**	**Profit**	**Total comprehensive income**	**Net cash flows**
TBC Bank JSC	9,992,348	12,070,130	14,066,164	5,251,319	1,033,580	330,969	353,307	557,847
Inspired LLC	8,972	1,572	496	–	15,094	8,498	8,498	5,160
United Financial Corporation JSC	5,269	17,803	504	257	14,716	4,573	4,573	676
Allproperty.ge LLC	1,410	1,496	595	237	2,200	87	87	(530)
My.Ge LLC	625	7,394	925	–	5,646	1,449	1,449	(499)
TKT Online LLC	181	1,705	478	–	649	(404)	(404)	(1,255)
TKT UZ	126	10	5	–	15	(147)	(147)	(107)
Billing Solutions LLC	38	406	3	318	(17)	(220)	(220)	36

39. NON-CONTROLLING INTEREST CONTINUED

The following table provides information about each subsidiary with a non-controlling interest for the year ended as of 31 December 2019:

in thousands of GEL	Proportion of non-controlling interest's voting rights held	Profit attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary
Inspired LLC	49%	1,350	1,906
TKT Online LLC	45%	303	815
TKT UZ	25%	0	21
My.Ge LLC	35%	130	2,094
Allproperty.ge LLC	10%	(65)	(36)
Billing Solutions LLC	49%	0	169
TBC Bank JSC including:	0.12%	728	3,561
TBC Leasing JSC*	0.39%	11	0
United Financial Corporation JSC	0.47%	63	582
Total Non-Controlling		**2,446**	**8,530**

**In May 2019 the Group purchased remaining 0.39% shareholding from TBC Leasing JSC shareholders and became 100% owner of the Company.*

The following table provides financial information about each subsidiary with a non-controlling interest as of 31 December 2019:

In thousands of GEL	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total comprehensive income	Net cash flows
TBC Bank JSC	8,026,612	10,280,004	11,254,319	4,520,588	1,010,616	545,055	545,080	(434,292)
TBC Leasing JSC	180,282	172,275	133,198	182,804	29,894	6,861	6,861	719
TBC Kredit LLC	10,605	14,140	6,238	5,730	4,543	2,221	2,221	473
United Financial Corporation JSC	9,507	8,821	155	435	12,023	4,725	4,725	(622)
Inspired LLC	2,796	1,177	185	–	5,683	2,759	2,756	1,686
TKT Online LLC	1,586	1,562	1,336	–	1,468	714	675	1,280
Allproperty.ge LLC	1,286	1,053	426	582	1,965	651	651	697
My.Ge LLC	863	5,845	586	–	2,122	442	442	482
TKT UZ	231	5	1	–	–	(1)	(1)	230
Billing Solutions LLC	–	344	–	–	–	–	–	–

The following table provides information about each subsidiary with non-controlling interest for the year ended and as of 31 December 2018:

In thousands of GEL	Proportion of non-controlling interest's voting rights held	Profit attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary
TBC Bank JSC including:	0.12%	2,355	3,062
TBC Leasing JSC	0.39%	26	96
TBC Kredit LLC	0.00%	251	0
United Financial Corporation JSC	1.33%	59	517
BG LLC	0.00%	(88)	0
Total Non-Controlling		**2,355**	**3,062**

39. NON-CONTROLLING INTEREST CONTINUED

TThe following table provides financial information about each subsidiary with a non-controlling interest as of 31 December 2018:

In thousands of GEL	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total comprehensive income	Net cash flows
TBC Bank JSC	7,421,134	8,031,716	9,955,303	3,385,828	1,066,089	433,051	448,749	(264,368)
TBC Leasing JSC	160,619	128,610	138,582	126,954	26,998	6,585	6,585	10,773
TBC Kredit LLC	19,639	14,987	13,961	10,813	3,177	1,836	1,836	(1,622)
BG LLC	8,964	1	60	8,993	123	(88)	(88)	63
United Financial Corporation JSC	8,711	6,646	3,284	–	12,401	4,427	4,427	(438)

*In 2018 the Group purchased remaining 25% shareholding from TBC Kredit LLC shareholders and became 100% owner of the company.

40. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

As of 31 December 2020, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

				Amounts subject to master netting and similar arrangements not set off in the statement of financial position		
In thousands of GEL	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c)=(a)-(b)	Financial instruments (d)	Cash collateral received (e)	Net amount of exposure (c)-(d)-(e
Assets						
Other financial assets:						
- Receivables on credit card services and money transfers	25,245	18	25,227	–	–	25,227
ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**25,245**	**18**	**25,227**	**–**	**–**	**25,227**
Liabilities						
Other financial liabilities:						
- Payables on credit card services and money transfers	8,800	18	8,782	–	–	8,782
LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**8,800**	**18**	**8,782**	**–**	**–**	**8,782**

40. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES CONTINUED

As of 31 December 2019, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

				Amounts subject to master netting and similar arrangements not set off in the statement of financial position		
In thousands of GEL	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c)=(a)-(b)	Financial instruments (d)	Cash collateral received (e)	Net amount of exposure (c)-(d)-(e
Assets						
Other financial assets:						
- Receivables on credit card services and money transfers	24,139	2,244	21,895	–	–	21,895
ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**24,139**	**2,244**	**21,895**	**–**	**–**	**21,895**
Liabilities						
Other financial liabilities:						
- Payables on credit card services and money transfers	17,518	2,244	15,274	–	–	15,274
LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**17,518**	**2,244**	**15,274**	**–**	**–**	**15,274**

As of 31 December 2018, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

				Amounts subject to master netting and similar arrangements not set off in the statement of financial position		
In thousands of GEL	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c)=(a)-(b)	Financial instruments (d)	Cash collateral received (e)	Net amount of exposure (c)-(d)-(e
Assets						
Other financial assets:						
- Receivables on credit card services and money transfers	17,544	3,154	14,390	–	–	14,390
ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**17,544**	**3,154**	**14,390**	**–**	**–**	**14,390**
Liabilities						
Other financial liabilities:						
- Payables on credit card services and money transfers	21,426	3,154	18,272	–	–	18,272
LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**21,426**	**3,154**	**18,272**	**–**	**–**	**18,272**

40. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES CONTINUED

The amount set off in the statement of financial position reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting. Similarly, the amounts in columns (d) and (e) are limited to the exposure reported in column (c) for each individual instrument in order not to understate the ultimate net exposure.

Deposits placed with other banks and deposits received from other banks as part of gross settled currency swap arrangements have been netted-off in these financial statements and the instrument has been presented as either asset or liability at a fair value.

The disclosure does not apply to loans and advances to customers and related customer deposits unless they are netted-off in the statement of financial position.

41. DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Group enters into various derivative financial instruments, to manage currency, liquidity and interest rate risks and for trading purposes.

in thousands of GEL	2020	2019	2018
Fair value of gross settled currency swaps, included in other financial assets or due from banks	28,915	5,849	1,490
Fair value of foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	(121,934)	(20,266)	(2,085)
Total	**(93,019)**	**(14,417)**	**(595)**

Foreign Exchange Forwards and gross settled currency swaps. Foreign exchange derivative financial instruments the Group entered are generally traded in an over-the-counter market with professional counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange forwards contracts and gross settled currency swaps the Group entered. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective balance sheet date.

	2020		2019		2018	
in thousands of GEL	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value
– USD payable on settlement (-)	(404,289)	(145,313)	(123,836)	(14,480)	(83,561)	(31,305)
– USD receivable on settlement (+)	353,946	3,110,150	337,218	1,746,812	130,924	303,202
– GEL payable on settlement (-)	(164,233)	(23,545)	-	(200,386)	(5,785)	(1,690)
– GEL receivable on settlement (+)	211,903	135,116	108,914	-	97,386	8,367
– EUR payable on settlement (-)	(175,194)	(3,252,692)	(333,757)	(1,616,275)	(137,865)	(303,541)
– EUR receivable on settlement (+)	199,968	-	16,048	9,191	1,548	22,188
– Other payable on settlement (-)	(2,903)	-	(1,630)	(2,887)	(1,157)	(464)
– Other receivable on settlement (+)	9,717	54,350	2,892	57,759	-	1,158
Fair value of foreign exchange forwards and gross settled currency swaps	28,915	(121,934)	5,849	(20,266)	1,490	(2,085)
Net fair value		**(93,019)**		**(14,417)**		**(595)**

Information on related party balances is disclosed in Note 44.

42. FAIR VALUE DISCLOSURES

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised as follows:

	31 December 2020				31 December 2019				31 December 2018			
in thousands of GEL	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS CARRIED AT FAIR VALUE												
FINANCIAL ASSETS												
Investment securities measured at fair value through other comprehensive income												
– Certificates of Deposits of National Bank of Georgia	–	21,687	–	21,687	–	40,346	–	40,346	–	14,982	–	14,982
– Corporate Bonds	–	664,563	–	664,563	–	611,000	–	611,000	–	548,864	–	548,864
– Netherlands Government notes	–	–	–	–	–	–	–	–	–	66,760	–	66,760
– Ministry of Finance of Uzbekistan treasury bills	–	1,950	–	1,950	–	1,596	–	1,596	–	–	–	–
– Ministry of Finance treasury bills	–	838,152	–	838,152	–	329,352	–	329,352	–	372,927	–	372,927
– Corporate shares	–	–	916	916	–	–	2,999	2,999	–	–	1,707	1,707
Investment securities measured at fair value through Profit and loss												
– Foreign exchange forwards and gross settled currency swaps, included in other financial assets or due from banks	–	28,915	–	28,915	–	5,849	–	5,849	–	1,490	–	1,490
– Investment held at fair value through profit or loss	–	–	17,239	17,239	–	–	–	–	–	–	–	–
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**–**	**1,555,267**	**18,155**	**1,573,422**	**–**	**988,143**	**2,999**	**991,142**	**–**	**1,005,023**	**1,707**	**1,006,730**
LIABILITIES CARRIED AT FAIR VALUE												
FINANCIAL LIABILITIES												
Foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	–	121,934	–	121,934	–	20,266	–	20,266	–	2,085	–	2,085
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS	**–**	**121,934**	**–**	**121,934**	**–**	**20,266**	**–**	**20,266**	**–**	**2,085**	**–**	**2,085**

There were no transfers between levels 1 and 2 during the year ended 31 December 2020 (2019 none, 2018: none).

42. FAIR VALUE DISCLOSURES CONTINUED

The description of the valuation technique and the description of inputs used in the fair value measurement for level 2 measurements:

in thousands of GEL	Fair value at 31 December 2020	2019	2018	Valuation technique	Inputs used
ASSETS CARRIED AT FAIR VALUE					
FINANCIAL ASSETS					
– Certificates of Deposits of NBG, Ministry of Finance Treasury Bills, Government notes, Corporate bonds	1,526,352	982,294	1,003,533	Discounted cash flows ("DCF")	Government bonds yield curve
– Foreign exchange forwards and gross settled currency swaps, included in due from banks	28,915	5,849	1,490	Forward pricing using present value calculation	Official exchange rate, risk-free rate
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**1,555,267**	**988,143**	**1,005,023**		
LIABILITIES CARRIED AT FAIR VALUE					
FINANCIAL LIABILITIES					
– Foreign exchange forwards included in other financial liabilities	121,934	20,266	2,085	Forward pricing using present value calculation	Official exchange rate, risk-free rate
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**121,934**	**20,266**	**2,085**		

There were no changes in the valuation technique for the level 2 and level 3 recurring fair value measurements during the year ended 31 December 2020 (2019: none; 2018: none).

Fair value measurement analysis by level in the fair value hierarchy is disclosed in Note 2.

42. FAIR VALUE DISCLOSURES CONTINUED

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	31 December 2020				31 December 2019				31 December 2018			
in thousands of GEL	Level 1	Level 2	Level 3	Carrying Value	Level 1	Level 2	Level 3	Carrying Value	Level 1	Level 2	Level 3	Carrying Value
FINANCIAL ASSETS												
Cash and cash equivalents	755,686	879,719	–	**1,635,405**	650,700	352,883	–	**1,003,583**	491,928	674,983	–	**1,166,911**
Due from other banks	–	50,805	–	**50,805**	–	33,605	–	**33,605**	–	47,316	–	**47,316**
Mandatory cash balances with the NBG	–	2,098,506	–	**2,098,506**	–	1,591,829	–	**1,591,829**	–	1,422,809	–	**1,422,809**
Loans and advances to customers:												
– Corporate loans	–	–	5,728,134	**5,583,108**	–	–	4,838,348	**4,579,723**	–	–	3,212,490	**3,095,784**
– Consumer loans	–	–	2,025,055	**1,769,760**	–	–	1,876,364	**1,750,050**	–	–	1,970,006	**1,832,793**
– Mortgage loans	–	–	4,032,243	**3,845,232**	–	–	3,354,901	**3,137,492**	–	–	2,702,768	**2,684,295**
– Loans to micro, small and medium enterprises	–	–	3,508,881	**3,396,174**	–	–	2,891,382	**2,882,134**	–	–	2,440,078	**2,425,580**
Bonds carried at amortised cost	–	1,086,007	–	**1,089,801**	–	990,537	–	**1,022,684**	–	660,916	–	**654,203**
Investments in leases	–	–	274,402	**271,660**	–	–	265,165	**256,660**	–	–	207,579	**203,802**
Other financial assets	–	–	125,148	**125,148**	–	–	127,888	**127,887**	–	–	166,028	**166,028**
NON-FINANCIAL ASSETS												
Investment properties, at cost	–	–	105,628	**68,689**	–	–	123,325	**72,667**	–	–	97,425	**84,296**
TOTAL ASSETS	**755,686**	**4,115,037**	**15,799,491**	**19,934,288**	**650,700**	**2,968,854**	**13,477,373**	**16,458,315**	**491,928**	**2,806,024**	**10,796,373**	**13,783,817**
FINANCIAL LIABILITIES												
Customer accounts	–	7,481,872	5,113,469	**12,572,728**	–	6,480,250	3,580,630	**10,049,324**	–	5,885,242	3,482,741	**9,352,142**
Debt securities in issue	1,463,830	–	–	**1,496,497**	1,136,297	–	–	**1,136,297**	–	13,343	–	**13,343**
Due to credit institutions	–	4,490,963	–	**4,486,373**	–	3,600,318	–	**3,593,901**	–	3,028,180	–	**3,031,503**
Other financial liabilities	–	164,479	–	**164,479**	–	153,241	–	**153,241**	–	96,630	–	**96,630**
Subordinated debt	–	677,246	–	**672,740**	–	594,892	–	**591,035**	–	648,802	–	**650,919**
TOTAL LIABILITIES	**1,463,830**	**12,814,560**	**5,113,469**	**19,392,817**	**1,136,297**	**10,828,701**	**3,580,630**	**15,523,798**	**-**	**9,672,197**	**3,482,741**	**13,144,537**

The fair values in the level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of unquoted fixed interest rate instruments was calculated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of investment properties was estimated using market comparatives (refer to Note 17).

Amounts due to credit institutions were discounted at the Group's own incremental borrowing rate. Liabilities due on demand were discounted from the first date that the Group could be required to pay the amount. There were no changes in the valuation technique for the level 2 and level 3 measurements of assets and liabilities not measured at fair values in the year ended 31 December 2020 (2019: none; 2018: none).

43. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2020:

in thousands of GEL	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total
ASSETS				
Cash and cash equivalents	1,635,405	–	–	1,635,405
Due from other banks	50,805	–	–	50,805
Mandatory cash balances with the National Bank of Georgia	2,098,506	–	–	2,098,506
Loans and advances to customers	14,594,274	–	–	14,594,274
Investment securities measured at FVOCI	–	1,527,268	–	1,527,268
Bonds carried at amortised cost	1,089,801	–	–	1,089,801
Other financial assets	125,148	–	46,154	171,302
TOTAL FINANCIAL ASSETS SUBJECT TO IFRS 9 MEASUREMENT CATEGORIES	**19,593,939**	**1,527,268**	**46,154**	**21,167,361**
Investments in leases	–	–	–	271,660
Non-financial assets	–	–	–	1,138,784
TOTAL ASSETS	**19,593,939**	**1,527,268**	**46,154**	**22,577,805**

For the measurement purposes, IFRS 9, classifies financial assets into the categories discussed in Note 2. The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2019:

in thousands of GEL	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total
ASSETS				
Cash and cash equivalents	1,003,583	–	–	1,003,583
Due from other banks	33,605	–	–	33,605
Mandatory cash balances with the National Bank of Georgia	1,591,829	–	–	1,591,829
Loans and advances to customers	12,349,399	–	–	12,349,399
Investment securities measured at FVOCI	–	985,293	–	985,293
Bonds carried at amortised cost	1,022,684	–	–	1,022,684
Other financial assets	131,649	–	2,087	133,736
TOTAL FINANCIAL ASSETS SUBJECT TO IFRS 9 MEASUREMENT CATEGORIES	**16,132,749**	**985,293**	**2,087**	**17,120,129**
Investments in leases	–	–	–	256,660
Non-financial assets	–	–	–	982,477
TOTAL ASSETS	**16,132,749**	**985,293**	**2,087**	**18,359,266**

43. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY CONTINUED

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2018:

in thousands of GEL	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total
ASSETS				
Cash and cash equivalents	1,166,911	–	–	1,166,911
Due from other banks	47,316	–	–	47,316
Mandatory cash balances with the National Bank of Georgia	1,422,809	–	–	1,422,809
Loans and advances to customers	10,038,452	–	–	10,038,452
Investment securities measured at FVOCI	–	1,005,239	–	1,005,239
Bonds carried at amortised cost	654,203	–	–	654,203
Other financial assets	166,028	–	1,490	167,518
TOTAL FINANCIAL ASSETS SUBJECT TO IFRS 9 MEASUREMENT CATEGORIES	**13,495,719**	**1,005,239**	**1,490**	**14,502,448**
Investments in leases	–	–	–	203,802
Non-financial assets	–	–	–	739,741
TOTAL ASSETS	**13,495,719**	**1,005,239**	**1,490**	**15,445,991**

As of 31 December 2020, 2019 and 2018 all of the Group's financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the assets fair value through profit or loss measurement category under IFRS 9.

44. RELATED PARTY TRANSACTIONS

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

- Parties with material ownership stake (more than 5% beneficial ownership stake for 2020, 2019 and 2018) in the TBCG or with representatives in the Board of Directors are considered as Significant Shareholders.
- The key management personnel include members of TBCG's Board of Directors, the Management Board of the Bank and their close family members.

Transactions between TBC Bank Group PLC and its subsidiaries also meet the definition of related party transactions. Where these are eliminated on consolidation, they are not disclosed in the Group Financial Statements.

The definition of the related party is different per standards of National Bank of Georgia and is regulated by the published Decree N 26/04 of the Governor of the National Bank of Georgia (link to the document below in the footnote[1]).

1 www.nbg.gov.ge

44. RELATED PARTY TRANSACTIONS CONTINUED

As of 31 December 2020, the Group's outstanding balances with related parties were as follows:

in thousands of GEL	Contractual interest rate	Significant shareholders	Key management personnel
Gross amount of loans and advances to customers	6.6% – 36.0%	54	6,869
Credit loss allowance for loans and advances to customers		–	4
Customer accounts	0.0% – 11.5%	16,574	16,555

The Group's income and expense items with related parties except from key management compensation for the year 2020 were as follows:

in thousands of GEL	Significant shareholders	Key management personnel
Interest income - loans and advances to customers	8	346
Interest expense	–	1
Gains less losses from trading in foreign currencies	197	47
Foreign exchange translation gains less losses	(61)	1,242
Fee and commission income	21	24
Administrative and other operating expenses (excluding staff costs)	–	323

The Group's income and expense items with related parties except from key management compensation for the year 2020 were as follows:

in thousands of GEL	Significant shareholders	Key management personnel
Amounts advanced to related parties during the year	107	3,750
Amounts repaid by related parties during the year	(76)	(8,193)

During the year 2020, 6 related parties were removed from the insider list. If they had remained in the list, customer accounts with related parties as of 31 December 2020 would have been GEL 27 thousand higher.

As of 31 December 2020, transactions and balances of TBC Bank Group PLC with subsidiaries were as follows:

in thousands of GEL	Contractual interest rate	31 December 2020
Due from other banks	8.05% – 9.03%	27,700
Cash and cash equivalents		10,631
Investment in subsidiary		1,456,862
Foreign exchange forward contracts		2,527

Included in Investments in subsidiary in Separate Statement of Financial Position GEL 7,823 thousands relates to investment in JSC TBC Insurance.

44. RELATED PARTY TRANSACTIONS CONTINUED

The income and expense items for TBC Bank Group PLC with subsidiaries except from key management compensation for the year 2020 were as follows:

in thousands of GEL	**31 December 2020**
Interest income	3,438
Fee and commission expense	5
Dividend income	6,297
Processional Expenses	746
FX	2,527

As of 31 December 2019, the Group's outstanding balances with related parties were as follows:

in thousands of GEL	**Contractual interest rate**	**Significant shareholders**	**Key management personnel**
Gross amount of loans and advances to customers	6.6% – 36.0%	77	9,723
Credit loss allowance for loans and advances to customers		–	1
Customer accounts	0.0% – 11.5%	16,418	12,997

The Group's income and expense items with related parties except from key management compensation for the year 2019 were as follows:

in thousands of GEL	**Significant shareholders**	**Key management personnel**
Interest income - loans and advances to customers	42	620
Interest expense	87	197
Gains less losses from trading in foreign currencies	159	68
Foreign exchange translation gains less losses	50	283
Fee and commission income	77	61
Administrative and other operating expenses (excluding staff costs)	68	978

The aggregate loan amounts advanced to, and repaid, by related parties during 2019 were as follows:

in thousands of GEL	**Significant shareholders**	**Key management personnel**
Amounts advanced to related parties during the year	249	15,160
Amounts repaid by related parties during the year	(1,878)	(17,747)

During the year 2019, 3 related parties were removed from the insider list. If they had remained in the list, customer accounts with related parties as of 31 December 2019 would have been GEL 266 thousand higher.

44. RELATED PARTY TRANSACTIONS CONTINUED

As of 31 December 2019, transactions and balances of TBC Bank Group PLC with subsidiaries were as follows:

in thousands of GEL	**Contractual interest rate**	**31 December 2019**
Due from other banks	8.05% – 9.03%	40,815
Cash and cash equivalents		6,612
Investment in subsidiary		1,463,084

Included in Investments in subsidiary in Separate Statement of Financial Position GEL 7,823 thousands relates to investment in JSC TBC Insurance.

The income and expense items for TBC Bank Group PLC with subsidiaries except from key management compensation for the year 2019 were as follows:

in thousands of GEL	**31 December 2019**
Interest income	5,625
Fee and commission expense	48
Dividend income	109,520

As of 31 December 2018, the Group's outstanding balances with related parties were as follows:

in thousands of GEL	**Contractual interest rate**	**Significant shareholders**	**Key management personnel**
Gross amount of loans and advances to customers	0.4% – 48.0%	1,614	11,407
Credit loss allowance for loans and advances to customers		–	9
Customer accounts	0.0% – 10.2 %	27,095	21,328
Guarantees		10,216	–
Provision on guarantees		36	–

The Group's income and expense items with related parties except from key management compensation for the year 2018 were as follows:

in thousands of GEL	**Significant shareholders**	**Key management personnel**
Interest income - loans and advances to customers	22	591
Interest expense	411	301
Gains less losses from trading in foreign currencies	479	65
Foreign exchange translation gains less losses	28	352
Fee and commission income	87	50
Administrative and other operating expenses (excluding staff costs)	89	297

The aggregate loan amounts advanced to, and repaid, by related parties during 2018 were as follows:

in thousands of GEL	**Significant shareholders**	**Key management personnel**
Amounts advanced to related parties during the year	2,465	13,547
Amounts repaid by related parties during the year	(1,055)	(10,195)

44. RELATED PARTY TRANSACTIONS CONTINUED

During the year 2018, 7 related parties were removed from the insider list. If they had remained in the list, customer accounts with related parties as of 31 December 2018 would have been GEL 227 thousand higher.

As of 31 December 2018, transactions and balances of TBC Bank Group PLC with subsidiaries were as follows:

in thousands of GEL	**Contractual interest rate**	**31 December 2018**
Due from other banks	8.05% – 9.03%	79,135
Cash and cash equivalents		2,176
Investment in subsidiary		1,465,345

Included in Investments in subsidiary in Separate Statement of Financial Position GEL 7,823 thousands relates to investment in JSC TBC Insurance.

The income and expense items for TBC Bank Group PLC with subsidiaries except from key management compensation for the year 2018 were as follows:

in thousands of GEL	**31 December 2018**
Interest income	5,879
Fee and commission expense	3
Dividend income	124,561

The compensation of the TBCG Board of Directors and the Bank's Management Board is presented below:

	2020		**2019**		**2018**	
in thousands of GEL	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Salaries and short-term bonuses	9,997	–	10,274	–	12,481	270
Cash settled bonuses related to share-based compensation	–	–	(1,627)	–	6,424	8,395
Equity-settled share-based compensation	11,514	–	25,695	–	9,369	–
Total	**21,511**	**–**	**34,342**	**–**	**28,274**	**8,665**

Included in salaries and bonuses for 2020, GEL 2,513 thousand (2019: GEL 2,879 thousand, 2018: GEL 2,347 thousand) relates to compensation for directors (2020: 8 person, 2019: 9 person, 2018: 8 person) of TBCG paid by TBC Bank Group PLC. Details of director's compensation is discussed in the remuneration committee report.

45. BUSINESS COMBINATION

Acquisition of Inspired LLC

In May 2019 TBC Bank Group PLC finalized acquisition process of Inspired LLC – the leading payment platform “Payme”. The acquired interest amounted 51% of total shareholding. The transaction is in line with the Group’s international expansion strategy of operations. The consideration amounted GEL 14,981 thousands.

The acquisition-date fair value of the total purchase consideration is follows:

In thousands of GEL	
Cash consideration paid	14,981
Total purchase consideration	**14,981**

The consideration paid by the Group was based on results of an appraisal of the acquiree’s business taken as a whole. However, in accordance with IFRS 3 “Business Combinations”, the Group must account for acquisitions based on fair values of the identifiable assets acquired and liabilities and contingent liabilities assumed. These two different approaches can lead to differences; and, as set out in the table below, recognition of goodwill. Details of the assets and liabilities acquired and goodwill arising is as follows:

In thousands of GEL	**Fair Values**
Cash and cash equivalents	223
Due from other banks	424
Other financial assets	676
Premises and equipment	379
Intangible assets	212
Other assets	79
Other liabilities	(159)
Fair value of net assets of subsidiary	**1,834**
Non-controlling interest	**(868)**
Goodwill arising from the acquisition	**14,015**
Total purchase consideration	**14,981**
Less: cash and cash equivalents of subsidiary acquired	(223)
Outflow of cash and cash equivalents on acquisition	**14,758**

The goodwill is primarily attributable to the profitability of the acquired business and the positive synergies expected to arise.

The acquired business combination contributed to Group’s net revenue in the amount of GEL 5,683 thousand and to Group’s net profit in the amount of GEL 2,759 thousand from the date of acquisition to 31 December 2019. If the acquisition had occurred on 1st of January 2019, the contribution to the Group’s net revenues for the year ended 31 December 2019 would have been of GEL 8,561 thousand and to net profit would have been positive of GEL 4,272 thousandAcquisition of My.ge LLC

Acquisition of My.ge LLC

In August 2019 TBC Bank Group PLC finalized acquisition process of LLC My.ge – the leading online services platform in Georgia “My Group”. The acquired interest amounted 65% of total shareholding. The transaction is in line with the Group’s international expansion strategy of operations. The consideration amounted GEL 19,450 thousands.

45. BUSINESS COMBINATION CONTINUED

The acquisition-date fair value of the total purchase consideration is follows:

In thousands of GEL	
Cash consideration paid	19,450
Total purchase consideration	**19,450**

The consideration paid by the Group was based on results of an appraisal of the acquiree's business taken as a whole. However, in accordance with IFRS 3 "Business Combinations", the Group must account for acquisitions based on fair values of the identifiable assets acquired and liabilities and contingent liabilities assumed. These two different approaches can lead to differences; and, as set out in the table below, recognition of goodwill. Details of the assets and liabilities acquired and goodwill arising is as follows:

In thousands of GEL	**Fair Values**
Cash and cash equivalents	1,667
Other financial assets	232
Premises and equipment	1,208
Intangible assets	4,403
Other assets	1
Other financial liabilities	(1,862)
Other liabilities	(51)
Fair value of net assets of subsidiary	**5,598**
Non-controlling interest	**(1,960)**
Goodwill arising from the acquisition	**15,812**
Total purchase consideration	**19,450**
Less: cash and cash equivalents of subsidiary acquired	(1,667)
Outflow of cash and cash equivalents on acquisition	**17,783**

The goodwill is primarily attributable to the profitability of the acquired business and the positive synergies expected to arise.

The acquired business combination contributed to Group's net revenue in the amount of GEL 2,122 thousand and to Group's net profit in the amount of GEL 442 thousand from the date of acquisition to 31 December 2019. If the acquisition had occurred on 1st of January 2019, the contribution to the Group's net revenues for the year ended 31 December 2019 would have been of GEL 5,208 thousand and to net profit would have been positive of GEL 1,497 thousand.

Acquisition of Bonaco

On 31 October 2018, the Bank won the auction held by National Bank of Georgia for the acquisition of Bonaco LLC, microfinance organization. The business process of merger has been finalized in December 2018. The transaction is in line with Bank's strategy to enhance its product offering to its customers. Bonaco LLC was offering gold pawn and mortgage products to its customers and was added to the respective portfolio for products and services offered to TBC Bank customers.

45. BUSINESS COMBINATION CONTINUED

The acquisition-date fair value of the total purchase consideration and its components are as follows:

In thousands of GEL	
Cash consideration paid	10
Non-cash consideration	14,582
Total purchase consideration	**14,592**

Non-cash consideration includes the fair value as at acquisition date of the loan issued from the Bank to the Bonaco.

Details of the assets and liabilities acquired and goodwill arising is as follows:

In thousands of GEL	Note	Fair Values
Cash and cash equivalents		819
Placements with banks		1,581
Loans to customers*		20,212
Property and equipment		6,922
Repossessed assets		55
Other assets		156
Amounts due to customers		(17,691)
Other Liabilities		(29)
Fair value of acquired interest in net assets of subsidiary		**12,025**
Goodwill arising from the acquisition	**17**	**2,567**
Total purchase consideration		**14,592**
Less: Non-cash consideration		**(14,582)**
Less: cash and cash equivalents of subsidiary acquired		(819)
Inflow of cash and cash equivalents on acquisition		**809**

*The carrying amount of Loans to customers before fair value adjustments amounted to GEL 19,339 thousand.

The goodwill is primarily attributable to the profitability of the acquired business and the significant synergies expected to arise.

The acquired business combination contributed to Group's net revenue in the amount of GEL 212 thousand and to Group's net profit in the amount of GEL 15 thousand from the date of acquisition to 31 December 2018. If the acquisition had occurred on 1st of January 2018, the contribution to the Group's net revenues for the year ended 31 December 2018 would have been of GEL 1,489 thousand and to net profit would have been negative of GEL 11 thousand.

46. EVENTS AFTER REPORTING PERIOD

Starting from early 2021 Government of Georgia took additional measures to decrease the mobility of people by announcing public holidays and putting specific constraints in various directions. On its way out from the pandemic, the Government of Georgia has started the first phase of Covid-19 vaccination, which is expected to last throughout the year. Management successfully coped with the pandemic challenges in 2020 and the Group's robust risk management framework continues to be applied across Group and monitors the impact of COVID-19 on the Consolidated Group's risk profile. Non-financial risks emerging from movement restrictions, and remote working by our staff, counterparties, clients and suppliers, are being identified, assessed, managed and governed through timely application of the Group's risk management system.

In March 2021, the Bank obtained the funding resource of USD 30 million from Green for Growth Fund ("GGF"). Loan agreement has the maturity of 5 years.

FULL LIST OF RELATED UNDERTAKINGS AND THE COUNTRY OF INCORPORATION IS SET OUT BELOW

Company Name	Country of incorporation
JSC TBC Bank	7 Marjanishvili Street, 0102, Tbilisi, Georgia
United Financial Corporation JSC	154 Agmashenebeli Avenue, 0112, Tbilisi, Georgia
TBC Capital LLC	11 Chavchavadze Avenue, 0179, Tbilisi, Georgia
TBC Leasing JSC	80 Chavchavadze Avenue, 0162,, Tbilisi, Georgia
TBC Kredit LLC	71-77, 28 May Street, AZ1010, Baku, Azerbaijan
TBC Pay LLC	7 Marjanishvili Street, 0102, Tbilisi, Georgia
TBC Invest LLC	7 Jabonitsky street, , 52520, Tel Aviv, Israel
Index LLC	8 Tetelashvili,0102,, Tbilisi, Georgia
JSC TBC Insurance	24B, Al. Kazbegi Avenue, 0160, Tbilisi, Georgia
TBC Invest International Ltd	7 Marjanishvili Street, 0102, Tbilisi, Georgia
Kavkasreestri JSC	6 Bagrationi st. saburtalo, Tbilisi , georgia
University Development Fund	1 Chavchavadze Avenue, 0128 , Tbilisi, Georgia
JSC CreditInfo Georgia	2 Tarkhnishvili street, 0179, Tbilisi, Georgia
LTD Online Tickets	3 Irakli Abashidze street, 0179, Tbilisi, Georgia
VENDOO LLC	3 Chavchavadze Avenue, 0128, Tbilisi, Georgia
Swoop JSC	74 Chavchavadze Avenue, 0162, Tbilisi, Georgia
Natural Products of Georgia LLC	1 Chavchavadze Avenue, 0128 , Tbilisi, Georgia
Mobi Plus JSC	45 Vajha Pshavela Street, 0177, Tbilisi, Georgia
Mineral Oil Distribution Corporation JSC	11 Tskalsadeni Street, 0153, Tbilisi, Georgia
Georgian Card JSC	106 Beliashvili Street, 0159, Tbilisi Georgia
Georgian Securities Central Depositor	74 Chavchavadze Avenue, 0162, Tbilisi, Georgia
JSC Givi Zaldastanishvili American Academy In Georgia	37 Chavchavadze Avenue, 0162, Tbilisi Georgia
United Clearing Centre	5 Sulkhan Saba Street, 0105, Tbilisi, Georgia
GRDC	2 Vagzali Square, 0112, Tbilisi, Georgia
Banking and Finance Academy of Georgia	123, Agmashenebeli Avenue, 0112, Tbilisi, Georgia
Tbilisi's City JSC	15 Rustaveli Avenue, 0108, Tbilisi Georgia
Freeshop.ge LLC	74 chavchavadzis avenue, vake-saburtalo, Tbilisi, Georgia
TBC Trade LLC	11A Chavchavadze Ave, 0179, Tbilisi, Georgia
The.ge LLC	20 Amaglebis st. old Tbilisi, Georgia
Redmed LLC	24 Al. Kazbegi Avenue, 0160, Tbilisi, Georgia
TBC Ecosystem companies LLC	7 Marjanishvili st. Didube-chugureti District, Tbilisi,Georgia
TKT UZ	12, Shota Rustaveli, Yakkasaray district, Tashkent, Uzbekistan
My.Ge LLC	129a Sh. Nutsubidze St. Vake,Tbilisi, Georgia
Mypost LLC	129a Sh. Nutsubidze St. Vake,Tbilisi, Georgia
Billing Solutions LLC	14 Khelovanta St. Isani, Tbilisi, Georgia
Allproperty.ge LLC	4 Besiki St.Mtatsminda District, Tbilisi,Georgia
F Solutions LLC	36, Kakheti Hwy, Isani-Samgori District, Tbilisi, Georgia
TBC Connect LLC	7 Marjanishvili st. Didube-chugureti District, Tbilisi,Georgia
Inspired LLC	1, Chust, Mirzo Ulugbek district, Tashkent, Uzbekistan
VENDOO LLC (UZ Leasing)	10B, Fidokor, Mirobod district, Tashkent, Uzbekistan
TBC Concept LLC	7 Marjanishvili st. Didube-chugureti District, Tbilisi,Georgia
TBC Bank UZ	118/1, Amir Temur avenue, Yunusobod district, Tashkent, Uzbekistan
TBC Group Support LLC	7 Marjanishvili st. Didube-chugureti District, Tbilisi,Georgia
Tbilisi Stock Exchange JSC	floor 2th block 8, 71 Vazha Pshavela Ave, Tbilisi, Georgia
Georgian Stock Exchange JSC	floor 7th block 10, 71 Vazha Pshavela Ave, Tbilisi, Georgia

REPORTS AND COMMUNICATIONS

We issue regulatory announcements through the Regulatory News Service ("RNS"). Our regulatory announcements are also available at our website www.tbcbankgroup.com in the "regulatory news" section.

SHARE PRICE INFORMATION

Our latest and historical share prices are available through our website www.tbcbankgroup.com.

SHAREHOLDER INQUIRES

TBC Bank Group's share register is maintained by Equiniti.
If you have any questions about your TBC Bank Group's shares, please contact Equiniti

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WEBSITE

Our annual report, financial results and investor presentations, as well as other significant information are available through our website: www.tbcbankgroup.com.

GLOSSARY

Bank	Joint Stock Company TBC Bank
Bankassurance	An arrangement in which a bank and an insurance company form a partnership, so that the insurance company can sell its products to the bank's client base
Bank Republic	Joint Stock Company Bank Republic
Board	Board of Directors of TBC Bank Group PLC
Chairman	Chairman of Board of Directors of the Company
Chief Executive Officer (or CEO)	Chief Executive Officer of TBC Bank Group PLC
Chief Financial Officer (or CFO)	Chief Financial Officer of TBC Bank Group PLC
Code	The UK Corporate Governance Code
Company	TBC Bank Group PLC
Corporate segment	A legal entity/group of affiliated entities with an annual revenue exceeding GEL 12.0 million, or which have been granted facilities of more than GEL 5 million. Some other business customers may also be assigned to the corporate segment or transferred to MSME on a discretionary basis
Corporate Centre	Comprises the Treasury, other support and back office functions, and the non-banking subsidiaries of the Group
Deputy Chairman	Deputy chairman of Board of Directors of the Company
Director(s)	Members of the Board of TBC Bank Group PLC
Engagement index	Employees feel involved and committed to TBC Bank
Fully digital on-boarding	Share of legal entities registered online out of total number of newly-registered legal entities
Group	The UK-incorporated parent company of Joint Stock Company TBC Bank (the Bank) and a group of companies that principally operate in Georgia in the financial sector and other closely related fields. The Group also recently expanded its operations in Uzbekistan
Management Board	Management Board of Joint Stock Company TBC Bank
Mobile banking penetration ratio	Number of active mobile banking users divided by total number of active retail clients
Mobile and Internet banking penetration ratio	Number of active mobile and Internet banking users divided by total number of active retail clients
MSME (Micro, Small and Medium) segment	Business customers who are not included in either the corporate or the retail segments; or legal entities who have been granted a pawn shop loan; or individual customers of the newly launched, fully digital bank - Space
Nikoil Bank	Nikoil Open Joint-Stock Company Investment Commercial Bank
Offloading ratio	Number of transactions conducted in remote channels divided by total number of transactions, based on JSC TBC Bank standalone data
Retail segment	Non-business individual customers or individual business customers who have been granted mortgage loans; all individual customers are included in retail deposits;
Supervisory Board	Supervisory Board of Joint Stock Company TBC Bank
TBC Bank	The UK-incorporated parent company of Joint Stock Company TBC Bank (the Bank) and a group of companies that principally operate in Georgia in the financial sector and other closely related fields. The Group also recently expanded its operations in Uzbekistan
TBC Bank Group PLC	The UK-incorporated parent company of Joint Stock Company TBC Bank (the Bank)
TBCG	TBC Bank Group PLC
TBC Insurance	Joint Stock Company TBC Insurance, formerly Joint Stock Company Insurance Company Kopenbur
TBC JSC	Joint Stock Company TBC Bank
TBC PLC	TBC Bank Group PLC

ABREVIATIONS

ACCA	Association of Chartered Certified Accountants
AFS	Available for sale
ALCO	Asset-liability management committee
APM	Alternative performance measure
ATM	Automated teller machine
BNY	Bank of New York
CAGR	Compounded annual growth rate
CAR	Capital adequacy ratio
CEE	Central and Eastern Europe
CEO	Chief executive officer
CFA	Chartered Financial Analyst
CFO	Chief financial officer
CGU	Cash generating unit
CIB	Corporate investment banking
CIS	The Commonwealth of Independent States
COR	Cost of risk
CRM	Customer relationship management
CRO	Chief risk officer
CSAT	Customer satisfaction
CSR	Corporate social responsibility
CVP	Cost volume profit
DCF	Discounted cash flows
EBRD	European Bank for Reconstruction and Development
ECL	Expected credit losses
EECG	Energy Efficiency Centre Georgia
EFSEDF	The Development Facility of the European Funds for Southeast Europe
EMEA	Europe, Middle East and Africa
ENPS	Employee Net Promoter Score
EPS	Earnings per share
ERM	Enterprise risk management
ESRM	Environmental and social risk management
EU	European Union
EUR	Euro
FDI	Foreign direct investment
FTSE	Financial Times Stock Exchange
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
GBP	Great British pound, national currency of the UK
GDP	Gross domestic product
GDR	Global depositary receipt
GEL	Georgian lari, national currency of Georgia
GHG	Greenhouse gas
GWP	Gross written premium
HNWI	High-net-worth individuals
HR	Human resources
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IDR	Issuer default rating
IFC	International Finance Corporation
IFI	International financial institution
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
IPO	Initial public offering
IT	Information technology
JSC	Joint stock company
KPI	Key performance indicators
LED	Light-emitting diode
LSE	London Stock Exchange
LTV	Loan to value
MBA	Master of Business Administration
MBO	Management-by-objectives
MSME	Micro, small and medium-sized enterprises
NBG	National Bank of Georgia
NCI	Non-controlling interest
NIM	Net interest margin
NPL	Non-performing loans
NPS	Net promoter score
OCI	Other comprehensive income
OECD	Organisation for Economic Cooperation and Development
PLC	Public limited company
POS	Point of sale
PPP	Purchasing power parity
PTI	Payment to income
PWC	PricewaterhouseCoopers
ROA	Return on average assets
ROE	Return on average equity
SME	Small and medium-sized enterprises
SPPI	Solely payments of principal and interest
STEM	Science, technology, engineering and mathematics
UK	United Kingdom of Great Britain and Northern Ireland
US$	The US dollar, national currency of the United States
VAR	Value-at-risk
VIP	Very important person
WB	World Bank
WRI	World Resources Institute

NOTES

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